MANAGEMENT BOARD'S REPORT ON ACTIVITIES OF THE CAPITAL GROUP OF PGE POLSKA GRUPA ENERGETYCZNA

for the year 2009

Warsaw, March 2010

Contents

1. Background information about the PGE Capital Group

1.1. Organisation of the Capital Group

The description of the organisation of the PGE Capital Group (the "Capital Group", the "Group", the "PGE Group") and the list of entities subject to consolidation are presented in Note 1 and Note 2 to the consolidated financial statements.

PGE Polska Grupa Energetyczna S.A. ("PGE S.A.", the "Company") runs its activities through its headquarter with no branches.

Most companies of the Capital Group also run their activities through their headquarters with no branches. Only the following companies have branches/divisions:

- ELECTRA Deutschland GmbH in Hamburg:
    - Branch in Prague,
    - Branch in Bratislava,
- PGE Dystrybucja Łódź – Teren S.A. in Łódź:
    - Branch in Żyrardów,
    - Branch in Łowicz,
    - Branch in Piotrków Trybunalski,
    - Branch in Bełchatów,
    - Branch in Tomaszów Mazowiecki,
    - Branch in Radomsko,
    - Branch in Wieluń,
    - Branch in Sieradz.

1.2. Changes in the organisation of the Capital Group

During 12-month period ended December 31, 2009, the structure of the Group was not subject to major changes, except for those specified in Note 2 to the consolidated financial statements and changes described below.

Shares and stocks in subsidiaries and associates

- On February 9, 2009, PGE S.A. bought 96,000 shares in SwePol Link AB at a nominal value of SEK 10 per share. The purchase of shares in the company was one of the major elements of the second stage of the Restructuring Plan defined in the Restructuring Agreement concluded in 2003 between PGE S.A. and Vattenfall AB. As a result of the transaction, PGE S.A.'s holdings increased from 33% to 49% of the share capital of SwePol Link AB.
- On April 6, 2009, shareholders of PGE Systemy S.A., at the Extraordinary Shareholders Meeting, adopted a resolution to raise the company's share capital by PLN 1,000,000, i.e. from PLN 500,000 to PLN 1,500,000. All shares were acquired by PGE S.A. The share capital increase was registered in the National Court Register on May 12, 2009.
- On May 22, 2009, PGE S.A. established PGE Inwest sp. z o.o. with its registered office in Warsaw. The share capital amounted to PLN 50,000. The company was registered in the National Court Register on August 6, 2009. On January 8, 2010, Extraordinary Shareholders Meeting adopted the resolution to raise company's share capital by PLN 1,000,000, i.e. up to PLN 1,050,000. New shares in the company were fully taken up by PGE S.A. The share capital increase was registered on February 23, 2010. PGE Inwest sp. z o.o. was established as a part of the "Non-Core Assets Management of PGE Capital Group" project.
- On September 24, 2009, PGE S.A., acting as the sole shareholder of PGE Energia Odnawialna S.A., adopted a resolution at the General Shareholders Meeting on increasing the company's share capital by PLN 8,640,000 and covering it with an in-kind contribution in the form of shares of

Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. The increase of the share capital of PGE Energia Odnawialna S.A. was registered on October 30, 2009.

- On September 30, 2009, PGE Energia Odnawialna S.A., under *datio in solutum* agreements of July 24, 2009 and August 26, 2009, transferred to PGE S.A. ownership rights to 91,250 shares of PGE ZEC Bydgoszcz S.A., constituting 98.33% of share capital (PGE Energia Odnawialna S.A. owns 0.53% of shares of PGE ZEC Bydgoszcz S.A.). In addition, since October 15, 2009, PGE has been buying shares of PGE ZEC Bydgoszcz S.A. from its employees. In a period from October 15, 2009 to December 31, 2009, 155 shares constituting 0.17% of the share capital of PGE ZEC Bydgoszcz S.A. were bought.
- Under the agreement concluded on December 18, 2008, the Management Board of PGE S.A., on November 10, 2009, decided to buy from the State Treasury 160,000 shares of PGE Elektrownia Opole S.A. and 5,280,000 shares of PGE Kopalnia Węgla Brunatnego Turów S.A. The shares bought constitute 16% of the share capital of those companies.
- On November 19, 2009, the increase of the share capital of PGE Electra S.A. by PLN 69,500,000 was registered. All shares in the increased share capital were acquired by PGE S.A. The shares were fully covered with a cash contribution.
- On November 23, 2009, PGE Dystrybucja S.A., where PGE S.A. took up all shares, was established. The share capital amounts to PLN 5,000,000. The company was registered in the National Court Register on November 27, 2009. PGE Dystrybucja S.A. was established to merge distribution companies under the „PGE S.A. Consolidation Programme" described in details in p. 1.3 of this report.
- On November 24, 2009, the Company established PGE Inwest spółka z ograniczoną odpowiedzialnością II S.K.A., and took up 100% shares in its share capital. The share capital amounts to PLN 100,000. The general partner of the company is PGE Inwest Sp. z o.o. The company was registered in the National Court Register on January 28, 2010. The company is a special purpose vehicle and was established to manage non-core assets and restructure non-core companies in accordance with the assumptions of PGE's "Non-core asset management concept under the PGE Capital Group".
- On December 7, 2009, PGE Energia Jądrowa S.A., where PGE S.A. took up all shares, was established. The share capital amounts to PLN 25,000,000. The company was registered in the National Court Register on December 28, 2009. Ultimately, the company is to perform management and coordination functions in the area connected with nuclear energy in the PGE Capital Group.
- Based on the notarial deed of December 29, 2009, EJ1 Sp. z o.o. was established. The company's share capital amounts to PLN 38,000,00x0. In the company, PGE S.A. took up 49% of shares, while 51% of shares was taken up by PGE Energia Jądrowa S.A. The company was registered in the National Court Register on January 27, 2010. The Company will play the role of a special purpose vehicle to construct and maintain the first nuclear power plant. Shares taken up by PGE S.A. will be offered to an entity that will be selected as a partner for the construction and operation of the first nuclear power plant.

In 2009, PGE Group companies increased their capital exposure in the following entities:

- PGE Energia Odnawialna S.A. bought shares from employees of Zespół Elektrowni Wodnych Porąbka-Żar S.A. and since June 30, 2009 the share of PGE Energia Odnawialna S.A. in the company has grown to 100%;
- on August 25, 2009, Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA Sp. z o.o. with its registered office in Rogowiec was registered. The company's share capital amounts to PLN 16,784,000. All shares in the company were taken up by PGE KWB Bełchatów S.A.;
- on October 16, 2009, shareholders at the Extraordinary Shareholders Meeting of Eolica Wojciechowo Sp. z o.o. adopted a resolution on the increase of the share capital of Eolica Wojciechowo Sp. z o.o. The share capital of Eolica Wojciechowo Sp. z o.o. was increased by PLN 3,500,000 up to PLN 3,550,000. The share capital of Eolica Wojciechowo Sp. z o.o. was increased proportionally (by 50%) by Elektrownia Wodna Żarnowiec S.A. and Greentech Energy Systems A/S. On February 11, 2010, the share capital increase was filed for registration with the

National Court Register. As a result of the registration of the increase of the share capital of Eolica Wojciechowo Sp. z o.o., PGE Energia Odnawialna S.A. will hold 0.5% in the share capital of the company and Elektrownia Wodna Żarnowiec S.A. will hold 49.5%;

- on November 30, 2009, PGE Energia Odnawialna S.A. bought 1,500 shares, constituting 50% of the share capital of Elektrownia Wiatrowa Resko Sp. z o.o. from another shareholder: Acciona Energy Poland Sp. z o.o. Since then, PGE Energia Odnawialna S.A. has become a sole shareholder of Elektrownia Wiatrowa Resko Sp. z o.o. The change in the ownership structure was registered in the National Court Register on January 7, 2010;
- on December 29, 2009, PGE Energia Odnawialna S.A. established two sole-shareholder companies: Biogazownia Łapy Sp. z o.o. in Warsaw and Biogazownia Wożuczyn Sp. z o.o. in Warsaw. The share capital of each company amounts to PLN 50,000. Shares in both companies were taken up by PGE Energia Odnawialna S.A. and paid up in cash. These companies were established to use a part of assets from former sugar production plants in Łapy and Wożuczyn, owned by Krajowa Spółka Cukrowa S.A. The purpose of the companies is to construct and operate a biogas power plants based on the said assets. Biogazownia Wożuczyn Sp. z o.o. was registered in the National Court Register on January 22, 2010.

In 2009, PGE Group companies reduced their capital exposure in the following entities:

- on February 13, 2009, PGE ZEDO S.A. sold all its shares in Westinghouse Modelpol sp. z o.o., i.e. 5.72% of the share capital;
- in the period from February to March 2009, PGE Elektrownia Turów S.A., and in August 2009 PGE Elektrociepłownia Gorzów S.A. sold all their shares in Zespół Elektrociepłowni Wrocławskich Kogeneracja S.A., which constituted less than 1% of the company's share capital in total;
- on April 30, 2009, Energetyczne Towarzystwo Finansowo-Leasingowe Energo – Utech S.A. entered into an agreement to sell all its shares in Delta Power Rent Sp. z o.o., constituting 98% of all shares;
- on May 27, 2009, POLFRANK ENERGETYK Sp. z o.o. bought its own shares from PGE Dystrybucja Łódź Sp. z o.o. for redemption purposes. The shares constituted 51% of the share capital;
- the share of PGE Elektrownia Bełchatów S.A. and PGE Kopalnia Węgla Brunatnego Bełchatów S.A. in Bełchatowsko Kleszczowski Park Przemysłowo Technologiczny Sp. z o.o. decreased by 5.96% in total (by 2.98% for each company and at present it amounts to 8.11% for each company resulting from 2 capital raises (registered on February 20, 2009 and August 5, 2009) up to PLN 10,545,500);
- on September 10, 2009, PGE Rzeszowski Zakład Energetyczny S.A. sold to ABG S.A. all its shares in Studio Komputerowe "Galkom" Sp. z o.o. constituting 12.5% of the company's share capital;
- on October 21, 2009, PGE Elektrownia Turów S.A. sold 375,504 shares of Lhoist Opolwap S.A., constituting 19.54% of the share capital, to a Belgium company, Lhoist Industrie S.A. (i.e. the majority shareholder of Lhoist Opolwap S.A.);
- in the period from November to December 2009, PGE Lubelskie Zakłady Energetyczne S.A. sold a part of their stake of shares of Bank Ochrony Środowiska S.A. (391 shares). As at December 31, 2009, the company owned 0.081% of the share capital of Bank Ochrony Środowiska S.A. The sale is continued in 2010 and depends on the quotation of the company's shares on the Warsaw Stock Exchange;
- on December 3, 2009, Energetyczne Towarzystwo Finansowo - Leasingowe Energo – Utech S.A. bought 100% shares in Energoutech 1 Sp. z o.o.

Table: Companies in which PGE Group companies owned shares/stocks and which were deleted from the National Court Register in year 2009.

Name of a company	Deletion date	PGE Group company owning shares/stocks in the liquidated company
Fabryka Sukna w Rakszawie S.A.	2009-02-18	PGE Rzeszowski Zakład Energetyczny S.A.
ZPW ZELTOR S.A.	2009-06-19	PGE Łódzki Zakład Energetyczny S.A.
ZKE-Obrót sp. z o.o. under liquidation	2009-08-12	PGE Zamojska Korporacja Energetyczna S.A.
TeNet 7 sp. z o.o. under liquidation	2009-08-31	EXATEL S.A.

During the period ended December 31, 2009, the PGE Capital Group did not discontinue any of its core activities.

1.3. Changes in the Company and Capital Group's management rules

In 2009, the PGE Capital Group carried out two strategic projects: PGE Consolidation Programme and a project entitled "Non-core asset management concept within PGE Capital Group".

Consolidation Programme

In May 2009, the Management Board of PGE S.A. approved a preliminary concept of the PGE Consolidation Programme and in November 2009 the Definition and Schedule of the Consolidation Programme, and the division of rights and responsibilities of the project participants.

The purpose of the Consolidation Programme is to gain a strong market position and a sound financial standing to ensure, without limitation, the required further development of the PGE Capital Group through legal and organisational consolidation of companies in the following areas:

- electricity retail sales,
- electricity distribution,
- conventional energy production,
- renewable energy production,

in the form of consolidating entities, as well as business changes in the wholesale trading area. The Program covers the reorganisation of an intricate capital structure, the implementation of an optimum management structure and the centralisation of functions performed in particular areas, as well as the achievement of synergy in the PGE Capital Group.

So far, under the Consolidation Programme, following actions were taken: (i) selection of consolidating companies in particular areas, (ii) adoption and signing of the merger plan of PGE S.A. and its subsidiaries: PGE Górnictwo i Energetyka S.A. and PGE Energia S.A., and (iii) signing of the merger plans of PGE's subsidiaries in the following business areas:

- conventional energy production (an acquiring company is PGE Elektrownia Bełchatów S.A.),
- renewable energy production (an acquiring company is PGE Energia Odnawialna S.A.) ,
- electricity sale to final users (an acquiring company is PGE Obrót S.A.),
- electricity distribution (an acquiring company is PGE Dystrybucja S.A.).

In addition, on February 16, 2010, the Management Board of PGE S.A. made a decision on the intension to merge PGE with its subsidiary, PGE Electra S.A. The purpose of the merger is to increase the transparency of the group and allocated cash flows and margins to a company listed on the Warsaw Stock Exchange. This will allow for further financial cost reduction and enable to pay dividend to shareholders.

Non-core asset management programme within the PGE Capital Group

In 2009, the PGE Capital Group adopted the "Non-core asset management concept within the PGE Capital Group". The aim of the programme is to transparently separate core activity from other activities as well as disposal and reorganisation of the assets.

It is assumed that by simplifying the structure of capital relations and organisational structures of the PGE Group, as well as by enforcing uniform management standards, the following effects will be achieved:

- the achievement of a transparent business model of the PGE Capital Group (focusing on core activities);
- the assurance of transparency in the management of power companies' assets and expenses;
- releasing power companies' resources, involved in non-core assets;
- the reduction of costs of services not connected with core activities.

As a result of implementation of the above programme, non-core assets, in form of companies and areas not separated from core activities of the companies, were identified and the disposal and reorganisation processes within the PGE Group were initiated.

By the end of 2009 under the programme shares/stocks of two companies were sold, liquidatation of one company was completed and redemption of shares in one company was made. In December 2009, the sale of shares in one of the listed companies was initiated.

