

**A REPORT OF THE SUPERVISORY BOARD
OF PGE POLSKA GRUPA ENERGETYCZNA S.A.
ON THE EVALUATION OF THE COMPANY'S POSITION IN THE
YEAR 2009, INCLUDING AN EVALUATION OF THE COMPANY'S
INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM**

Since the first day of the Company shares' listing on the Warsaw Stock Exchange, i.e. since 6 November 2009, PGE Polska Grupa Energetyczna S.A. ("PGE", "Company"), has been bound by the corporate governance principles specified in "The Good Practices of Companies Listed on the Warsaw Stock Exchange" adopted by a resolution of the Board of the Warsaw Stock Exchange in July 2007. At the stage of preparations for the Company's initial public offering the PGE Management Board adopted a resolution to follow the Good Practices.

Pursuant to chapter III item 1 sub-item 1) of the Good Practices, the PGE Supervisory Board submits a brief evaluation of the Company's position, including an evaluation of the internal control system and an evaluation of the risk management system. This evaluation has been prepared based on the documents submitted by the Management Board, including a report on the Company's activities in 2009, discussions conducted with the members of the Management Board during the meetings of the Supervisory Board and discussions during the meetings of the permanent committees operating within the Supervisory Board, as well as the financial statements.

I. AN EVALUATION OF THE COMPANY'S POSITION IN 2009

The Supervisory Board **evaluates positively the position of PGE in 2009**. The Company continued the process of building and strengthening its value.

- The most important events of 2009 comprised the following:
 - the preparation and implementation of the PGE Consolidation Programme providing for the reorganisation of the capital structure of the Group in which PGE is the parent company ("PGE CG"), the implementation of the optimum managerial structure together with the centralisation of the functions performed in the particular business lines and the achievement of the synergy effects,
 - a successful stock exchange debut (an initial public offering of Company shares) in consequence of which the share capital was raised to PLN 17,300,900,000, the ownership structure was changed and the Company started to be listed on the Warsaw Stock Exchange,
 - a continuation of work in the areas of nuclear power generation, including the creation of organisational, legal and administrative conditions for the construction of nuclear power plants in Poland.
- Besides, in 2009 PGE CG adopted "A Concept of Managing Non-core Assets within PGE CG" whose objective is a transparent separation of the Company's core business activity from other activities as well as a disposal and reorganisation of such non-core assets.

- In comparison to 2008, the Company achieved a better financial result. Its net profit for the financial year ended 31 December 2009 equalled PLN 1440.5 million, which is a 160% increase over the results of the financial year ended 31 December 2008. An increase in the net profit was caused by better results in the operating profit, other operating profit and profit on financial activities.
- PGE's total sales revenues reached the level of PLN 12,523.2 million, which means a 19.0% increase over those of 2008.
- In 2009 the Company's assets also increased. In comparison to the twelve months of 2008, it was caused mostly by a PLN 3,595.6 million increase in cash and cash equivalents related to the Company's debut on the Warsaw Stock Exchange.
- As at 31 December 2009 the total sum of operating, investment and financing cash flows in PGE S.A. equalled PLN 3,173.4 million.
- The gross amount of PLN 5,968.8 million acquired from public share offering was placed at the Company's disposal on 1 December 2009. These funds have been used in accordance with the objectives specified in the share issue prospectus, in particular some funds have been used to repay the Company's short-term and long-term debt; among other things, PGE S.A. has refinanced its debt incurred in order to finance the first and second tranches of payments due to the State Treasury for the buyout of minority shareholdings in some major subsidiaries. Some parts of the financial surplus are spent on financing the Company's operations or invested in short-term safe term deposits.
- In the second half of 2009 Moody's Investors Service Ltd granted PGE S.A. the rating of A3, while Fitch Ratings granted the rating of BBB+ to PGE S.A. and the rating of A to the Company's unsecured debt. Such ratings constitute a positive evaluation confirming a low credit risk related to investment in PGE's debt securities.