After the balance-sheet date, till the date of approval of this report by the Management Board of the Company, the shares in three additional companies, a holiday resort were sold and part of shares in one of the listed companies were sold, liquidation of one company was completed and a conditional agreement with an investor for the sale of one company was signed. In connection with process of disposal of non-core assets, the valuations of seven assets was completed and the valuations of another assets are carried out. Currently project focuses on disposal and reorganisation of the remaining assets.

1.4. Employment

As at December 31, 2009, the employment in PGE Capital Group amounted to 46,357.02 FTEs, which was by 269.21 FTEs less than as at the end of December 31, 2008. The biggest employment was recorded by companies from the Mining and Generation segments, which constituted approximately 49% of total employment of the Capital Group.

Most of employees has secondary education (over 42% of employees). Approximately 22% of employees has university education, 36% of employees has vocational or lower education.

Table: Employment at Group companies by business segment (FTEs)

	FTEs 31.12.2009	**suspended employees 31.12.2009**	**FTEs 31.12.2008**	**suspended employees 31.12.2008**
Total employment of PGE Group, including:	**46,357.02**	**266.40**	**46,626.23**	**312.40**
Mining and Generation	22,774.02	138.00	23,240.16	161.00
Renewable Energy	483.13	0.00	458.20	0.00
Wholesale Trading, including:	454.38	3.00	477.50	7.00
PGE S.A.	262.38	3.00	305.50	5.00
Distribution	12,686.53	45.00	12,796.18	43.00
Retail Sales	1,777.83	13.40	1,721.53	11.40
Other consolidated companies	8,181.14	67.00	7,932.66	90.00

* suspended – persons at child care leaves and unpaid leaves

1.5. Information about shares and other securities of PGE S.A. and major shareholders of PGE S.A.

1.5.1. Share capital and ownership structure

As at the report date, the share capital of PGE S.A. amounted to PLN 17,300,900,000 and was divided into 1,730,090,000 shares with a nominal value of PLN 10.00 each, including:

- 1,470,576,500 series A bearer shares,
- 259,513,500 series B bearer shares.

The existing shares in the share capital have been issued and fully paid. There are no preferences attached to the Company's shares. The same rights are attached to all of the shares, including the right to one vote per share at the Shareholders' Meeting. All the existing shares were created pursuant to the applicable provisions of the Code of Commerce, the Commercial Companies Code and the Articles of Association.

The Management Board of PGE S.A. does not have any information about agreements which may contribute to future changes in the proportions of shares held by the existing shareholders. On January 26, 2010, the Management Board of PGE S.A. approved and signed the merger plan with its subsidiaries PGE Energia S.A and PGE Górnictwo i Energetyka S.A. ("Acquired companies"). As a result of the merger new shares of PGE S.A. will be issued for the purpose of the merger, and acquired by the shareholders of Acquired companies in exchange for their shares held in the Acquired companies (with the exemption that PGE S.A. will not acquire its own shares in exchange of the shares of Acquired companies). After the registration of new shares in the registry court, the shares of PGE S.A. will be diluted.

1.5.2. Own shares

As at December 31, 2009, PGE S.A. did not hold any own shares. The Company's shares were not held by any subsidiary thereof or a third person acting on behalf or to the benefit of the Company, either.

Among persons managing and supervising PGE S.A. as at December 31, 2009, in accordance with information held by PGE S.A., the shares of the mother company were held by: Marcin Zieliński, Chairman of the Supervisory Board (500 shares of a nominal value of PLN 5,000), Maciej Bałtowski, Member of the Supervisory Board (1,364 shares of a nominal value of PLN 13,640), Ryszard Malarski, Member of the Supervisory Board (5 shares of a nominal value of PLN 50), and Katarzyna Prus, Member of the Supervisory Board (273 shares of a nominal value of PLN 2,730). As at December 31, 2009, members of the Management and Supervisory Boards of PGE S.A. did not hold any shares/shares in other companies related to the mother company.

As at December 31, 2009 the companies from PGE Capital Group did not hold any own shares. During the financial year 2009 only PGE Elektrociepłownia Gorzów S.A. held own shares. Pursuant to the resolution of the Ordinary General Meeting of PGE Elektrociepłownia Gorzów S.A. dated June 30, 2009, 3,481 shares with a nominal value of PLN 50 were amortized at the price of PLN 115, what accounted for 0.565 % of the company's share capital.

Table: Own shares held by the persons acting on behalf of companies from PGE Capital Group

Company	Name and surname	Function	Number of shares	Comments
PGE Elektrociepłownia Gorzów S.A.	Jan Kos	President of the Management Board	78	
	Ewa Pulkowska	Member of the Management Board	78	
	Zbigniew Wołoncewicz	Member of the Management Board	78	
PGE Lubelskie Zakłady Energetyczne S.A.	Jarosław Szczerbetka	Member of the Management Board	52	After the balance sheet date, the shares were converted into the shares of PGE Energia S.A.
PGE Zespół Elektrowni Dolna Odra S.A.	Bogusław Jarmuż	Member of the Management Board, Dyrektor ds. Technicznych	483	
	Jerzy Kondratowicz	President of the Management Board, General	358	After the balance sheet date, the shares were converted into the shares of PGE Energia

Company	Name and surname	Function	Number of shares	Comments
		Director		S.A.
	Jan Nowysz	Member of the Management Board, Financial Director	311	After the balance sheet date, the shares were converted into the shares of PGE Energia S.A.
PGE Dystrybucja Łódź – Teren S.A.	Rafał Kuźniak	President of the Management Board	31	After the balance sheet date, the shares were converted into the shares of PGE Energia S.A.
	Waldemar Kaczerski	Member of the Management Board	46	After the balance sheet date, the shares were converted into the shares of PGE Energia S.A.
PGE Kopalnia Węgla Brunatnego Turów S.A.	Stanisław Żuk	President of the Management Board	764	
	Mieczysław Łukjanowicz	Member of the Management Board	764	
	Danuta Makos	Member of the Management Board	594	
	Romuald Salata	Member of the Management Board	764	
	Małgorzata Gładysz	Proxy	509	
PGE Kopalnia Węgla Brunatnego Bełchatów S.A.	Jacek Kaczorowski	President of the Management Board, General Director	1,553	
	Kazimierz Kozioł	Vice - President of the Management Board, Production Director	1,903	
	Eugeniusz Walus	Member of the Management Board, Financial Drector	1,353	
	Włodzimierz Sarnecki	Member of the Management Board, Investment Director	1,353	
PGE Zespół Elektrociepłowni Bydgoszcz S.A.	Ryszard Popowski	President of the Management Board	10	
	Jacek Szwed	Member of the Management Board	10	
PGE Elektrownia Bełchatów S.A.	Waldemar Szulc	Member of the Management Board	5,211	

Company	Name and surname	Function	Number of shares	Comments
	Wojciech Marszałek	Member of the Management Board	7,108	
PGE Elektrownia Opole S.A.	Jan Pilipionek	Member of the Management Board	170	
	Czesław Łukowski	Proxy	155	
	Wiesław Essler	Proxy	199	
PGE Elektrownia Turów S.A.	Roman Walkowiak	President of the Management Board, General Director	4,374	
	Tomasz Ozimowski	Member of the Management Board, Technical Director	4,921	
	Marian Przygrodzki	Member of the Management Board, Administration Director	4,921	
PGE Zamojska Korporacja Energetyczna S.A.	Józef Madała	Member of the Management Board	64	After the balance sheet date, the shares were converted into the shares of PGE Energia S.A.
PGE Zakład Energetyczny Białystok S.A.	Józef Andrukiewicz	President of the Management Board	40	The agreement of conversion of shares for the shares of PGE Energia S.A. signed on 21 September 2009
	Zenon Karwowski	Member of the Management Board	52	The agreement of conversion of shares for the shares of PGE Energia S.A. signed on 19 October.
PGE Zakłady Energetyczne Okręgu Radomsko - Kieleckiego S.A.	Tomasz Herman	President of the Management Board	63	In 2009 the shares were converted into the shares of PGE Energia S.A.
PGE Obrót S.A.	Jacek Szydło	President of the Management Board	37	In 2009 the shares were converted into the shares of PGE Energia S.A.
	Elżbieta Król	Member of the Management Board	45	In 2009 the shares were converted into the shares of PGE Energia S.A.
	Józef Kocurek	Proxy	45	In 2009 the shares were converted into the shares of PGE Energia S.A.
	Zbigniew Tuszyński	Proxy	45	In 2009 the shares were converted into the shares of PGE Energia S.A.

1.5.3. Control system of employees share scheme

In 2009, PGE S.A. did not maintain any employees share schemes.

1.5.4. Use of proceeds from issues

On November 2, 2009, gross funds from the offer for the issue of shares of PGE Polska Grupa Energetyczna S.A. of PLN 5,968,810,500.00 were credited to the escrow account kept with Bank PEKAO S.A. Funds in the escrow account were blocked till the fulfilment of all formal requirements connected with the registration of new shares and company share capital by the Company, i.e. till December 1, 2009.

On December 1, 2009, PGE S.A. received funds from its stock exchange debut from the escrow account and it has been able to manage proceeds from the issue since then. Proceeds from the issue are used in accordance with goals described in the prospectus. Funds are successively spent for the repayment of short-term and long-term debts, including the refinance of debt taken to finance the first and second tranche of payment related to the purchase of minority stakes in certain subsidiaries from the State Treasury. Other financial surpluses are allocated to finance the activity and invested in short-term safe bank deposits.

In addition, in 2009 PGE S.A. was issuing bonds under the bond programs described in p. 2.3 of this document. Funds acquired from bonds issue were used to finance current operations of PGE S.A. and investments carried out by selected subsidiaries.

1.6. Remuneration for PGE S.A. authorities

Rules for determining and amount of remuneration paid out to Management Board members in 2009

Management Board members are employed on the basis of employment contracts. Remuneration and benefits payable to the Management Board are defined in accordance with the provision of the act on salaries of persons managing certain legal entities (the "Salary Cap Act"). Pursuant to this act, remuneration and benefits may be paid to Management Board members in the following forms: monthly salary, annual award, fringe benefits, severance pay.

Pursuant to the Salary Cap Act, the maximum monthly salary of the Management Board member may not exceed 6-times monthly salaries in the corporate sector, without awards payable from profit in the fourth quarter of a previous year, as published by the President of the Polish Statistical Office.

Pursuant to the Salary Cap Act, Management Board members may obtain an annual award which may not exceed their three average monthly salaries in the preceding year. Rules for annual awards are defined in the Regulation of the Minister of Treasury dated March 12, 2001 on detailed terms and conditions for granting annual awards to persons managing certain legal entities and a draft annual award application (Journal of Laws of 2001, No 22, item 259, as amended).

Pursuant to the Salary Cap Act, Management Board members may also obtain fringe benefits, which may not exceed 12 average monthly salaries applied to calculate their monthly salary. The list of fringe benefits is presented in the Regulation of the Prime Minister dated January 21, 2003 on detailed list of fringe benefits payable to persons managing certain legal entities and rules for allocating such benefits (Journal of Laws of 2003, No 14, item 139).

Pursuant to the Salary Cap Act, in the case of dismissal or termination of an employment contract or a civil contract for reasons other than the violation of basic employment duties, a Management Board member may receive a severance pay that is not bigger than 3 monthly salaries.

Management Board members are also subject, to a limited extent, to certain provisions of the PSE Collective Bargaining Agreement of October 7, 1999 and certain provisions of the Collective Bargaining Agreement for Employees of the Power Industry of May 13, 1993. Pursuant to those acts, Management Board members are entitled to certain benefits like a right to use electricity up to 3,000 kWh per annum at a discounted price. The discounted price amounts to 20% of the household price tariff. The other benefit is a right to private medical health care at Lux-Med worth up to PLN 1,210.80 in 2009.

Based on the Supervisory Board's resolution of October 23, 2008, Management Board members were granted additional benefits in the form of third party insurance for Management Board members. Under the insurance contract of October 24, 2008 between PGE S.A. and TU Allianz Polska S.A., insurance covered third party liability of Management Board members due to their functions. The contract was concluded for annual period starting from October 24, 2008 till October 23, 2009. Based on an annex of April 23, 2009, Supervisory Board members have also been covered by the third party insurance. Total additional benefit under the agreement for the Management Board members of PGE S.A. amounted to PLN 9,900 in 2009. On October 23, 2009, PGE S.A. concluded the Third party insurance for Capital Company Authorities with TU Allianz Polska S.A. for the term from October 24, 2009 to October 23, 2010.

In addition, pursuant to the above Supervisory Board's resolution, Management Board members were granted an additional benefit in the form of third party insurance covering liability relating to the prospectus. On October 16, 2009, PGE S.A. concluded an insurance contract covering third party liability resulting from the prospectus with TU Allianz Polska S.A. for the period from October 16, 2009 to October 15, 2015. The Company has the individual interpretation of the head of the Revenue for the above contract, based on which such a benefit is not considered as a taxable income of an employee.

In addition, the Company concluded no-competition agreements with Management Board members. The agreements specify the duration of such a restriction and the amount of the remuneration that the Management Board member will receive as compensation for not engaging in competing activity and not performing any work under employment contract or on any other factual or legal basis to the benefit of an entity running competing activity in relation to the Company. During six months from the date of termination of the employment contract, the Company shall pay to a Management Board member a monthly compensation in the amount equal to the monthly remuneration received by a given Management Board member for the last full calendar month when his employment contract was valid.

Table: Remuneration paid by PGE S.A., Group entities other than PGE S.A. in 2009 to the Management Board members of PGE S.A., who performed their functions in 2009, by person.

Full name of a Management Board member	**Function**	**Remuneration paid by PGE S.A. in 2009 ***	**Remuneration paid by Group entities other than PGE S.A. in 2009**
Tomasz Zadroga	President of the Management Board	239,024.16	386,674.59
Marek Szostek	Management Board Vice-president in charge of Organisation	99,593.40	9,485.11
Piotr Szymanek	Management Board Vice-president in charge of Corporate Affairs	239,024.16	136,287.44
Wojciech Topolnicki	Management Board Vice-president in charge of Development and Finance	238,553.05	137,917.66
Marek Trawiński	Management Board Vice-president in charge of Operations	239,024.16	266,797.87

** excluded surcharges.*

The remuneration, including surcharges, paid by the Company to all persons that acted as Management Board members for a period in which they performed such functions and after the termination of their functions in 2009 amounted to PLN 1,603.04 thousand in total, but the information concerning persons not being Management Board members as at December 31, 2009 is not included in the above table. As at December 31, 2009 remuneration paid to persons not being Management Board members of the Group entities other than PGE S.A. amounted to PLN 110.50 thousand. In addition, persons not being Management Board members as at December 31, 2009 received benefits resulting from the termination of their employment and post-employment benefits amounting to PLN 119.51 thousand and PLN 268.45 thousand respectively.

Rules for defining and amount of remuneration paid out to Supervisory Board members

Rules for remuneration of Supervisory Board members are defined on the basis of the Salary Cap Act. On the basis of the Salary Cap Act, such remuneration may amount maximum to one average monthly salary in the corporate sector without awards payable from the profit in the fourth quarter of a previous year, as published by the President of the Polish Statistical Office.

Table: Remuneration paid by PGE S.A. and Group entities other than PGE S.A. in 2009 (accruals basis) to present members of the Supervisory Board of PGE S.A. who performed their functions in 2009, by person.

Full name of a Management Board member	Function	Remuneration paid by the Company in 2009 as consideration for the performance of functions in the Supervisory Board	Remuneration paid by the Company in 2009 under employment contract	Remuneration paid by Group entities other than PGE S.A. in 2009
Marcin Zieliński	Chairman of the Supervisory Board	42,940.28	-	24,500.00
Maciej Bałtowski	Supervisory Board Member, Vice-Chairman of the Supervisory Board	42,940.28	-	-
Jacek Barylski	Supervisory Board Member	42,940.28	-	-
Wojciech Cichoński	Supervisory Board Member, Secretary of the Supervisory Board	42,940.28	162,741.19	-
Małgorzata Dec*	Supervisory Board Member	16,813.08	-	-
Ryszard Malarski**	Supervisory Board Member	38,445.19	-	-
Katarzyna Prus	Supervisory Board Member	42,940.28	-	-
Zbigniew Szmuniewski	Supervisory Board Member	42,940.28	-	-

* appointment date: July 30, 2009
** appointment date: January 14, 2009

In 2009, based on the annex to the insurance contract of October 24, 2008 between PGE S.A. and TU Allianz Polska S.A., Supervisory Board members were granted fringe benefits in the form of third party insurance for Supervisory Board members. The contract was in force till October 23, 2009. Therefore, on October 23, 2009, PGE S.A. concluded a new contract on Third party insurance of Capital Company Authorities with TU Allianz Polska S.A. for the term from October 24, 2009 to October 23, 2010. In addition, Supervisory Board members are subject to the third party insurance connected with the prospectus.

2. Characteristics of the activity of PGE Capital Group

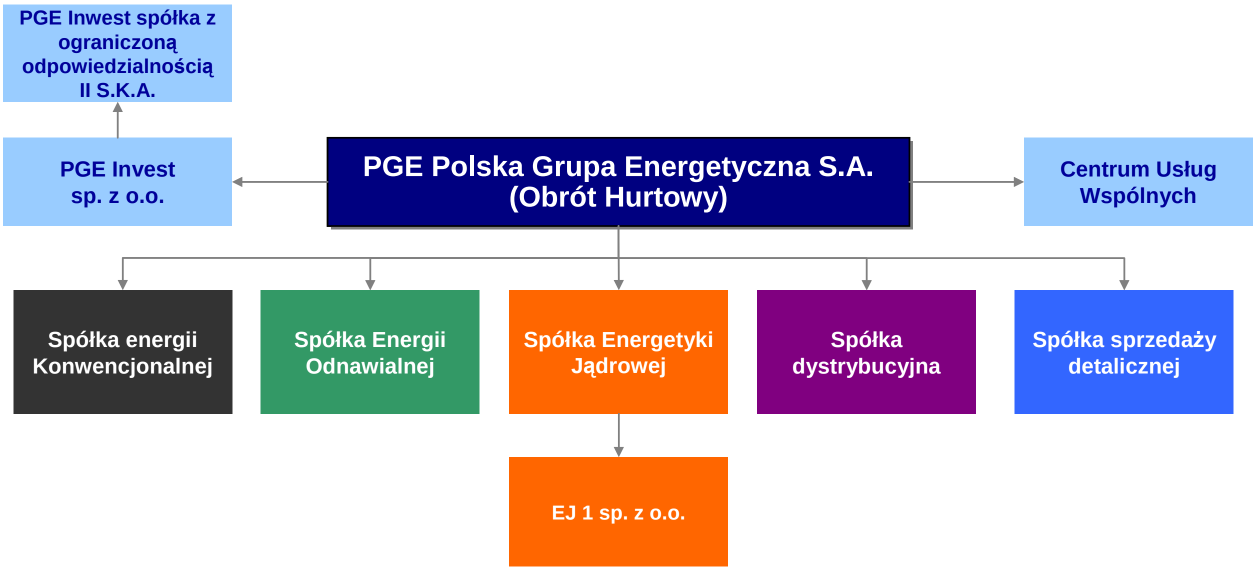
2.1. Description of the activity of PGE Capital Group

At present, the Group's activity is organised in five segments: (i) Mining and Generation, including lignite mining and the generation of electricity and heat from conventional sources, (ii) Renewable Energy generation, including the production of electricity from renewable sources, (iii) Wholesale Trading of electricity and related products, (iv) Distribution of electricity, and (v) Retail sales of electricity. Apart from the above five major business lines, the PGE Group also runs activities in other areas, including telecommunications. The Group also comprises other companies whose core activity consists in the provision of auxiliary services to other companies from the energy and mining sectors. Such services include, without limitation: (i) construction, repairs, modernisation and investment works relating to power equipment, (ii) comprehensive diagnostic tests and measurements of power and electrical machinery and equipment, (iii) management of side products of coal combustion, development and implementation of technologies for the use of such products, and the rehabilitation of degraded sites, (iv) medical and social services.

The corporate structure of the PGE Group still does not correspond to its functional structure of business lines. In particular, among direct subsidiaries of PGE Energia, there are entities operating in three different business lines: retail sales companies, distribution companies (distribution system operators) and several electricity and/or heat producers, including one large producer: PGE Zespół Elektrowni Dolna Odra S.A.

After the execution of the Consolidation Programme and the Non-Core Asset Management Programme, the ownership structure of the Group will be sorted out (the programmes are described in p. 1.3 Changes in the Company and Capital Group's management rules).

Chart: Target structure of the Group



Legend to the above chart:

obrót hurtowy – wholesale trading; spółka energii odnawialnej – renewable energy company

centrum usług wspólnych – shared services centre; spółka energii jądrowej – nuclear energy company

spółka energii konwencjonalnej – conventional energy company; spółka dystrybucyjna – distribution company

spółka sprzedaży detalicznej – retail sales company

2.2. Supply markets

Supply of raw materials

Lignite, hard coal, natural gas and biomass are key fuels used to produce electricity and heat by power plants and heat and power plants coming within the PGE Group. Fuel costs have a significant share in electricity production costs.

The two lignite mines PGE KWB Bełchatów S.A. and PGE KWB Turów S.A. supply lignite to PGE Elektrownia Bełchatów S.A. and PGE Elektrownia Turów S.A. respectively. These power plants do not use any other lignite suppliers. To such an extent, it may be assumed that PGE Elektrownia Turów S.A. and PGE Elektrownia Bełchatów S.A. are dependent on lignite supplies from PGE KWB Bełchatów S.A. and PGE KWB Turów S.A., while mines are dependent on their major recipients, i.e. the power plants PGE Elektrownia Turów S.A. and PGE Elektrownia Bełchatów S.A.

Since 2009, the PGE Group has purchased hard coal via PGE Electra S.A., which buys coal from several biggest suppliers in Poland, i.e. Jastrzębska Spółka Węglowa S.A, Katowicki Holding Węglowy S.A. and Kompania Węglowa S.A., and then sells it to particular producers from the PGE Group. Given the existing situation in the hard coal market and import opportunities, the PGE Group is not dependant on its present suppliers.

Natural gas for the purposes of electricity and heat production (co-generation) is supplied mainly by Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG S.A."). Although since 2004 it has been theoretically possible to buy natural gas on the free market, however in practice the PGE Group's major supplier is still PGNiG S.A. Thus the PGE Group is dependent on that supplier to a certain extent.

Purchase of services from PSE Operator S.A.

According to applicable regulations, power companies operating in Poland must conclude electricity transmission service agreements with a transmission system operator ("TSO") or electricity distribution service agreements with an operator or operators of distribution systems or, if required by the scope of their activity, agreements both with a transmission system operator and a distribution system operator.

Given the above, companies operating in the electricity generation, trading and distribution areas in Poland (including PGE Group companies) are dependant, indirectly or directly, on transmission service agreements, with regard to the balancing of the power market as well, which is a typical situation in the electro energy sector. Such agreements are concluded with PSE Operator, which is responsible for the operation of the electro energy transmission system, including connections with other electro energy systems, and provides electricity transmission services. Pursuant to the Energy Law, such services are provided only by the transmission system operator and transmission service agreements are obligatory. Such an obligation creates a system dependency. Power companies within the PGE Group are also subject to such dependency to an extent defined by law and determined by the scope and character of their activity. The termination or expiry of such an agreement in the case there is no agreement concerning a new transmission contract between a power company and a transmission system operator results, in practice, in one party filing an application with the President of the Energy Regulatory Office to define terms and conditions for such a contract.

Producers from PGE Group are also dependant on agreements concerning the condition for the provision of system services by such companies to the transmission system operator, constituting an integral part of transmission service agreements. Such agreements may be concluded only with PSE Operator S.A., and the termination or expiry thereof causes that power reserved for the purpose of such services must be used on a commercial basis.

In 2009, services purchased from PSE Operator S.A. constituted approximately 15% of total operating expenses incurred by the Group. PSE Operator S.A. is a related party to PGE S.A., as both companies are controlled by the State Treasury.

Purchase of electricity

Pursuant to the applicable electricity trading model in the PGE Group, in 2009, generators from PGE Group sold electricity mainly to PGE S.A. Energy bought by PGE S.A. was sold to PGE Group companies, i.e. Retail Sales Companies and PGE Electra S.A., which sold the acquired electricity to its business partners (trading companies) outside the PGE Group, in the domestic or international market, or auxiliary to Retail Sales Companies from the PGE Group. PGE Retail Sales Companies, except for PGE S.A. and PGE Electra S.A., also bought energy from local sources located in the area where those companies act as a supplier of last resort. The Retail Sales Companies sold a part of electricity bought to distribution system operators from the PGE Group to cover a balance difference.

2.3. Description of significant agreements

Lignite delivery agreements

Lignite for PGE Elektrownia Bełchatów S.A. and PGE Elektrownia Turów S.A. is supplied by PGE KWB Bełchatów S.A. and PGE KWB Turów S.A. based on long-term agreements concluded respectively for approximately 20 and 40 years. Apart from the long-term agreements, the parties also conclude additional agreements providing for terms of coal delivery in shorter periods.

Hard coal delivery agreements

Till the end of 2008, power coal sales contracts for the purposes of electricity producers from the PGE Group were concluded individually by particular power plants and CHP plants. Since 2009, the PGE Group has implemented a centralised coal purchase system, which is administered by PGE Electra S.A. Given the new system, as of the end of 2008, long-term coal sales agreements concluded by particular producers from the PGE Group were terminated or assigned to PGE Electra S.A. In return, at the end of 2008, PGE Electra S.A., as an entity responsible for centralised procurement, concluded new agreements with suppliers, on the one hand, and with coal recipients from the PGE Group, on the other hand. Both the purchase and sale of coal to PGE Group recipients by PGE Electra S.A. are based on agreements concluded for several years ("Long-term Agreements") and additional agreements concluded for yearly periods ("Yearly Agreements"). Yearly Agreements constitute an integral part of Long-term Agreements.

Electricity sales agreements concluded by PGE Group companies

<u>Agreements with electricity producers from the PGE Group</u>

At the turn of 2009 and 2010, PGE S.A. concluded electricity purchase agreements for 2010 and the years 2011-2016 with the biggest electricity producers in the PGE Group, 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.

Agreements on the finance of PGE S.A. and its subsidiaries

<u>PGE bond issuance program of up to PLN 2 billion</u>

On May 19, 2009, PGE S.A. entered into three agreements relating to a bond issue program ("Programme"): (i) an indenture to acquire bonds to which the parties are PGE S.A. and ING Bank Śląski S.A., Societe Generale S.A., BNP Paribas S.A. Branch in Poland, Nordea Bank Polska S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. (as the Lead Managers and the Bonds Issue Program Underwriters) and ING Bank Śląski S.A. (as the Issue Agent), (ii) an Agency and Deposit Agreement for the Bonds Issue Program with ING Bank Śląski S.A. ((as the Issue Agent, Paying Agent and Depositary) and Societe Generale S.A., BNP Paribas S.A. Branch in Poland, Nordea Bank Polska S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. ((as Agents, Paying Sub-agents and Sub-depositaries), and (iii) a Dealer Agreement for the Bonds Issue Program with ING Bank Śląski S.A., Societe Generale S.A., BNP Paribas S.A. Branch in Poland, Nordea Bank Polska S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. (as Dealers). On 21 July 2009 Bank Handlowy w Warszawie S.A. signed an Accession Agreement, while on 13 November 2009 Caja de Ahorros y Pensiones de Barcelona "la Caixa" (Savings Bank) Polish Branch of the International Enterprise (as Additional Underwriters). Thus, as of the Accession Agreement signing date, these banks acquired rights and took over obligations arising from the indenture to acquire bonds of May 19, 2009.

The maximum amount of the Programme is PLN 2 billion. Under the Programme, the Company may issue zero coupon bonds with maturities of up to one, three or six months, but not longer than 180 days. The maturity of the last series of bonds may be determined in a different manner but will in no event be after November 15, 2010.

According to the terms of the issue, the bonds are not secured. According to the Indenture, in consideration of the Underwriters' commitment to acquire the bonds, PGE made additional representations to the Underwriters on submission to execution pursuant to the relevant provisions of the Civil Procedure Code. Additionally, the Indenture provides that certain key PGE Group members, on the occurrence of the events specified in the Indenture, will undertake additional obligations under Article 391 of the Civil Code with respect to the Issuer's performance of its obligations under the bonds, the Underwriters or Authorized Entities.

As a rule, the yield of bonds is guaranteed at a reference rate increased by a guaranteed margin. The reference rate is the relevant WIBOR rate for deposits with a maturity corresponding to the maturity of bonds (different rules for establishing yield are applied to the last series of bonds and bonds issued to redeem bonds of the previous series). The Indenture also defines the methods of determining the issue price for the bonds that the Underwriters are bound to pay in order to acquire the bonds.

<u>PGE Bond issuance program of a maximum value of PLN 5 billion to companies of the PGE Group</u>

On May 11, 2009, PGE S.A. concluded an Agency Agreement with ING Bank Śląski S.A. (as Agent for Issue and Payments) regarding the establishment of the bond issue made to companies of the PGE Group ("Program for the Group").