More information on the Company's activities in 2009 is presented below.

1. Share capital and ownership structure

At the beginning of 2009 PGE's share capital equalled PLN 14,705,765,000 and was divided into 1,470,576,500 series "A" bearer shares with a par value of PLN 10.00 each. The holder of all shares was the State Treasury represented by the Minister of the State Treasury.

In September 2009 the Extraordinary General Meeting effected changes in the Company Statutes and increased the share capital from PLN 14,705,765,000.00 to PLN 17,300,900,000.00 by way of the issue of 259,513,500 series "B" bearer shares with a par value of PLN 10.00 each.

On 30 November 2009 the District Court of Law for the Capital City of Warsaw, the 12th Economic Department of the National Court Register registered the above-mentioned changes.

Within the scope of the initial public offering PGE sold 259,513,500 series "B" bearer shares with a par value of PLN 10.00 each. The issue price was PLN 23.00 for both individual and institutional investors. The Company made its debut on the Warsaw Stock Exchange on 6 November 2009.

In consequence of those actions, at the end of 2009 PGE's share capital equalled PLN 17,300,900,000 and was divided into 1,730,090,000 shares with a par value of PLN 10.00 each, including:

- 1,470,576,500 series "A" bearer shares (held by the State Treasury),
- 259,513,500 series "B" bearer shares (other shareholders).

As at today, the existing shares making up the Company's share capital have been issued and fully paid up. There are no preferred shares; all shares have the same rights incorporated in them, and in particular, each share gives the right to one vote at the General Meeting. All existing shares have been established pursuant to the relevant provisions of the Commercial Code, Commercial Companies Code and Company Statutes.

2. Company activities

2.1 A description of Company activities

The core business activity of PGE S.A. is wholesale electricity trade. The Company's remaining activities comprise the provision of so-called supporting services for the companies belonging to PGE CG, the lease of IT systems and office space.

PGE Polska Grupa Energetyczna S.A. is the parent company in the Capital Group of PGE Polska Grupa Energetyczna. The core business activities of the Group's companies comprise the following:

- lignite mining,
- electricity generation,
- heat generation and distribution,
- electricity distribution,
- wholesale and retail electricity sales,
- provision of other services related to the execution of tasks mentioned above.

As the parent company of PGE CG, PGE S.A. performs the functions of ensuring that all companies in the Capital Group have sufficient funds to finance their investments and current operations. The instrument used by the Company for this purpose is bonds (in comparison to 2008 (PLN 2,309.6 million), in 2009 the value of issued bonds rose to PLN 2,452.5 million).

2.2 Consolidation

In May 2009 the Management Board of PGE S.A. adopted a preliminary idea of the PGE Consolidation Programme, and in November 2009 - the Definition and Schedule of the Consolidation Programme as well as the distribution of rights and obligations among the participants of that undertaking.

The objective of the Programme is the achievement of a strong market and financial position ensuring, among other things, the necessary further development of PGE CG by carrying out the legal and organizational consolidation of the Companies in the following operating areas: electricity retail sales, electricity distribution, conventional power generation and renewable power generation in the form of consolidated entities as well as the implementation of business changes in the area of wholesale electricity sales. The Programme provides for the reorganization of the complicated capital structure, the implementation of the optimum managerial structure together with the centralisation of the functions performed in the particular operating areas and the achievement of the synergy effects within PGE CG.

So far the implementation of the Consolidation Programme has led to: (i) the selection of the consolidating companies within the particular operating areas; (ii) adoption and signing of the merger plan for PGE S.A. and the subsidiaries of PGE Górnictwo i Energetyka S.A. as well

as PGE Energia S.A., and (iii) the signing of the merger plans for the other subsidiaries within the following business areas:

- conventional power engineering (the acquiring company is PGE Elektrownia Bełchatów S.A.),
- renewable power engineering (the acquiring company is PGE Energia Odnawialna S.A.),
- electricity sales to end users (the acquiring company is PGE Obrót S.A.),
- electricity distribution (the acquiring company is PGE Dystrybucja S.A.).

2.3 Non-core business assets

In 2009 PGE CG adopted "A Concept of Managing Non-core Assets within PGE CG" whose objective is a transparent separation of the Company's core business activity from other activities as well as a disposal and reorganisation of such non-core assets. It is assumed that by simplifying the structure of capital dependencies and organisational structures of PGE CG as well as by unifying the management standards the Company will achieve the required effects in the form of a transparent business model of PGE CG (concentration on the core business activity), a transparent asset and cost management in the power generation companies, a release of resources in the power generation companies included in non-core assets and a decrease in the costs of services not related to the core business activity.

Within the scope of the implemented Concept, the Group identified non-core assets functioning in the form of companies and areas not separated from the particular companies' core activities and initiated the process of disposing of or reorganising such assets.

2.4. Major domestic and foreign investments

In 2009 PGE did not execute any major purchases of shares or interests in other companies. No binding commitments were made with respect to any acquisition project.

In 2009 PGE had investments classified as investments in financial instruments at the level of PLN 24,780.8 million in comparison to PLN 20,669.1 million in 2008.

The major item of such investments is shareholdings in the subsidiaries valued at PLN 18,891.9 million in 2009.

2.5 Nuclear power generation

In 2009 PGE continued the process of building its competence to be used in the development of nuclear power generation in Poland, intensified cooperation with the state authorities, research and science entities, international organizations and foreign companies. The Company performed analytical works as well as informative and education activities, e.g. an analysis of the best practices within the scope of organizational, financial, legal and corporate solutions concerning the management and execution of nuclear power plant construction projects, a location research programme for potential nuclear power plants in Poland, guidelines for the preliminary general evaluation of a standard design of a nuclear power plant for Poland, a long-term forecast of the development of power generation sources in light of Poland's and the EU's power generation policy as well as prospects for investments planned by PGE's strategic evaluation of the economic and social consequences of the development of nuclear power generation in Poland.

The scope of activities of PGE in the area of nuclear power generation comprised the Company's participation in the creation of organizational, legal and administrative conditions favourable for the construction of a nuclear power plant in Poland, the development of competence and the organizational preparation of PGE for the assumption of the role of an investor with regard to nuclear power plants in Poland, the initiation and coordination of research and analytical projects related to the preparations for the construction of nuclear power plants in Poland.

On 17 November 2009 PGE and Electricite de France S.A. signed a memorandum concerning the beginning of their cooperation in the area of nuclear power generation. The memorandum provides for feasibility studies concerning the construction of reactors based on the EPR (Evolutionary Power Reactor by Areva) technology and the construction of the first EPR unit in Poland by 2020. Both companies also agreed that they would start discussion concerning the possibility of industrial partnership in the construction of nuclear power plants based on the EPR technology in Poland.

2.6 Research and development

Since February 2008 PGE has been a member of the Consortium called CO2EuroPipe Project (among other things, participation in this project is to determine the possibilities of developing industrial-scale CO2 transport infrastructure). Additionally, PGE together with PKE, Vattenfall, Dalia, Electrabel, Edf, PGE GiE, has been taking part in the work of Poland's Clean Carbon Technologies Platform (PCTTP). PCTTP is an initiative of the above-mentioned power generation sector companies for the development of clean carbon technologies, especially the CCC (carbon capture & storage) technology. Simultaneously, the Company conducted active cooperation with international organisations.

2.7 Important agreements

2.7.1 Electricity sales agreements entered into by the PGE CG companies

At the turn of 2009 and 2010 PGE entered into electricity purchase agreements with the largest electricity producers within PGE CG, i.e. PGE Elektrownia Bełchatów S.A., PGE Elektrownia Turów S.A., PGE Elektrownia Opole S.A. and PGE Zespół Elektrowni Dolna Odra S.A. for the year 2010 and the subsequent years 2011-2016.