The maximum amount of the Programme for the Group is PLN 5 billion. Under the Program for the Group, the Company may issue coupon or zero coupon bonds. Zero coupon bonds can be issued with a maturity of not less than fourteen days and not more than six months, and coupon bonds can be issued with a maturity of not less than twelve months and not more than three years. Bonds are not in paper form or secured. Bonds issued under the Program for the Group are not subject to acquisition guarantee.

The Company intends to offer bonds issued under the Program to an organized group of investors, consisting of entities of which the Issuer is the direct or indirect dominant entity, within the meaning of the CCC.

Letter of promise concerning the financing for the new investment at PGE Elektrownia Opole S.A.

Given the planned strategic investment in the PGE Group consisting of the construction of blocks 5 and 6 in PGE Elektrownia Opole S.A., on July 29, 2009, PGE S.A. executed a promise in favor of PGE Elektrownia Opole S.A. to provide the financing for this investment with an estimated value of EUR 3.158 billion. Till December 31, 2009, PGE S.A. did not make a decision on the form of financing for the investment in question.

Issue of bonds by PGE Elektrownia Bełchatów S.A. up to the maximum of PLN 2.7 billion, offered to PGE Polska Grupa Energetyczna S.A.

On November 30, 2009, PGE Elektrownia Bełchatów S.A. concluded the Agreement No DFP/70/2009 on the Arrangement, Management and Operation of the Issue of Bonds (Issuance Agreement) with PKO Bank Polski S.A., as the Issue Agent, for the issue of bonds to be offered to PGE Polska Grupa Energetyczna S.A. The maximum amount of the program is PLN 2.7 billion. The purpose of the issue is to secure the financing of investment needs and ensure the company's financial liquidity.

Bonds may be issued till November 17, 2014. According to the Issuance Agreement, all bonds are to be bought out by December 1, 2014. Under the Issuance Agreement, the Company may issue coupon and zero coupon bonds. Zero coupon bonds may be issued with maturity not shorter than 14 days after the issue date, and coupon bonds with maturity not shorter than 180 days after the issue date. Bonds are not in paper form or secured.

Memorandum on the initiation of cooperation relating to nuclear energy between PGE S.A. and Electricite de France S.A.

On November 17, 2009, PGE S.A. signed the Memorandum of the initiation of cooperation within the field of nuclear energy ("Memorandum") with Electricite de France S.A. ("EDF"). The Memorandum provides for study works concerning (i) the feasibility of the development of nuclear reactors in the EPR technology (Evolutionary Power Reactor of Areva) in Poland, (ii) the feasibility of the construction of the first EPR block in Poland by 2020. Both parties also agreed that they would begin negotiations on industrial partnership for the construction of nuclear EPR power plants in Poland. The Memorandum does not provide EDF with an exclusivity right with regard to its cooperation with PGE S.A. in terms of nuclear energy.

Memorandum on the cooperation relating to nuclear energy between PGE S.A. and GE Hitachi Nuclear Energy Americas

On March 1, 2010 PGE S.A. and GE Hitachi Nuclear Energy Americas signed a Memorandum concerning nuclear power industry cooperation. The memorandum provides for joint activities related to a feasibility study for the development of the ABWR (Advanced Boiling Water Reactor) and ESBWR (Economic Simplified Boiling Water Reactor) nuclear reactor in Poland by the year 2020 and the potential construction and operation of such reactors in the first Polish nuclear power plant. Besides, both companies confirm that they will hold talks on a potential industry partnership related to the nuclear project in Poland. The memorandum does not provide GE Hitachi Nuclear Energy Americas with an exclusivity right with regard to its cooperation with PGE S.A. in terms of nuclear energy.

2.4. Transactions with related entities

Information about transactions with related entities are presented in Note 42 to the consolidated financial statements

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

As at December 31, 2009, 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). Such proceedings are described in Note 46.5 to the consolidated financial statements.

Significant proceedings pending in front of courts, competent arbitration authority or public administration authority are described in Note 39 to the consolidated financial statements.

2.6. Key R&D achievements

PGE Group's R&D activity is comparable to other companies from the Polish energy industry. The PGE Group carried out a number of actions in this area, mainly in order to: (i) implement new electricity production technologies, (ii) fulfil environmental requirements, (iii) reduce production costs. The most important R&D projects were as follows:

Nuclear energy

In 2009, PGE S.A. continued the creation of competences to the benefit of nuclear energy development in Poland, strengthened cooperation with state authorities, R&D centres, international organisations, and foreign companies. It carried out analytic, information and educational activities, including: (i) the analysis of best practices relating to organisational, financial, legal and corporate solutions for the management of nuclear power plant construction projects, (ii) the programme of location research for the nuclear power plants in Poland, (iii) the long-term forecast of electricity production source development in the light of the energy policy of Poland and EU and perspectives for investments of PGE S.A., (iv) the strategic assessment of social and economic consequences of nuclear industry development in Poland.

In 2009, PGE S.A.'s activities in the area of nuclear energy comprised mainly:

- cooperation in establishing organisational, legal and administrative conditions to the benefit of the construction of a nuclear power plant in Poland;
- development of competences and organisational preparation of PGE S.A. to take up the role of an investor for nuclear power plants in Poland;
- initiation and coordination of studies and analyses connected with the preparation of nuclear power plant construction in Poland.

Construction of CCS installation at PGE Elektrowni Bełchatów S.A.

Taking into account EU recommendations, according to which CCS (Carbon Capture and Storage) technology is one of major methods to reduce the emission of CO_2 from the combustion of fossil fuels, since the beginning of 2008, PGE Elektrownia Bełchatów S.A. has been developing the concept of the construction of a demo CO_2 capture, transport and storage systems.

The installation is to be implemented in the newly constructed 858MW unit and will be commissioned by the end of 2015.

The CCS project will allow for capture of approximately 33% of fumes stream from the 858MW unit, compressing, transporting and pumping of approximately 1.8 million tonnes of CO_2 per annum into geological structures. The acquisition of necessary engineering knowledge and experience in designing, constructing and operating CCS installations and then the participation in its optimisation and commercialisation will provide know-how in this area and enable further development and introduction of this innovative technology.

In 2009, the Group mainly carried out the following activities in the area of CCS installation construction:

- development and submission of relevant applications to proper authorities in order to obtain environmental decisions and a construction permit;
- continuation of cooperation with the Alstom Group with regard to the construction of the CCS installation;
- development of a feasibility study concerning possibilities and conditions for CO_2 transport.

The CCS project at PGE Elektrownia Bełchatów S.A. was qualified, together with six other European CCS projects, to the grant of EUR 180 million under the European Energy Programme for Recovery (EEPR).

Other R&D projects

Apart from the aforementioned R&D project, PGE S.A. and particular Group companies carry out many works, including, without limitation (i) participation in the CO_2EuroPipe project aiming at the definition of opportunities for the development of CO_2 transport infrastructure at the industrial scale, the preparation of draft legislation, the development of the concept of CO_2 transport and pumping networks between power plants and storing yards; (ii) participation in the Polish Platform of Clean Coal Technologies dealing with clean coal technologies from the technical, economic, financial, legislative and social point of view; (iii) participation in the HUGE (Hydrogen Oriented Underground Coal Gasification for Europe) project aiming at development and testing of opportunities for obtaining fuel in the form of synthesised gas and hydrogen from hardly accessible sources of hard coal and lignite; (iv) the execution of projects increasing the utilisation of production assets at lignite mines through the reduction of the number of outages of the KTZ system (i.e. excavator – belt conveyor - stacking machine); (v) the improvement of technologies for the rehabilitation of slopes and biotope shaping for the development of forests on post-mining sites; (vi) the execution of pilot programmes of smart metering in the distribution area.

2.7. Issues relating to the natural environment

The activity of Group companies has a significant impact on the environment and is subject to a number of environmental permits. PGE Group mines operate on the basis of various types of decisions. In particular, they own sector permits to use the environment, necessary to run their exploitation activities, including water and sewage management, waste management, noise level, and the emission of gases and dusts to the air. One of the biggest challenges connected with the activity of PGE KWB Bełchatów S.A., in terms of environmental protection, is the protection of mining waters against their contamination with salty waters coming from the salt dome. A barrier of abyssal wells was built in order to protect the salt dome and mine water. It should eliminate the flow of underground water through the dome by keeping a sufficient water table level behind the barrier compared to the water level in the open cast in the Bełchatow and Szczercow exploitation areas.

The conventional power plants and CHP plants in the PGE Group hold integrated permits that specify the type and parameters of the system, conditions for introducing substances and energy to the environment, specification of permitted types and quantities of gases and dusts, water management related issues (water consumption, collection and disposal of sewage), waste management, specification of the permitted level of noise, methods of achieving a high level of environment protection, methods of preventing failures and limiting the effects of such failures, as well as an obligation to inform of the failures, and specify obligations with respect to the monitoring of water, sewage and air protection. The PGE Group electricity generating companies also hold applicable sector permits.

Hydroelectric power plants in the PGE Group, including the pumped-storage plants, hold almost all important permits, including water law permits for damming up water, discharging waste water and drawing water.

Most Retail Sales Companies and Distribution companies in the PGE Capital Group hold all permits and consents required by law to conduct their basic activity. In particular, the sales and distribution companies hold water law permits to pump sewage into water or land, including permits to dispose of purified waste water and melt water (drainage) into the ground, to pump purified household waste into the ground and a permit to produce waste. This also includes the production of dangerous and non-dangerous waste.

In the opinion of the Management Board, the current activity of Group companies in all material aspects meets the requirements of applicable regulations of the Environmental Law.

Environmental actions carried out by the PGE Capital Group

In 2009, the PGE Capital Group carried out environmental actions, including in particular:

- the fulfilment of all duties imposed on the Group companies by environmental regulations and administrative decisions, including relevant reporting and measurements, on the current basis;
- in order to define responsibility areas relating to the management of emissions within the PGE Capital Group, on January 12, 2009, the "Agreement on coordinated actions aiming at the management of CO_2 emission rights and CO_2 emissions at the PGE Capital Group" was concluded between PGE S.A., PGE GiE S.A., PGE Electra S.A., power plants and CHP plants;
- operators of installations, pursuant to the The Act of December 22, 2004 on the right to trade emissions of greenhouse gases and other airborne substances, settled emissions and rights to emissions for 2008 within the statutory date, i.e. April 31, 2009;

- Mining and Generation companies continued the programme of reduction of noise emission to the environment, including the completion of the investment project at PGE Elektrownia Turów S.A. - the construction of acoustic barriers at the second ash removal tower – and the construction of acoustic barriers at coal conveyor belts in PGE KWB Turów S.A.;
- a number of actions aiming at the reduction of water contamination, including the adjustment of 110/15 kV substations to requirements for water and soil environment protection against uncontrolled leakages of oil; the construction of environmental stands (oil pots), the implementation of smear-free bearing in the hydroelectric power plant in Dębe;
- actions relating to waste management i.e. the reduction of quantities of wastes, the recovery of recyclable wastes, and then the neutralisation thereof in accordance with legal requirements.

2.8. Events after the balance-sheet date

Significant events influencing the Group's activities which occurred after the end of the financial year till the financial statements approval date are described in details in Note 46 to the consolidated financial statements.

3. Management's discussion of the Group's results of operations and financial condition

3.1. Factors and events influencing financial performance

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. As a rule, there is a positive correlation between the growth of electricity demand and economic growth. Thus, the macroeconomic situation of Poland has a direct impact on financial results achieved by the PGE Group. Particularly, the global recession and the decline in demand for products of energy-consuming branches of the Polish industry during 12 months of 2009 contributed to the decrease of electricity demand for in the National Power System by approximately 4.0% in comparison to 12 months of 2008.

Table: Key economic ratios connected with the Polish economy.

Key data	2009	2008
Real GDP growth (% of growth)[1]	1.7*	5.0
Annual inflation rate (% of consumer prices) [2]	3.5	4.2
Domestic electricity consumption (TWh) [3]	148.7	154.9

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

Termination of long-term contracts (LTC)
Due to the termination of LTCs in accordance with The Act of June 29, 2007 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.

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

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

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 46.1 to the consolidated financial statements.

Sales of electricity

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

	2009	2008	% change
Sale in TWh, including:	**60.3**	**66.5**	*-9%*
Sales to end-users *	30.0	30.6	*-2%*
Sales on the wholesale market	23.2	28.1	*-17%*
Sales to foreign customers	1.8	2.0	*-10%*
Sales on the Balancing Market	3.8	5.8	*-34%*
Sales to PSE Operator (for losses)	1.5	0.0	-
Internal consumption **	4.4	3.9	*13%*
Total outflow of electricity	**64.7**	**70.4**	*-8%*

* after elimination of intragroup sales in PGE Group
** internal consumption includes energy for covering the balance sheet difference

In the 12-month period ended December 31, 2009, the Group sold 60.3 TWh of electricity, i.e. by approximately 9% less than in the same period of 2008 (66.5 TWh). The changes in the structure of sales in the 12-month period ended December 31, 2009 in comparison to the 12-month period ended December 31, 2008 were mainly due to effects of discontinuation of electricity purchases from generators outside the Group, mainly due to the termination of LTCs at the end of March 2008, and the emergence of the effects of economic turndown, leading to the decline in demand for electricity. The decline in energy sales to end-users from 30.6 TWh in the period ended December 31, 2008 to 30.0 TWh in the period ended December 31, 2009, was mainly caused by lower demand for electricity and the loss of one of major customers.

Purchases of electricity

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

	2009	2008	% change
Total purchases in TWh, including:	**10.9**	**14.3**	*-24%*
Purchases based on LTCs outside the Group	0.0	5.3	*-100%*
Purchases from companies outside of the Group	0.7	1.5	*-53%*
Purchases from abroad	2.2	4.1	*-46%*
Purchase from the Balancing Market	8.0	3.4	*135%*

In the 12-month period ended December 31, 2009, Group companies purchased by 3.4 TWh less energy from outside the PGE Capital Group. The decline in the volume of energy bought during the 12-month period ended December 31, 2009 in comparison to the 12-month period ended December 31, 2008 were mainly due to effects of discontinuation of electricity purchases from generators outside the Group, mainly due to the termination of LTCs, effective at the end of March 2008. Purchases from abroad declined by approximately 46% in the 12-month period ended December 31, 2009 in comparison to the 12-month period ended December 31, 2008 mainly due to smaller import from Sweden and Ukraine via the Zamość-Dobrotwór line, and smaller purchases of electricity on the German market by Electra Deutschland GmbH. In the 12-month period ended December 31, 2009, in comparison to the 12-month period ended December 31, 2008, purchases of electricity from the Balancing Market increased mainly as a result of the larger purchases of electricity by power plants: Bełchatów, Turów and Opole.