2.7.2 Agreements for the financing of PGE and its subsidiaries

In 2009 the Company was executing a bond issue programme with a maximum value of PLN 2 billion; for this purpose, it had entered with selected financial institutions into agreements facilitating the execution of the programme: the Bond Purchase Guarantee Agreement, the Bond Issue Programme Agency and Deposit Agreement and Bond Issue Programme Dealership Agreement. Within the scope of the Programme, PGE may issue zero-coupon bonds with a maturity period, principally, of 1, 3 or 6 months, but not more than 180 days. The maturity period of the last bond series may be specified differently, but its maturity date may not fall later than 15 November 2010. Under the conditions of the issue, the bonds are unsecured.

As a matter of principle, the bonds have a guaranteed profitability specified as the reference rate plus the guaranteed margin. The reference rate is WIBOR applicable to deposits for a term corresponding to a given bond maturity period (different profitability determination principles are applicable to bonds in the last issue and bonds issued for the purpose of the so-called rolling of the bonds from the previous issues). Additionally, the Guarantee Agreement specifies the principles of determining an issue price at which the Guarantors are obliged to acquire bonds.

The Company was also executing a bond issue programme with a maximum value of PLN 5 billion addressed to the PGE CG companies. On 11 May 2009 PGE entered into the Agency Agreement with ING Bank Śląski S.A. (acting in the capacity of the Issue and Payment Agent) concerning the bond issue programme addressed to the PGE CG companies ("the Programme for the Group"). Within the scope of the Programme, PGE may issue coupon or zero-coupon bonds. Zero-coupon bonds may be issued with a maturity period of not less than 14 days and not more than 6 months, while coupon bonds with a maturity period of not

less than 12 months and not more than 3 years. Such bonds do not have a documentary form and are not secured. The programme's maturity period falls on 11 May 2012.

PGE's intention is to address an offer to purchase bonds issued within the scope of the programme to a limited group of investors consisting of entities for whom PGE is the parent company directly or indirectly within the meaning of the Commercial Companies Code.

2.7.3 A letter of commitment for a guarantee of financing a new investment in the Opole Power Plant.

In connection with PGE CG's planned strategic investment comprising the construction of power generation units no. 5 and 6 in PGE Elektrownia Opole S.A., on 29 July 2009 PGE committed itself (in the form of a letter of commitment) before PGE Elektrownia Opole S.A. to ensure the financing for this investment with an estimated value of EUR 3.158 billion. By 31 December 2009 PGE had not made a decision concerning the form of ensuring financing for this investment.

3. The economic and financial position

3.1 The financial results

PGE's net profit reached the level of PLN 1440.5 million in the financial year ended 31 December 2009, which is a 160% increase over the results of the financial year ended 31 December 2008.

The Company's net profit margin (the ratio of net profit to total sales revenues) equalled 13.2%. An increase in the net financial result resulted from better results in the following:

- in the operating revenues - by PLN 84.3 million, including electricity sales - by PLN 69.2 million, products sales - by PLN 15.2 million,
- in the other operating revenues by PLN 122.2 million, mainly in consequence of establishing lower balance sheet reserves in 2009,
- in the financial revenues - by PLN 781.0 million, mainly in consequence of higher dividend of PLN 942.1 million received by PGE S.A.

In 2009 PGE's total sales revenues reached the level of PLN 12,523.2 million, which means a 19.0% increase over those of 2008.

A 12.6% increase in revenues from sale of goods and products over those of 2008 resulted mostly from higher revenues from electricity sales.

Lower revenues from other sales resulted from a PLN 2.9 billion fall in revenues from IT systems rental and telecommunication services in comparison to the previous period.

A PLN 118.5 fall in revenues from other operating activities resulted mainly from the occurrence of profit in 2008 from the transfer of power lines to the State Treasury in the form of material dividend to the value of PLN 121.9 million.

A rise in revenues from financial activities was the result of dividends paid to PGE to the amount of PLN 1209.3 million. Additionally, financial revenues include a revaluation of an investment (a reversal of a write-off from previous periods) in the amount of PLN 190.3 million, including one for Exatel S.A in the amount of PLN 188.3 million as well as PLN 169.9 million of realised and accrued interest, including interest on bonds held by PGE S.A. (PLN 132.5 million).

A rise in revenues from electricity sales to SSD and PGE Electra and the balancing market in 2009 in comparison to 2008 resulted mainly from higher electricity prices on the wholesale market.

In the first quarter of 2008, within the scope of domestic trade, PGE achieved revenues from the sale of additional services to PSE Operator S.A. under a signed bilateral agreement. After the termination of long-term electricity sales contracts with the electricity producers, PGE stopped providing the services of the manager of such contracts to PSE Operator S.A.

A reason for lower revenues from export sales (PLN 67.1 million) was the absence of possibilities (Poland's transmission grid operator's failure to open access to trans-border transmission capacities) of executing electricity export sales under a historical contract between PGE S.A. and Atel (currently Alpiq Holding AG). Besides, in February 2009 PGE suspended the performance of an electricity sales agreement with another partner in connection with the announcement of its insolvency and the pending bankruptcy proceedings.

In 2009 PGE's total operating costs equalled PLN 10,803.9 million, which was 10.4% more than in the previous year.

Cost of sales amounted to PLN 10,388.9 million, which constituted a 12.4% increase over 2008. An increase in cost of sales resulted from PGE's higher costs of purchasing electricity from the producers within the Group, the balancing market and abroad (a 23.2% increase) which were caused by higher electricity prices on the market. The higher prices of electricity in 2009 were also influenced by higher generation costs resulting from higher prices of raw materials and CO₂ emission allowances which were meant to compensate their shortage in the years 2008 - 2009. Additionally, the higher prices of electricity purchased from the producers within PGE CG were caused by the price determination mechanism based on market conditions. Within cost of sales, production costs of products sold were lower because of a PLN 789.4 million fall in the costs of providing additional services in comparison to 2008.

In 2009 total selling expenses of PGE S.A. equalled PLN 72.3 million, which represents a fall of 8.8%. A reduction in selling expenses resulted mainly from lower costs of transmission capacity reservations and lower transmission fees caused by the suspension of the performance of the agreement with Atel in 2008.

In 2009 general and administrative expenses of PGE S.A. amounted to PLN 78.4 million and were by PLN 2.4 million higher than in the previous year.

Within other operating costs, a provision for litigation with foreign customers in connection with the performance of trade agreements was increased by PLN 43.6 million to the level of PLN 289.1 million.

A PLN 114.7 million rise in financial costs was caused by a PLN 29.4 million write-off related to revaluation of bonds issued by AWSA S.A. and a PLN 62.4 million increase in cost of interest on debt securities and short-term credits.

3.2 The asset position

An increase in the value of PGE's assets during the twelve months of 2009 in comparison to the same period in 2008 was related to an increase in the value of cash and cash equivalents by PLN 3595.6 million caused by the Company's debut on the Warsaw Stock Exchange.

As at 31 December 2009 and 2008 the PGE's fixed assets had the book value of PLN 21,018.5 million and PLN 20,419.7 million, respectively. A PLN 598.8 million increase in the value of fixed assets was caused by:

- an increase in the value of long-term investments by PLN 623.0 million in connection with a purchase of shareholdings in PGE Elektrownia Opole S.A. and PGE Kopalnia Węgla Brunatnego Turów S.A., an increase in the share capital of PGE Elektra S.A., the establishment of Energia Jądrowa S.A.,
- a reversal of a permanent impairment write-off concerning Exatel S.A. in the amount of PLN 188.3 million,
- the buyback of bonds issued by the particular Companies from the PGE CG and the reclassification of some bonds from long-term debt to short-term debt in the amounts of PLN 41.2 million and PLN 194.7 million, respectively,
- the revaluation of the AWSA bonds in the amount of PLN 29.4 million.