Production of electricity

Table: Generation of electricity by Group generators (in TWh)

	2009	2008	% change
Total energy generation (in TWh), including:	**53.8**	**56.1**	-4%
Lignite-fired power plants	35.9	38.2	*-6%*
Coal-fired power plants	13.1	13.2	*-1%*
Coal-fired CHP plants	1.5	1.6	*-6%*
Gas-fired CHP plants	2.0	2.0	-
Pumped storage power plants	0.6	0.5	*20%*
Hydroelectric plants	0.6	0.5	*20%*
Wind power plants	0.1	0.1	-

In the 12-month period ended December 31, 2009, the production of electricity reached 53.8 TWh in comparison to 56.1 TWh in the 12-month period ended December 31, 2008. The production of electricity declined both in power plants using lignite and hard coal, as well as in coal-fired CHP plants mainly as a result of: (i) increased number of reductions forced by PSE Operator S.A. related to a smaller demand for electricity in the National Power System (KSE), (ii) modernisation and recovery repair of the generating unit no 4 in PGE Elektrownia Bełchatów S.A., (iii) the breakdown of the generating unit no 4 in PGE Elektrownia Turów S.A.

Production and sales of heat

In 2009, the PGE Group's net heat production amounted to 22.8 million GJ, and was by approximately 1% higher than in 2008, while the sales of heat, excluding intragroup sales, amounted to 22.8 million GJ and was by approximately 1% higher than in 2008. In 2009 and 2008, PEC Gorzów sp. z o.o. and PEC w Gryfinie sp. z o.o. bought heat for further resale from PGE Elektrociepłownia Gorzów S.A. and PGE ZEDO S.A. The total volume of heat bought by these companies within the PGE Group amounted to 1.4 million GJ in 2009 in comparison to 1.3 million GJ in 2008.

Electricity prices

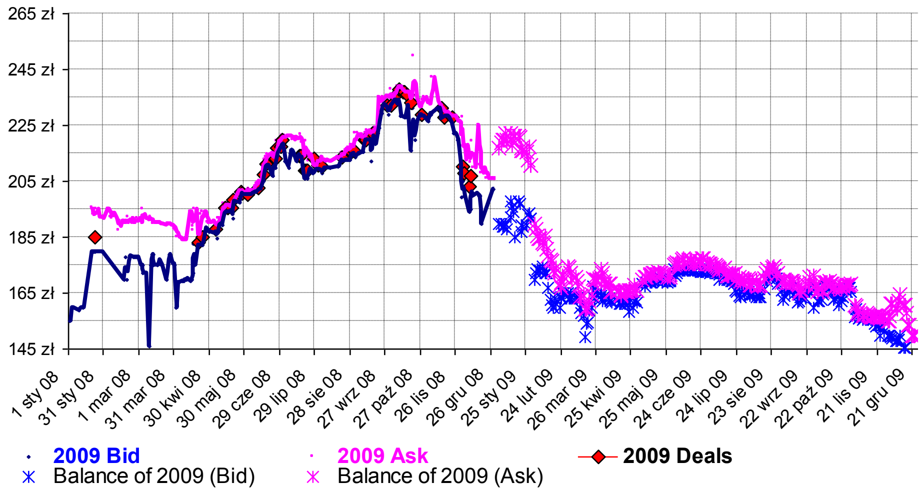
Electricity prices quoted on domestic and international market have significant impact on the financial results of PGE S.A. and PGE Capital Group.

Domestic market

In 2009, similarly to previous years, on the wholesale market, electricity was traded mainly on the basis of bilateral contracts and futures contracts concluded through brokerage platforms, such as TFS and GFI.

In 2008, quotations of yearly base contracts for 2009 fluctuated from approximately PLN 185 /MWh in May to approximately PLN 230 /MWh in October. In 2009, quotations of the Balance of the Year 2009 product fell even to approximately PLN 160 /MWh. This resulted from the shift of excise tax charging place effective from March 1, 2009, as well as the decline in demand for electricity arising from economic turndown.

Chart: Quotations of BASE 2009 and Balance of the Year 2009 products



Source: Argus European Electricity Market

In spite of the reduction of demand for electricity in Poland in 2009 in comparison to the preceding year, the scale of trading at the Polish Power Exchange ("TGE") and the Electricity Trading Platform ("POEE") in short-term contracts increased in comparison to previous years. The total volume of sales under SPOT transactions in 2009 amounted to 3.07 TWh for TGE and 4.36 TWh for POEE, i.e. increased respectively by approximately 45% on TGE and 24% on POEE.

In comparison to 2008, 2009 SPOT prices were lower, which was partially connected with the movement of excise duty from energy producers to entities selling energy to end-users.

Table: BASE prices for SPOT contracts

	BASE prices for SPOT contracts (PLN/MWh)			
	2008		2009	
	TGE	POEE	TGE	POEE
Quarter 1	190.53*	186.19*	193.38*	197.51*
Quarter 2	176.55*	174.08*	157.03	158.15
Quarter 3	227.55*	229.18*	168.31	169.20
Quarter 4	194.85*	196.24*	169.42	172.30

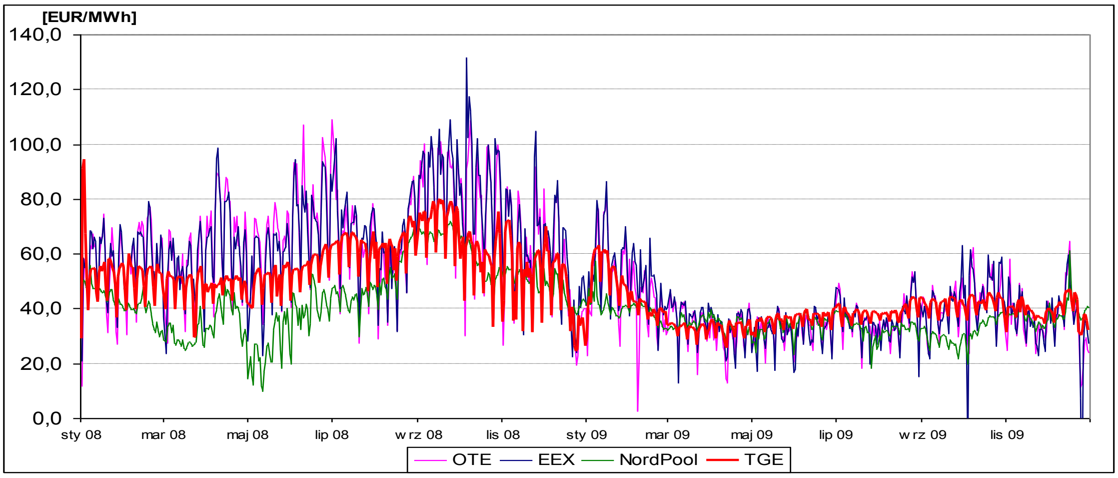
* Prices till March 1, 2009 include excise in amount of PLN 20 /MWh

Since January 1, 2009, a sole settlement price has been applied on the Balancing Market. The unification of a settlement price and the establishment of balancing groups resulted in the change of the character and size of volumes achieved on the balancing market, as compared to 2008. The volume of turnover on the balancing market decreased significantly and amounted to 3.6 TWh in 2009 in comparison to 4.8 TWh in the previous year. Contrary to 2008, in 2009 the balancing market was dominated by the sale of energy by participants. Average weekly settlement prices of deviations, did not differ much from market prices (i.e. SPOT prices), similarly to 2008.

International market

In 2009, as compared to 2008, spot prices declined significantly in Poland (on TGE) and on neighbouring markets: EEX (Germany), OTE (the Czech Republic), and NordPool (Scandinavian countries). In spite of fundamental differences between markets, price trends were similar. The volatility of daily prices was also much smaller in 2009 than in the previous year.

Chart: Comparison of electricity prices on TGE and international markets



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 ("DSO"), and (iii) heat tariffs.

In 2009, electricity was sold to recipients from the G tariff group based on the electricity tariffs approved by the President of the Energy Regulatory Office on January 2, 2009. These tariffs came into force on January 17, 2009.

Electricity tariffs (price lists) for off-takers from A, B, C tariff groups were approved by the management boards of Retail Sales Companies of the PGE Group and were in force from January 1, 2009. In February 2009, tariffs for off-takers from A, B, C tariff groups were supplemented with new entries reflecting changes in the Act on excise tax of December 6, 2008, effective from March 1, 2009.

Distribution tariffs of distribution system operators within the PGE Group were approved by the President of the Energy Regulatory Office on January 15 and 16, 2009 and effective from February 1, 2009. Those tariffs took into account the provisions of the Act on excise tax of December 6, 2008, which came into force as of March 1, 2009, what was reflected in amount of variable components of network fees, which were defined in two variants, i.e. applicable till February 28, 2009 and applicable as of March 1, 2009.

The binding tariffs for electricity, electricity distribution services and heat, which are subject to the approval by the President of the Energy Regulatory Office, do not cover all costs incurred by Group companies. At present, costs recognised by the President of the Energy Regulatory Office as justified costs to calculate tariffs for PGE Group companies are lower than costs actually incurred by such companies.

Distribution of electricity

The tariff applicable in 2009 was the second independent tariff of distribution system operators since the integrated distribution and retail companies (regional energy companies) were unbundled into independent distribution companies (DSO).

Starting from July 1, 2007, i.e. the date of the legal separation of a distribution system operator under Art. 9d of the Energy Law of April 10, 1997 (Journal of Laws of 2006 No 89, item 625, as amended) and Art. 15 and 30 of the European Parliament and Council Directive 2003/54/EC of June 26, 2003 concerning common rules for the internal electricity market, till December 31, 2007, distribution system operators acted on the basis of 2007 electricity tariffs, distributed by regional power companies.

Distribution tariffs for 2009 approved by the President of the Energy Regulatory Office, contributed to changes in average payments for customers in particular tariff groups in comparison to 2008:

- A tariff group – decline by 0.3%,

- B tariff group – growth by 3.5%,

- C+R tariff group – growth by 1.3%,

- G tariff group – decline by 2.4%.

An average price of energy distribution services in comparison to prices binding in 2008 before the changes in tariffs, increased by approximately 2.4%.

The following table presents changes in average distribution service fees in particular tariff groups (for comparison purposes, average rates were reduced to the common denominator, i.e. volumes binding in 2008).

Table: Average distribution service fees (PLN/MWh).

	Distribution service fees		Change
	2009	2008	(%)
A tariff group	63.6	63.8	-0.3
B tariff group	94.5	91.3	3.5
C+R tariff group	210.6	208.0	1.3
G tariff group	205.2	210.3	-2.4
Average	**148.2**	**144.7**	**2.4**

<u>Sales of electricity</u>

In 2009, Retail Sales Companies from the PGE Group still had to submit their G group tariffs (for households) for approval to the President of Energy Regulatory Office. With regard to other off-takers, the President of the Energy Regulatory Office decided in November 2007 that the retail sales market is competitive and exempted companies from an obligation to submit their tariffs for approval.

In 2009, an average electricity fee for households amounted to PLN 235.94 /MWh, what constituted increase by approximately 23% in comparison to the average fees binding from May 2008.

Prices of fuel

Table: Volume and cost of purchase of fuels from third party suppliers in the period ended December 31, 2009 and 2008.

	Volume ('000 tonnes) For 12-month period ended December 31,		Cost (PLN million) For 12-month period ended December 31,	
	2009	2008	2009	2008
Hard coal	6,987	7,534	1,915	1,452
Gas ('000 m^3)	561,601	532,492	423	372
Biomass	451	408	140	85
Fuel oil	48	64	58	74
TOTAL			**2,536**	**1,983**

In the 12-month period ended December 31, 2009, cost of fuel purchased from non-Group suppliers amounted to PLN 2,536 million and were by approximately 28% higher than in the 12-month period ended December 31, 2008. In the period ended December 31, 2009, approximately 67% of electricity was produced from lignite obtained from PGE Group coal mines, whose price is less susceptible to fluctuations than fuel sourced externally. However, certain factors including aggregate amount of lignite extracted, costs of removing a layer over the coal, labor costs, and environmental provisioning, affect mining costs incurred by the PGE Group and thus PGE Group's generation costs.

National Allocation Plan for the years 2008-2012 ("NAP II")

The National Allocation Plan on CO_2 emission ("NAP") is subject to the notification to the European Commission, under the EU emission rights trading system. In connection with the fact that the European Commission reduced the quantity of CO_2 emission rights for Poland in both settlement periods in relation to quantities applied by Poland in the NAP, the granted limits constitute a material limitation for the electro energy sector.

As regards the next settlement period, which covers the years 2008-2012, Poland applied for emission caps of 284 million tonnes of CO_2. The European Commission reduced the free CO_2 emission allowances per year for Poland to 208.5 million tonnes. According to the present NAP II, utility power plants would only be authorized to emit 110.8 million tonnes of CO_2, whereas Polish CO_2 emissions in normal circumstances are estimated at approximately 120 million tonnes per year.

Table: Allocation of emission rights limits (in Mg)

Sector	Average rights - Mg of CO_2 per year
Utility power plants	110,791,200
Utility CHP plants	25,391,008

The following table presents data concerning CO_2 emission from major Group installations in 2009 (as compared to the number of rights granted under free allocations).

Table: Emission of CO_2 from major Group installations in 2009 in comparison to the average yearly allocation of CO_2 emission rights

Operator	CO_2 emissions in 2009 (Mg)	Average yearly allocation based on the NAP II
PGE Elektrownia Bełchatów S.A.	29,473,070	26,937,155
PGE Elektrownia Turów S.A.	11,624,371	11,158,636
PGE Elektrownia Opole S.A.	7,413,193	6,475,340
PGE Zespół Elektrowni Dolna Odra S.A.	6,078,793	5,680,137
PGE Zespół Elektrociepłowni Bydgoszcz S.A.	1,070,373	1,155,252
PGE Elektrociepłownia Gorzów S.A.	475,753	476,690
PGE Elektrociepłownia Lublin-Wrotków S.A.	493,484	570,840
PGE Elektrociepłownia Rzeszów S.A.	303,257	303,155
PGE Elektrociepłownia Kielce S.A.	172,482	189,357
Energetyka Boruta S.A.	84,832	104,988
PEC Gorzów S.A.	0	2,615
TOTAL	**57,189,608**	**53,054,165**

In 2009, i.e. in the second year of the second settlement period of the EU emission trading system, the Group recorded the shortage of rights of approximately 4.1 million tons of CO_2.