As at 31 December 2009 the value of (short-term and long-term) bonds, especially those issued by the PGE CG Companies and acquired by PGE S.A., rose in comparison to that as at 31 December 2008 by PLN 114.5 million. As at 31 December 2009 the Company held bonds issued by PGE Elektrownia Turów S.A., PGE ZEDO S.A. and PGE KWB Bełchatów S.A.

3.3 Cash flows

As at 31 December 2009 the total sum of operating, investment and financing cash flows in PGE equalled PLN 3,173.4 million.

Net operating cash flows in 2009 equalled PLN 312.5 million as compared to PLN 237.4 million in 2008, which was an increase of 32%. This was first of all the result of the Company's achieving a higher operating result. Additionally, the higher level of cash and cash equivalents from operations in 2009 in comparison to 2008 was achieved by maintaining the average payment and collection periods on the similar level.

In 2009 investment cash flows equalled PLN 673.3 million as compared to PLN (-1453.2) million in 2008. An increase in net investment cash flows in 2009 resulted from the payment of dividend to PGE in the amount of PLN 1019.3 million as compared to the dividend of PLN 167.6 million in 2008.

In order to streamline its ownership structure in 2008 and 2009 PGE incurred expenditures for the purchase of shares and interests in companies to the amounts of PLN 2040.0 million and PLN 340.0 million respectively. The difference between expenditures incurred by PGE S.A. for the purchase of bonds issued by the companies belonging to PGE CG and income from their buyback equalled PLN (-2.0) million in 2009 and PLN 342.6 million in 2008.

In 2009 net financing cash flows reached the level of PLN 2187.7 million, while in 2008 - PLN 954.2 million. Changes in financing cash flows in 2009 as compared to those in 2008 were conditioned by cash flows from the issue of new PGE shares on the Warsaw Stock Exchange to the amount of PLN 5917.5 million. Cash flows achieved in 2009 allowed the repayment of short-term credits to the amount of PLN 443.0 million, while in 2008 cash flows from taken credits less due interest equalled PLN 423.2 million. In 2008 PGE's bond issues generated net cash inflows of PLN 993.3 million, while in 2009 the bonds were redeemed for PLN (-2033.3) million.

In 2009 dividend payments and payments from profit to the State Treasury amounted to PLN 1118.8 million, while in 2008 - PLN 407 million.

3.4 Financial ratios

The financial ratios for 2009 and 2008 were as follows:

	2009	2008
Return on sales ROS (%)		
net financial result x 100% / net sales revenues	13,2%	5,7%
Return on equity ROE (%)		
net financial result x 100% / (equity - net financial result)	6,3%	3,2%
Debt ratio (w %)		
total debt x 100% / total liabilities	6,8%	18,2%
Current ratio		
current assets / current liabilities	2,8	0,3

3.5 Financial resources management and financial liquidity

After its successful debut on the stock exchange the Company had considerable financial surpluses. Before they were allocated to investments, in 2009 these funds were used to repay the Company's short-term and long-term debt. Some parts of the financial surplus are spent on financing the Company's operations or invested in safe short-term deposits. Additionally, the Company has at its disposal open credit limits in various banks; they may be used to finance the Company's current operations.

3.6 Financial and market risk management

In the course of ordinary business, PGE's activities, financial results and cash flows are exposed to various types of financial and market risks, including the interest rate, currency exchange, price, credit and liquidity risks. Each of these risks could have a negative influence on the Company's business, financial position as well as the results of conducted operations.