3.2. Group's financial performance

Consolidated statement of comprehensive income

In 2009 total sales revenues of the Group reached PLN 21,623.4 million, i.e. they were approximately 11% higher than in 2008. The biggest increase was in revenues from sale of finished goods and merchandise, which increased by PLN 2,007.5 million mainly as a result of increase of electricity wholesale and retail prices. At the same time, revenues from compensations for early termination of PPAs received by generators from PGE Group were higher by PLN 210.0 million.

In 2009 cost of goods sold reached PLN 13,727.5 million, reflecting a decrease by 3% as compared to 2008. The decrease of cost of goods sold results mainly from lower cost of external services by PLN 1,020.9 million in 2009 as compared to 2008, mainly as a result of termination of the PPAs at the end of the 1st quarter of 2008 (cease incurring of cost of producing auxiliary services by PGE), lower costs of CO2, but simultaneously costs of materials and energy increased by PLN 531.3 million as a result of increase of average hard coal prices paid by companies from PGE Group, and higher value of products and materials sold by PLN 424.5 million.

In 2009 gross profit on sales amounted to PLN 7,895.9 million as compared to PLN 5,216.7 million in 2008, what constitutes increase by approximately 51%.

In 2009 total selling and distribution expenses of PGE Group amounted to PLN 1.368,1 million, what constitutes increase by approximately 20% as compared to 2008. Increase in selling and distribution expenses was connected chiefly with higher redemption cost related to property rights incurred by retail sales companies.

In 2009 general and administrative expenses accounted for PLN 914.1 million, i.e. decrease by approximately 2% as compared to 2008.

The result on other operating activities in 2009 amounted to PLN (-) 269.0 million as compared to positive result in amount of PLN 120.9 million in 2008.

Group's other operating revenues in 2009 accounted for PLN 422.6 million, what constitutes decrease by approximately 44% in comparison to PLN 752.6 million reported in 2008. The decrease in the other operating revenues is attributed primarily to lower rehabilitation provision release as a result of actualisation of discount rate. At the end of 2009 part of rehabilitation provision in amount of PLN 131.4 million was released, when at the end of 2008 decrease of rehabilitation provision reached PLN 565.3 million.

Increase in Group's other operating expenses by PLN 59.9 million in 2009 as compared to 2008 results mainly from: (i) higher value of provisions created by PLN 73.5 million (ii) increase in revaluation write offs on receivables by PLN 60.4 million, (iii) increase of costs of liquidation of property, plant and equipment by PLN 22.1 million. This increase was partly offset by decreased cost of liquidation of damages and removal of failures by PLN 30.1 million and decrease of loss on disposal of tangible fixed assets by PLN 24.3 million. Moreover in 2009 PGE Group didn't incurred costs from difference between balance sheet value and fair value of dividend in kind and didn't paid salary connected with agreement of takeover of debt, of which costs in 2008 reached PLN 21.9 million and PLN 10.5 million respectively.

In 2009 result on financial activities amounted to PLN (-) 208.4 million and was higher by PLN 123.0 million than the result on financial activities in 2008.

In 2009 the Group's financial income amounted to PLN 372.3 million, which means decrease by 26% compared to PLN 505.1 million in 2008. The decrease of financial income was caused mainly by: (i) decrease of foreign exchange gains by PLN 80.9 million, which is mainly related of transactions denominated in foreign currency, (ii) by PLN 53.5 million lower revenues from interests, (iii) lower revenues from revaluation/reversal of revaluation write offs by PLN 32.3 million, and (iv) payment of in-kind dividend in 2008 (one off event). The decline of financial revenues was partially offset by increase in 2009 of profit from disposal of investments by PLN 42.1 million as compared to 2008.

The decline of financial costs by PLN 255.8 million in 2009 as compared to 2008 was mainly resulted from decrease in value of foreign exchange losses by PLN 193.9 million and decrease of interest expense on financial instruments by PLN 33.7 million.

The Group's profit before tax for the year 2009 was PLN 5,378.5 million as compared to PLN 3,169.5 million in 2008. In addition, in 2009 the Group's profit before tax margin (profit before tax as a percentage of total sales revenues) increased to 24.9% from 16.3% in 2008.

Due to the above factors, net profit for the year 2009 was PLN 4,337.2 million as compared to PLN 2,670.2 million for 2008. Increase in net profit in 2009 as compared to 2008 was mainly connected with the growth in wholesale and retail electricity prices, despite lower volume of electricity sold by PGE Group to final customers.

The total comprehensive income of PGE Group in 2009 reached PLN 4,296.5 million as compared to PLN 2,700.4 million in 2008.

Consolidated statement of financial position

As at December 31, 2009 and December 31, 2008, non-current assets of the Group were, respectively, PLN 41,964.4 million and PLN 40,701.2 million, and accounted for respectively 77% and 86% of total assets. The major factor behind the increase in non-current assets by PLN 1,263.2 million as at December 31, 2009 compared to the figure for December 31, 2008 was the increase in property, plant and equipment by PLN 1,134.1 million (or by 3%) and increase in other non-current assets by PLN 268.4 million (or by 124%). This growth was partially offset by a decrease in the value of shares in affiliates accounted for under the equity method by PLN 124.3 million (or by 8%).

Increase in property, plant and equipment in year ended December 31, 2009 as compared to year ended December 31, 2008 was mainly attributed to increase in the value of fixed assets under construction by PLN 1,173.8 million and was partially offset by a decrease in the value of buildings, premises and complex of civil engineering and decrease in the value of machinery and equipment respectively by PLN 41.4 million and PLN 12.8 million (mainly as a result of amortisation).

Increase in other non-current assets by PLN 268.4 million in year ended December 31, 2009 as compared to year ended December 31, 2008 mainly resulted from the increase in down payments for fixed assets under construction by PLN 263.3 million.

Decline in the value of shares in affiliates accounted for under the equity method by PLN 124.3 million in year ended December 31, 2009 as compared to year ended December 31, 2008 mainly resulted from the payment of dividend by Polkomtel S.A.

The major factor behind the increase in current assets by PLN 5,990.0 million in year ended December 31, 2009 as compared to year ended December 31, 2008 was increase in cash and cash equivalent by PLN 5,572.0 million (or by 260%) as a result of received proceeds connected to global offering of PGE's shares in Initial Public Offering.

Increase in other loans and receivables in year ended December 31, 2009 as compared to year ended December 31, 2008 was mainly a result of increase in receivables from compensations for the LTCs due to the generators from PGE Group, in accordance with the Act on LTCs, and other financial receivables by PLN 124.3 million and PLN 90.3 million, respectively. Main factor of the growth of other financial receivables was: increase in collateral paid on balancing market for aggregate amount of PLN 58.0 million.

Increase in other current assets by PLN 78.1 million as at December 31, 2009 as compared to December 31, 2008 was mainly connected with the increase in value of CO_2 emission rights intended for the own needs of companies from Mining and Generation segment by PLN 93.2 million and increase in receivables from input VAT by PLN 67.0 million. This growth was partially offset by a decline in tax receivables by PLN 24.6 million and decrease in receivables from the deductions from the profit by PLN 23.7 million.

In the 12-month period ended December 31, 2009 as compared to the values as at December 31, 2008 level of inventories increase by PLN 143.2 million. The biggest rise in inventories was related to materials, which increased by PLN 162.0 million.

As at December 31, 2009 and December 31, 2008, the total equity of the Group amounted to PLN 38,849.8 million and PLN 30,175.6 million respectively, and accounted for 71% and 64% of total equity and liabilities respectively. As at December 31, 2009 and December 31, 2008 minority interests were valued at PLN 7,681.4 million and PLN 7,365.9 million respectively. The increase in total equity was primarily related to issue of shares, net profit for the reporting period and was partially offset by the payment of dividend (including deductions from profit for the State Treasury).

Change in long-term provisions and liabilities in the 12-month period ended December 31, 2009 results mainly from (i) increase in long-term part of other provisions by PLN 314.3 million (mainly provisions related to property tax in PGE ZEDO S.A., PGE Elektrownia Opole S.A. and PGE Elektrownia Turów S.A.), and (ii) increase in deferred tax liabilities by PLN 269.4 million. This growth was partially offset by decrease in long-term indebtedness in interest-bearing loans and borrowings by PLN 414.5 million.

Short-term provisions and liabilities fell from PLN 7,496.8 million as at December 31, 2008 to PLN 5,835.7 million as at December 31, 2009 mainly due to decrease in short-term loans and borrowings by PLN 2,068.1 million. In addition, the balance of short-term liabilities and provisions as at December 31, 2009 was influenced by increase of income tax liability by PLN 209.2 million and increase in other non financial liabilities by PLN 140.8 million.

Decline of short-term loans and borrowings by PLN 2,068.2 million in the 12-month period ended December 31, 2009 as compared to December 31, 2008 was mainly related to decline of the value of issued bonds by PLN 1,517.5 million (termination of 18-month PGE bond issue program in June 2009) and to decrease in indebtedness from short-term loans and credits by PLN 550.7 million.

Increase in level of other non financial liabilities in the 12-month period ended December 31, 2009 as compared to December 31, 2008 mainly results from increase in VAT liabilities by PLN 86.7 million, increase in liabilities from contractors payment related to coming periods by PLN 26.1 million and increase in other non-financial liabilities by PLN 37.5 million. This growth was partially offset by a decline of excise tax liability by PLN 26.0 million, and decline of the remuneration liabilities by PLN 10.8 million.

Consolidated cash flow statement

The total net cash flow from operating activities for the 12-month period ended December 31, 2009 amounted to PLN 7,298.9 million compared to PLN 5,386.6 million for the 12-month period ended December 31, 2008. The increase was mainly caused by achieving higher profit on operating activity in the 12-month period ended December 31, 2009 compared to the 12-month period ended December 31, 2008. Additionally, lower inflow of cash from operating activities in the 12-month period ended

December 31, 2008 was related to the settlement of a high trade liabilities balance as at December 31, 2007 (mainly in relation to liabilities for electricity supplied under PPAs).

Negative net cash used in investing activities for the 12-month period ended December 31, 2009 amounted to PLN 3,628.6 million and was approximately 33% lower than in the 12-month period ended December 31, 2008. The balance of cash flow on investment activity comprised mainly the costs of acquisition of property, plant and equipment and intangible assets totalling to PLN 4,022.2 million.

Positive net cash used in financing activities for the 12-month period ended December 31, 2009 amounted to PLN 1,898.3 million compared to PLN (-) 528.3 million for the 12-month period ended December 31, 2008. The increase of the net cash inflow on financing activity in the 12-month period ended December 31, 2009 compared to the 12-month period ended December 31, 2008 was caused mainly by received proceeds connected to global offering of PGE's shares in Initial Public Offering in amount of PLN 5,917.5 million. Additionally, negative balance of inflow/repayments of loans and borrowings amounting to PLN 2,449.3m also has an impact on net cash from financing activities.

3.3. Geographical regions

Table: Breakdown of Group's net income from continuing operations (including flows between regions), by geographic area, for years ended December 31, 2009 and 2008.

PLN million	Total net income				
	2009	*(%) share*	**2008**	*(%) share*	**% change**
Domestic market	21,444.2	*99%*	19,157.2	*99%*	*12%*
EU member states	159.9	*1%*	189.0	*1%*	*-15%*
Other countries	19.3	*0%*	62.5	*0%*	*-69%*
Total	**21,623.4**	*100%*	**19,408.7**	*100%*	*11%*

In the years ended 31 December 2009 and 2008, the Group earned income mainly in the domestic market.

In the financial year ended 31 December 2009, income from operations generated in the EU member states amounted to PLN 159.9 million and was lower than income from operations in the financial year ended 31 December 2008 by approximately 15%. The decline resulted mainly from lower income obtained from the international electricity trading, which was due to discontinuation of fulfilment of a contract with the contractor, that was put into liquidation.

In the financial year ended 31 December 2009, income obtained in other countries amounted to PLN 19.3 million in comparison to PLN 62.5 million in the financial year ended 31 December 2008. The decline in income on operations in other countries mainly resulted from discontinuation of any activity under the Atel Contract (currently Alpiq Holding AG) by PGE S.A.

3.4. Business segments

Table: Breakdown of the Group's gross income (including flows between segments), by business segments, for financial years ended December 31, 2009 and 2008.

PLN million	Total gross income				
	2009	*(%) share*	**2008**	*(%) share*	**% change**
Mining and Generation	13,388.9	*30%*	10,346.4	*27%*	*29%*
Renewable Energy	547.2	*1%*	557.8	*1%*	*-2%*
Wholesale Trading	12,723.0	*28%*	10,757.0	*28%*	*18%*
Distribution	4,668.7	*10%*	4,756.3	*12%*	*-2%*
Retail Sales	12,342.7	*27%*	10,692.5	*27%*	*15%*
Other activity	1,839.5	*4%*	1,817.4	*5%*	*1%*
Total	**45,510.0**	*100%*	**38,927.4**	*100%*	*17%*
Intersegmental eliminations	**(23,886.6)**		**(19,518.7)**		*22%*
Net income	**21,623.4**		**19,408.7**		*11%*

Key operating indicators are presented in p. 3.1 thereof.

Table: Key financial indicators for each business segment for the financial year ended December 31, 2009 (after eliminations)

PLN million, unless specified otherwise	Mining and Generation	Renewable Energy	Wholesale Trading	Distribution	Retail Sales	Other
			2009			
EBITDA	5,550.2	203.0	465.0	1,093.2	404.7	255.0
EBIT	4,026.3	77.6	439.4	263.2	397.7	135.5
Capex	2,484.3	91.6	13.1	993.1	6.9	136.6
Segment Assets	24,938.0	1,636.1	823.2	13,396.4	1,497.7	1,039.5

Table: Key financial indicators for each business segment for the financial year ended December 31, 2008 (after eliminations)

PLN million, unless specified otherwise	Mining and Generation	Renewable Energy	Wholesale Trading	Distribution	Retail Sales	Other
			2008			
EBITDA	4,150.7	231.9	122.6	1,044.1	83.1	215.3
EBIT	2,650.1	135.7	74.5	229.9	76.7	96.2
Capex	3,114.1	138.7	12.3	970.3	5.9	151.3
Segment Assets	23,440.0	1,743.6	804.1	13,266.1	1,188.5	988.2

Mining and Generation

In 2009 total sales revenues for Mining and Generation amounted to PLN 13,388.9 million, which means 29% increase as compared to 2008. EBIT of the segment in 2009 was PLN 4,026.3 million, and EBITDA was PLN 5,550.2 million. In 2008 EBIT amounted to PLN 2,650.1 million, and EBITDA was PLN 4,150.7 million. The increase in EBIT in 2009 as compared to 2008 was mainly caused by the increase in electricity prices on national wholesale market.