4. The development of the Company and PGE CG

According to forecasts, in 2010 the Company's results will be influenced by the following factors:

- the size of demand for electricity,
- the prices of electricity on the wholesale market,
- the availability of trans-boarder transmission capacities,
- amendments to the Energy Law and other acts concerning the introduction of an obligation to sell electricity by way of tenders or through power exchanges by generators belonging to vertically integrated groups and entitled to receive compensations under the LTC Act,
- possible adverse outcome of legal or tax disputes or other contingent liabilities,
- changes in the macroeconomic environment of PGE, particularly in interest rates and currency exchange rates whose value influences the evaluation of assets and liabilities disclosed by the Group,
- the PGE CG consolidation process,
- the speed of the performance of works on "A Concept of Managing Non-core Assets within PGE CG",
- the building of PGE CG's target organisational model and strong corporate centre.

PGE's primary objective is to increase the Company's value by the profitable fulfilment of its customers' needs related to electricity and heat. The strategy provides for four major objectives:

- expansion on the domestic and foreign markets,
- the building of an integrated company;
- the improvement of effectiveness,
- the improvement of competitiveness and the regulatory environments.

In accordance with the strategy of PGE and PGE CG, the Company intends to continue its activities in the area of wholesale electricity trade on the domestic and foreign markets as

well as to provide support services to the entities within the Group within the scope of the centralised functions.

In accordance with the Group's business model, PGE is to perform activities ensuring the financing of the Group's key investment projects, including the following:

- the construction of a new 858 MW power unit in PGE Elektrownia Bełchatów S.A.,
- the construction of new coal-fired power units in PGE Elektrownia Opole S.A.,
- the construction of a new power unit in PGE Elektrownia Turów S.A.,
- the construction of a gas and steam unit as well as a biomass combustion plant in PGE ZEC Bydgoszcz S.A.,
- the implementation of the wind farm construction programme.

5. Risks and threats to PGE and GK PGE

The business activities of PGE and other companies belonging to the PGE Capital Group, for which PGE is the parent company, similarly to the activities of other entities operating in the power generation sector, are exposed to a number of risks and threats, both external ones related to the market, legal or regulatory environments and internal ones related to the conduct of business operations.

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

- the risk related to the macroeconomic situation in Poland and abroad,
- the risk of intensifying competition (the freedom of choosing an electricity provider),
- the political risk,
- the risk of changes in the law and other regulations concerning the Company's activities, as well as changes in their interpretation and application,
- the risk related to the requirement to hold a licence,
- the risk related to the application of tariffs and the obligation to submit tariffs for approval,
- the risk of amendments to the Energy Law,
- the risk related to the application of the provisions of the Excise Tax Act,
- the risk related to the CO₂ emission reduction programme,
- the risk of limitations in the emission of substances other than CO₂ and more stringent BAT standards,
- the risk of interruptions in the delivery of fuels to the Group's power, cogeneration and heat plants,
- the risk of interruptions in the delivery of fuels to the Group's power, cogeneration and heat plants,
- the risk related to the provision of financing services,
- the risk related to the termination of long-term electricity sales contract,
- the risk of transfer prices,
- the risk related to court, arbitration and administrative proceedings,
- the risk of collective bargaining,
- the risk of long and costly consolidation of PGE CG.

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

PGE operates an internal control system as well as a risk management system. These systems comprise all solutions developed and implemented by the Company's management and employees with a view to achieving a reasonable assurance that the Company's and particular organisational units' business objectives are being achieved. It is the Management Board that is responsible for the establishment of these systems as well as their development, functioning and respective strategies.

The key elements of PGE's internal control and risk management systems include the following:

- a) the Company's internal processes, both automatic and manual control mechanisms limiting the level of risks related to the achievement of business objectives,
- b) the formalised risk management process allowing the Company the orderly and comprehensive - on the basis of the methodology common for the whole Group - identification, measurement and current management of financial and non-financial risks occurring during the course of business operations. Risk management is to provide information on threats to the achievement of business objectives and to limit the negative consequences of such threats; this should support the fulfilment of the strategic objectives, the current operations, the achievement of planned and adopted financial objectives as well as to ensure the conduct of activities in accordance with the law and the formal internal regulations. Risk management allows PGE to take preventive or corrective action in response to threats to the fulfilment of business objectives. Risk management is a central function which, nevertheless, covers the whole Group and is supported by all companies belonging to the Group. PGE's central risk management team determines the methodology of risk management and is responsible for its implementation. The major objective of the team's activities is to generate up-to-date and reliable knowledge of threats to PGE CG's operation and to contribute to the limitation of such threats' potential consequences. In order to ensure the achievement of this objective, PGE, in cooperation with the companies belonging to PGE CG, is responsible in particular for the execution of the following tasks:
 - the identification of risks and preparation of registers of risks for the particular business segments,
 - the measurement and quantification of risks as well as the preparation of risk maps for the particular business segments,
 - the development of risk management models for the particular business segments; risk analysis, including the determination of risk management strategies, methods and tools,
 - the monitoring and reporting of risk management results.

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

- c) the internal audit whose objective is to carry out an independent and objective evaluation of the internal control and risk management systems. PGE's internal audit functions on the basis of the internal audit regulations developed in accordance with the international standards of professional internal audit practices. Audits comprise planned and summary audit tasks both in the parent company and the Group's other companies. Audit plans are developed based on risk analyses. Audit results are reported to the PGE Management Board. Recommendations resulting from conducted audits are successively implemented by the responsible entities (the Group's companies, PGE's organisational units), and their implementation status is monitored periodically.
- d) the dedicated function of investigative control focusing on the identification of malfeasances and the conduct of evidence and protective proceedings in PGE and PGE CG; it develops also the systems monitoring the Group's activities with respect to the identification of potential cases of infringing on business security.
- e) the controlling function; in its scope, periodic managerial reports are evaluated with respect to the rationality of information included in them, in particular within the context of analysing deviations from the assumptions adopted in financial plans.

In particular, the following internal control and risk management tools are used in the process of drawing up the Company's financial statements: internal procedures regulating the process, the mechanisms of managing IT systems used in financial information recording and reporting as well as their protective mechanisms, the principles of supervision over the

preparation of financial statements, the principles of the verification and evaluation of financial statements, internal audits and corporate risk management as well as other elements of control. An independent evaluation of the reliability and correctness of the financial statements prepared by PGE and the companies subject to the process of consolidation is carried out by certified auditors. Two firms have been selected to audit the 2009 financial statements prepared within the PGE Capital Group. They will be responsible for the review of half-annual financial statements as well as the preliminary and major audit of the financial statements. PGE CG operates a multi-stage process of approving financial statements, including also the participation of the Supervisory Boards. It is the Supervisory Board that evaluates the separate and consolidated financial statements of PGE. The separate financial statements of the companies subject to the process of consolidation are evaluated by their respective Supervisory Boards. The financial statements are approved by the General Meetings of the particular companies.

According to the Company Statutes, the Supervisory Board exercises permanent supervision over the Company's operations in all areas of activity.

Once a year the Supervisory Board adopts its own plan of work taking into consideration the necessity of the Board's becoming familiar with important materials describing the Company's financial position and providing information on possible risks.

The Supervisory Board supervises the Company's internal control system mainly through its Audit Committee. The major objective of the Audit Committee is providing the Supervisory Board with recommendations and opinions concerning matters belonging to its scope of operation, i.e. the examination of the correctness and effectiveness of conducting internal financial inspections in the Company and PGE CG and cooperation with the Company's auditors.

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

Marcin Zieliński

Vice Chairperson of the Supervisory Board

Mr Maciej Bałtowski

Members of the Supervisory Board

Mr Jacek Barylski
.....

Mr Czesław Grzesiak
.....

Mr Grzegorz Krystek
.....

Ms Katarzyna Prus

.....

Mr Zbigniew Szmuniewski

.....

Mr Krzysztof Żuk

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