In 2009 the capital expenditures in Mining and Generation segment amounted to PLN 2,484.3 million as compared to PLN 3,114.1 million in 2008.

Table: Capital expenditures incurred in Mining and Generation segment in years ended December 31, 2008 and December 31, 2009, by particular investment tasks.

In PLN millions	**Capital expenditures**		
	2009	**2008**	**% change**
Investments in generating capacities, including:	2,280.8	2,836.6	*-19.6%*
Development	1,679.1	2,213.7	*-24.1%*
Modernization and replacement	601.7	622.9	*-3.4%*
Purchases of finished capital goods	48.7	57.7	*-15.6%*
IT	29.4	26.1	*12.6%*
Vehicles	15.3	13.4	*14.2%*
Other	110.1	180.3	*-38.9%*
TOTAL	**2,484.3**	**3,114.1**	*-20.2%*

During 2009 the highest expenditures were incurred for the following projects: (i) building of 858 MW unit in PGE Elektrownia Bełchatów S.A. (PLN 607.8 million), (ii) complex reconstruction and modernisation of units 3-12 in PGE Elektrownia Bełchatów S.A. (PLN 705.3 million), (iii) making Szczerców Field available in PGE KWB Bełchatów S.A. (PLN 252.3 million) oraz (iv) maintenance of mining abilities of Bełchatów Field in PGE KWB Bełchatów S.A. (PLN 124.4 million).

Renewable Energy

In 2009 total sales revenues for Renewable Energy amounted to PLN 547.2 million as compared to PLN 557.8 million in 2008. EBIT of the segment in 2009 was PLN 77.6 million, and EBITDA was PLN 203.0 million. In 2008 EBIT was PLN 135.7 million, and EBITDA was PLN 231.9 million. The decrease in EBIT in 2009 as compared to 2008 was mainly related to a write off on receivables from the contractor by PGE Energia Odnawialna S.A. in amount of PLN 22.5 million (qualified as other operational expenses) and lower volume of sales of property rights (green certificates).

In 2009 the capital expenditures in Renewable Energy segment amounted to PLN 91.6 million as compared to PLN 138.7 million in 2008. The highest capital expenditures in the reporting period were incurred for modernisation and replacement of the assets and constituted approximately 87% and 75% of total capital expenditures for the segment in 2009 and 2008 respectively.

Table: Capital expenditures incurred in Renewable Energy segment in years ended December 31, 2008 and December 31, 2009, by particular investment tasks.

In PLN millions	**Capital expenditures**		
	2009	**2008**	**% change**
Investments in generating capacities, including:	83.0	124.2	_-33.2%_
Development	3.7	19.9	_-81.4%_
Modernization and replacement	79.3	104.3	_-24.0%_
Purchases of finished capital goods	0.2	0.6	_-66.7%_
IT	2.2	2.0	_10.0%_
Vehicles	0.9	1.6	_-43.8%_
Other	5.3	10.3	_-48.5%_
TOTAL	**91.6**	**138.7**	_-34.0%_

Wholesale Trading

In 2009 total sales revenues for Wholesale Trading amounted to PLN 12,723.0 million, what means approximately 18% increase as compared to 2008. EBIT of the segment in 2009 was PLN 439.4 million, and EBITDA was PLN 465.0 million. In 2008 EBIT was PLN 74.5 million, and EBITDA PLN 122.6 million. In 2009 higher EBIT in the Wholesale Trading segment resulted mainly from: (i) higher result achieved by PGE on electricity trading (in 2008 PGE created a provision for dispute connected with realisation of trade agreement in amount of PLN 278.6 million (qualified as other operational expenses), in 2009 the level of this provision was increased by PLN 43.6 million); (ii) higher result achieved by PGE Electra S.A. resulting among others from increased sales of CO_2 emission rights in 2009.

In 2009 the capital expenditures in Wholesale Trading segment amounted to PLN 13.1 million, and constituted approximately 0.4% of total capital expenditures of PGE Group. The biggest share of capital expenditures in Wholesale Trading segment in 2009 were related to IT, mainly for management support systems in PGE Group and electricity trade systems.

Distribution

In 2009 total sales revenues for Distribution amounted to PLN 4,668.7 million as compared to PLN 4,756.3 million in 2008. EBIT of the segment in 2009 was PLN 263.2 million, and EBITDA was PLN 1,093.2 million. In 2008 EBIT was PLN 229.9 million, and EBITDA was PLN 1,044.1 million. The increase of EBIT by approximately 14% mainly resulted from higher return on capital approved in tariff for distribution of electricity for 2009.

In 2009 capital expenditures in Distribution segment amounted to PLN 993.1 million and constituted close to 27% of total capital expenditures of PGE Group. In 2008 capital expenditures in this segment amounted to PLN 970.3 million, what means approximately 22% of total capital expenditures of PGE Group. Capital expenditures were mostly related to connection of new customers to the network and constituted 44% and 45% of total expenditures incurred in the segment in 2009 and 2008, respectively, and to investments resulting from building of new HV, MV and LV electroenergy grids which constituted approximately 32% and 30% of total expenditures in the segment in 2009 and 2008, respectively.

Table: Capital expenditures incurred in Distribution segment in years ended December 31, 2008 and December 31, 2009, by particular investment tasks.

In PLN millions	Capital expenditures		
	2009	**2008**	**% change**
HV, MV and LV power networks	314.7	295.3	6.6%
Communication, remote switching and metering equipment	79.4	63.1	25.8%
IT	51.1	39.6	29.0%
Land buyout	3.9	7.6	-48.7%
Connection of offtakers	433.9	432.5	0.3%
Purchases of finished capital goods	42.6	57.2	-25.5%
Other	67.5	75.1	-10.1%
TOTAL	**993.1**	**970.4**	2.3%

Retail Sales

In 2009 total sales revenues for Retail Sales segment amounted to PLN 12,342.7 million, what means approximately 15% increase as compared to 2008. EBIT of the segment in 2009 was PLN 397.7 million, and EBITDA was PLN 404.7 million. In 2008 EBIT was PLN 76.7 million, and EBITDA was PLN 83.1 million. The increase in EBIT in the segment by approximately 419% in 2009 as compared to 2008 was primarily a result of increase in revenues from electricity sales to business customers and of growth of the average electricity prices.

The capital expenditures in Retail Sales segment amounted to PLN 6.9 million in 2009 and constituted approximately 0.2% of total capital expenditures of PGE Group, and were mainly related to expenditures for IT (customer support systems)

Other operations

In 2009 total sales revenues for Other operations amounted to PLN 1,839.5 million, as compared to PLN 1,817.4 million in 2008. EBIT of the segment in 2009 was PLN 135.5 million, and EBITDA was PLN 255.0 million. In 2008 EBIT was PLN 96.2 million, and EBITDA was PLN 215.3 million. The increase of EBIT in 2009 in Other operations as compared to 2008 was mainly due to a higher result achieved by Exatel S.A. (increase of EBIT in 2009 in Exatel S.A. by PLN 40.8 million as compared to 2008 mainly resulting from reversal of a provision for a dispute with a contractor in amount of PLN 24,4 million).

The capital expenditures for tangible fixed assets in Other operations amounted to PLN 136.6 million in 2009 and were lower than the 2008 expenditures by approximately 10%. In the above amount, in 2009, PLN 43.5 million were spent by Exatel S.A. for IT development. The rest of the capital expenditures were mostly related to expenses for development and modernisation of fixed assets required to render services under ancillary activities.

In the reporting period Company didn't record any significant failures in its activities which would have effect on achieved results.

3.5. Publication of financial forecasts

PGE S.A. did not publish forecasts of the Company's financial results for the year 2009.

On February 19, 2010 the PGE S.A. published current report no. 10/2010, containing the estimates of selected consolidated financial data for 2009. Data published in the current report were the initial values, not audited and differ from the values presented in the attached audited consolidated financial statements. The particular changes are as follows:

- EBITDA is lower by approximately PLN 0.1 billion as compared to PLN 8.1 billion disclosed in the current report, mainly as a result of decrease of estimated income from the LTC compensations, partially compensated by reversal of revaluation write-offs for non-current other assets of PGE Group.

– Net profit is higher by approximately PLN 0.1 billion as compared to PLN 4.2 billion disclosed in the current report, mainly as a result of lower level of revaluation write-offs of financial assets and reversal of revaluation write-offs for non-current other assets of PGE Group, partially compensated by lower estimated income from the LTC compensations.

4. Management of financial resources and financial liquidity

During financial year ended December 31, 2009 PGE S.A. and the subsidiaries financed its activities from funds generated from operating activities, as well as from credits and issues of bonds.

Table: Group's net debt as at December 31, 2009 and 2008

PLN million	December 31, 2009	December 31, 2008
A. Cash [1]	161.7	206.1
B. Cash equivalents	7,445.5	1,865.1
C. Securities held for trading and available for sale [2]	6.5	84.6
D. Liquidity (A) + (B) + (C)	**7,613.7**	**2,155.8**
E. Investments held to maturity and loans and receivables [3]	**97.0**	**240.7**
F. Short-term debt with banks and current part of long-term debt [4]	969.9	3,038.1
G. Other short-term financial debt	1.0	1.1
H. Short-term financial debt (F) + (G) [5]	**970.9**	**3,039.2**
I. Short-term financial debt, net (H) - (D) - (E)	**(6,739.8)**	**642.7**
J. Long-term bank loans and advances	4,056.3	4,470.8
K Bonds issued	0.0	0.0
L. Other long-term loans and advances or other commitments [6]	0.7	1.6
M. Long-term financial debt, net (J) + (K) + (L) [5]	**4,057.0**	**4,472.4**
N. Net financial debt (I) + (M)	**(2,682.8)**	**5,115.1**

Notes

1 *Excluding PLN 105.7 million as at December 31, 2009, PLN 69.7 million as at December 31, 2008 of cash with restricted transferability attributable primarily to the Mining Liquidation Trust;*

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 repo agreements.*

As at December 31, 2009 net financial indebtedness amounted to PLN (-) 2,682.8 million, compared to PLN 5,115.1 million as at December 31, 2008. Such a significant change in the indebtedness was as a result of received proceeds connected to global offering of PGE's shares in Initial Public Offering.

After a successful IPO PGE has a significant financial surpluses. The use of the proceeds is described in p. 1.5.4.

Table: Selected financial ratios

	For the year ended December 31,	
	2009	**2008**
Return on sales ROS (in %) Net profit x 100% / net revenues	**20.1**	**13.8**
Return on equity ROE (in %) Net profit x 100% / equity – net profit	**12.6**	**9.7**
Debtor's days (in days) Average trade receivables (gross) x 365 days / net revenues	**39**	**47**
Debt ratio (in %) Liabilities and provision for liabilities x 100% / total equity and liabilities	**28.6**	**36.1**
Current ratio Current assets / short-term liabilities	**2.1**	**0.9**

Financial results earned by PGES.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.

4.1. Rating

In the second half of 2009, PGE S.A. was rated by Moody's Investors Service Ltd at A3. Fitch Ratings rated PGE S.A. at BBB+ and unsecured debt of PGE S.A. at A. Such ratings reflect the positive assessment of low credit risk connected with investments in debt securities of PGE S.A.

4.2. Bonds issued

PGE S.A. Bond Issue programme of up to of PLN 2 billion

The programme is described in details in p. 2.3 hereof. As at December 31, 2009, the Company did not recognise any debt in relation to bonds issued under the programme.

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

The programme is described in details in p. 2.3 hereof. As at December 31, 2009, the total nominal value of bonds issued under the programme amounted to PLN 525 million. All bonds were zero-coupon bonds of the maturity of 1, 3 or 6 months, and were acquired by PGE Group companies.

Agency agreements on the issue of bonds of PGE Group companies

PGE S.A., as the central entity of the PGE Group, provides particular Group entities with funds to finance investments and current activities of companies for which PGE S.A. is, directly or indirectly, a mother company within the meaning of the Commercial Companies Code. Such funds are provided in the form of zero-coupon and coupon bonds. For such a purpose, Group companies concluded agency bond issue agreements.

PGE Elektrociepłownia Lublin-Wrotków Sp z o.o.

The agency agreement of September 20, 2007 with ING Bank Śląski S.A. allowing for the issue of bonds of up to PLN 124.4 million. The agreement expires on December 16, 2010. As at December 31, 2009, the company did not recognise any debt on bonds issued thereunder.

PGE Elektrownia Turów S.A.

The agency agreement of November 27, 2007 with ING Bank Śląski S.A. allowing for the issue of bonds of up to PLN 2,540 million. The agreement expires on November 27, 2013. As at December 31, 2009, the nominal value of bonds acquired by PGE S.A. amounted to PLN 1,720 million.

PGE Zespół Elektrowni Dolna Odra S.A.

The agency agreement of December 17, 2007 with ING Bank Śląski S.A. allowing for the issue of bonds of up to PLN 780 million. The agreement expires on December 7, 2013. As at December 31, 2009 the nominal value of bonds acquired by PGE S.A. amounted to PLN 395.7 million.

PGE Zespół Elektrociepłowni Bydgoszcz S.A.

The agency agreement of December 11, 2008 with ING Bank Śląski S.A. allowing for the issue of bonds of up to PLN 151 million. Pursuant to the agreement, the company may issue bonds to be offered to PGE S.A. and other PGE Capital Group companies. The agreement expires on December 11, 2013. As at 31 December 2009, the Company's debt thereunder due to bonds taken over by PGE Dystrybucja Rzeszów Sp. z o.o. amounted to PLN 41.5 million.

PGE Kopalnia Węgla Brunatnego Bełchatów S.A.

The agency agreement of September 4, 2009 with ING Bank Śląski S.A. allowing for the issue of bonds of up to PLN 340 million. The agreement expires on December 31, 2013. As at December 31, 2009 the nominal value of bonds acquired by PGE S.A. amounts to PLN 330 million.

PGE Elektrownia Bełchatów S.A.

The program is described in details in p. 2.3 of this report. As at December 31, 2009, the Company did not recognise any debt on bonds issued under the agreement. In 2009 the company did not issue any bonds under the programme.

4.3. Bank loans and advances

Table: Loans and advances taken by PGE S.A. and PGE Capital Group companies in 2009

Company	Bank	Type of financing	Agrrement signing/extension date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Amount	Currency code	Reference rate
PGE Elektrownia Bełchatów S.A.	Société Générale S.A.	Current account credit	2009-04-03	2012-02-02	35,000,000	PLN	WIBOR 1M
PGE Elektrownia Opole S.A.	Société Générale S.A.	Current account credit	2009-04-30	2012-02-02	25,000,000	PLN	WIBOR 1M
PGE Kopalnia Węgla Brunatnego Bełchatów S.A.	Société Générale S.A.	Current account credit	2009-03-09	2012-02-02	50,000,000	PLN	WIBOR 1M
PGE Elektrociepłownia Gorzów S.A.	PEKAO SA	Current account credit	2009-09-14	2010-03-31	15,000,000	PLN	WIBOR 1M
PGE Elektrociepłownia Rzeszów S.A.	Société Générale S.A.	Current account credit	2009-05-11	2012-02-02	15,000,000	PLN	WIBOR 1M
PGE Lubelskie Zakłady Energetyczne S.A.	Société Générale S.A.	Current account credit	2009-03-09	2012-02-02	15,000,000	PLN	WIBOR 1M
PGE Dystrybucja LUBZEL Sp. z o.o.	Société Générale S.A.	Current account credit	2009-03-25	2012-02-02	5.000,000	PLN	WIBOR 1M
PGE Łódzki Zakład Energetyczny S.A.	BRE Bank	Current account credit	2009-01-28	2010-01-27	20,000,000	PLN	WIBOR O/N
PGE Łódzki Zakład Energetyczny S.A.	Bank BPH	Current account credit	2009-04-01	2010-04-01	20,000,000	PLN	WIBOR 1M
PGE Dystrybucja Łódź sp. z o.o.	Nordea Bank Polska S.A.	Current account credit	2009-04-30	2010-04-29	20,000,000	PLN	WIBOR 1M
PGE Electra S.A.	PEKAO SA	Current account credit	2009-06-23	2010-06-30	150,000,000	PLN	WIBOR 1M
PGE Zespół Elektrociepłowni Bydgoszcz S.A.	PEKAO SA	Current account credit	2009-07-30	2010-07-30	25,000,000	PLN	WIBOR 1M
PGE Zespół Elektrociepłowni Bydgoszcz S.A.	Bank Handlowy	Current account credit	2009-05-25	2010-05-27	30,000,000	PLN	WIBOR 1M
PGE Dystrybucja Białystok	BGK	Credit line	2009-04-20	2010-03-31	40,000,000	PLN	WIBOR 3M

Company	Bank	Type of financing	Agrrement signing/extension	Maturity date (yyyy-mm-dd)	Amount	Currency code	Reference rate
Sp. z o.o.							
PGE ZEDO S.A.	Nordea Bank Polska S.A.	Current account credit	2009-10-12	2010-10-12	50,000,000	PLN	WIBOR 1M
PGE ZEDO S.A.	WFOŚiGW	Advance	2009-08-10	2019-03-31	8,219,700	PLN	referenced to bill of exchange rediscount rate
PGE Dystrybucja Łódź-Teren S.A.	Société Générale S.A.	Current account credit	2009-03-03	2012-02-02	10,000,000	PLN	WIBOR 1M
PGE ZEŁT Obrót Sp. z o.o.	Société Générale S.A.	Current account credit	2009-02-27	2012-02-02	5,000,000	PLN	WIBOR 1M
PGE Zespół Elektrowni Wodnych Dychów S.A.	BRE Bank	Current account credit	2009-01-06	2010-01-07	2,000,000	PLN	WIBOR O/N
PGE Zakład Energetyczny Warszawa-Teren S.A.	Société Générale S.A.	Current account credit	2009-04-22	2012-02-02	10,000,000	PLN	WIBOR 1M
PGE Dystrybucja Warszawa-Teren Sp. z o.o.	Société Générale S.A.	Current account credit	2009-02-02	2012-02-02	75,000,000	PLN	WIBOR 1M

In 2009, PGE Polska Grupa Energetyczna S.A. did not grant significant advances. Information about advances granted by PGE Capital Group companies is presented in the following table.

Table: Advances granted by PGE Group companies

Company	Counterparty	Agreement date	Expiry date	Amount	Currency	Interest rate type	Interest rate
PGE Zamojska korporacja Energetyczna S.A.	Zamojska Spółka Elektroenergetyczna Sp. z o.o. under liquidation in Zamość	2009-04-03	2009-08-31	40,000	PLN	Floating	WIBOR 3M+ margin
PGE Energia Odnawialna S.A.	EGO Odra S.A.	2009-03-24	2014-12-31	2,800,000	PLN	Floating	WIBOR 1M+ margin

In addition, as described in the Note 44.5.7 to the consolidated financial statement, in the periods before the balance sheet date PGE S.A. made prepayments for transmission services to Vattenfall Aktiebolag. Based on the character of those transactions in the financial statements prepared in accordance with IFRS, part of the prepayments is classified as a cost of purchase of shares in affiliates, and the other part is presented as a loan granted. As at December 31, 2009 the amount of prepayments presented as a loan granted amounted to PLN 153 million.

4.4. Guarantees

Guarantees granted by PGE Group companies are presented in Note 39 to the consolidated financial statements.

In addition, some of the PGE Group companies granted guarantees for PGE S.A. liabilities in favour of banks under agreements described in p. 2.3.

4.5. Significant off-balance sheet items

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

4.6. Evaluation of investment capacities

On-going and future investments are and will be financed from funds obtained from the IPO, funds generated by the core activity of the PGE Group, and from external financing. Financial results achieved by the PGE Group and low debt level in 2009 confirm that the Group owns sufficient resources to achieve its investment goals, including capital investments.

5. Financial and market risk management

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

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

Interest rate risk. PGE Group companies finance their operating and investing activities partially from debts bearing variable interest rates or investments in financial assets bearing a variable or fixed interest rates. The companies are exposed to interest rate risk connected with deposits, cash, investments in bonds issued by Autostrada Wielkopolska S.A., and liabilities resulting from loans received and bonds issued.

The Group identifies interest rate risk connected with reference rates of WIBOR, EURIBOR and LIBOR.

Foreign currency risk. Currency risk is connected with the sale of finished products and the purchase of materials in foreign currencies.

The PGE Group is mainly exposed to currency risk connected with foreign exchange rates of EUR/PLN, USD/PLN, CHF/PLN and SEK/PLN. Major sources of exposure to currency risks are as follows: loans and advances of Group companies denominated in foreign currencies, the purchase or sale of electricity under contracts expressed or indexed in foreign currencies, fees on the purchase of transmission services expressed or indexed in foreign currencies, the purchase or sale of CO_2 emission allowances denominated or indexed in foreign currencies, expenses connected with the current exploitation of production assets denominated or indexed in foreign currencies, investment financial assets expressed in foreign currencies, capital investments expressed or indexed in foreign currencies.

Price risk. Because of their business activity, PGE Group companies are exposed to the volatility of cash flows and financial results in the domestic currency due to changes in prices of electricity, coal, natural gas, CO_2 emission allowances, and energy certificates of origin.

Managing price-related risks on the Polish market is quite difficult with no long-term price indices and no instruments suitable for hedging transactions, which is particularly important in a long-time perspective.

Credit risk. The credit risk is related to potential credit defaults such as client's insolvency, incomplete repayment, and significant delay in the repayment of debt or other departures from the contract terms.

Transactions that may involve credit risk for the Group include short term investments (deposits, participation units in investment funds and buy-sell-back transactions) and trade receivables.

A superior goal of credit risk management is to accept and control credit risk at a defined level which directly results from major business goals for electricity trading.

The Group manages counterparty credit risk mainly by using the following mechanisms: the evaluation of customers' financial standing and the setting up credit limits; requiring credit collaterals from customers with lower financial standing; covenants for credit risk and standardisation of credit collaterals; system of current monitoring of payments and early debt collection system; cooperation with business intelligence agencies and debt collection companies.

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 financial process. PGE issues bonds, which are acquired, without limitation, by entities with financial surplus. Funds from the issue are then used to take over bonds issued by those of PGE Group companies that indicate need for external sources of financing.

PGE S.A. monitors its liquidity periodically by analysing cash flows from operating activities and maturities of both investments and financial assets.

6. 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 both external risk and threats connected with market, regulatory and tax environment, as well as internal risks and threats accompanying their operations.

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

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

Risk connected with macroeconomic situation in Poland and in the world

Risks connected with macroeconomic situation in Poland and in the world mainly result from the volatility of interest rates and foreign exchange rates, fuel prices, CO_2 emission allowances, as well as risks connected with the availability of raw materials required in the production of electricity and heat.

Risk relating to an increase in competition (free right to choose an energy supplier)

Given the on-going development of the retail market, increasing knowledge of energy recipients on market operation and their rights (including a TPA rule), as well as increasing activeness of energy sellers, the PGE Group is exposed to the risk of losing its existing customers in the retail market and the risk of decreasing margin on sale to the existing customers. It is, however, necessary to point out that market development is also an opportunity for the retail sales segment of the PGE Capital Group to acquire new customers from outside the historic operating area of the Retail Sales Companies of the PGE Capital Group and increase both sales and profit.

Risk of a decrease in demand for electricity

The PGE Capital Group's income is substantially dependant on the consumption of power and heat by final users. In a long run, power consumption is 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: (i) economic slowdown, (ii) possible reduction of power consumption by recipients of low economic standing, (iii) development of new energy saving technologies. Decreasing growth rate of demand for electricity and limited access to interconnectors limiting opportunities for exporting electricity produced by the Group may have a significant adverse impact on the activity and financial results of Group companies. A special threat resulting in the decline in demand for electricity is the world financial crisis, which commenced in the second half of 2008 and whose consequences were also recorded by the Polish economy in 2009 and may be visible in subsequent years, as well.

The decline in demand for electricity, caused by the of economic slowdown, may be also connected with delays in payments for electricity and distribution services, which may contribute to the higher number of overdue receivables resulting in higher costs to finance operating activities.

6.2. Risk factors connected with regulatory and legal environment

Political risk
The activity of the PGE Capital Group in key operating areas, i.e. mining and 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 offtakers, in particular households.

Risk of changes in law and other regulations relating to our activity, as well as changes in interpretation or application thereof

The Group's activity is subject to numerous Polish and European laws and regulations (including treaties, orders, directives, decisions of the European Commission, and decisions of the European Tribunal of Justice) and international law (treaties, other international agreements).

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 amended several times, 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.

The Group's activity is also significantly dependant on decisions, positions, opinions and other actions of Polish authorities, authorities of the European Communities and the European Union, and authorities of other states, but certain decisions, positions, opinions and other actions of such authorities do not take the form of laws, but must be, in practice, applied by the Group companies. In particular, in the energy sector, an authority regulating the Polish fuel and energy market is the President of the Energy Regulatory Office, who is competent, for example, to grant and withdraw concessions based on which we run our activity, and approve (to a defined extent) and control the application of electricity and heat tariffs in terms of their compliance with the provisions of the Energy Law, including the analysis and verification of costs applied by power companies as reasonable to calculate prices and rates under tariffs. For the violation of obligations set forth in the Energy Law, the President of the Energy Regulatory Office may impose pecuniary fines of up to 15% of income earned by the entity subject to the fine (PGE S.A. or a Group company) in a previous tax year and, if the fine is related to the licensed activity, the fine may amount to 15% of income earned on the licensed activity by the fined entity in the previous fiscal year.

Risk relating to the requirement for licenses

The Group's core activity is subject to a number of licenses, including in particular the electricity and heat generation, the distribution of electricity and heat, and electricity and heat trading, as well as the lignite mining, and fuel gas trading. In order to continue business activity, the Group needs to maintain and extend existing licenses. Any withdrawal or limitation of a 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.

Risk connected with tariffs and an obligation to submit tariffs for approval

The performance of the PGE Capital Group depends, to a considerable degree, on the level of the prices that customers of Group companies pay for electricity, heat, distribution services, and other goods and services. According to the Energy Law, power companies with licenses define tariffs. Tariffs should be calculated in such a manner so that to cover, without limitation, reasonable operating expenses, including reasonable return on equity, and protect recipients' interest against unreasonable prices and rates. Tariffs of selected types of activity are subject to the approval by the President of the Energy Regulatory Office. Therefore, there is a risk that they will not be approved or will be approved with delay or will be approved otherwise than requested. In particular, pursuant to the Energy Law, the President of the Energy Regulatory Office is authorised to analyse and verify reasonable expenses applied by power companies to calculate tariffs and define reasonable return on equity for business entities filing tariffs for approval. Reasonable expenses and reasonable return on equity have a direct impact on fees and prices that power companies may define in their tariffs. The reduction of reasonable expenses or reasonable return on equity will result in lower fees and prices. In the process of tariff approval, the President of the Energy Regulatory Office may question reasonable expenses suggested by the Company, may not recognise certain expenses as reasonable or may question assets used to calculate reasonable return on equity.

Risk of changes to the Energy law

In 2009, the work to change the Energy Law in order to obligate power producers to sell electricity in a manner ensuring public and equal access to such energy was carried out. In accordance with the amendments, obligation to trade on the electricity exchange platforms applies to 15% of energy generated by any producer, and additionally, if a producer is authorised to receive funds to cover stranded costs under the act of June 29, 2007 on principles for covering costs generated by producers as a result of the earlier termination of long-term power and electricity sales agreements, the stock obligation applies to the whole energy generated. The above amendment to the Energy Law was published in the Journal of Laws on February 8, 2010 and will come into force 30 days after the publication date, i.e. as of March 10, 2010. The enforcement of such statutory changes influences the sale of energy by producers.

Furthermore, the amended Energy Law introduces a system of supporting electricity production in the highly efficient cogeneration of units fed with methane that is renewable and mined at the bottom mining works in hard coal mines that are active, are being liquidated or have been already liquidated or fed with gas obtained from biomass processing.

Risk resulting from the potential violation of antitrust regulations

Distribution companies of the PGE Group are natural monopolist in the area of electricity distribution services. In addition, the PGE Group holds approximately 42% share in the electricity generation market and is the biggest electricity seller 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.

Risk connected with regulations obligating the Company to ensure the sufficient number of certificates of origin

PGE Group companies trading electricity must obtain and present for redemption to the President of the Energy Regulatory Office with certificates of origin for electricity coming from renewable sources (green certificates). Alternatively, such companies may pay a substitute fee. In the case an obligation to obtain and present for redemption to the President of the Energy Regulatory Office with certificates of origin of energy from renewable sources is not fulfilled or a substitute fee is not paid, a company may be charged with a financial penalty. Similar rules applied to energy produced in the highly efficient cogeneration (yellow and red certificates). In the past, PGE Group companies were charged with sanctions for their failure to fulfil the above obligations. Such situations may also take place in future. Additionally, prices of certificates of origin are determined by current regulations, decisions of regulatory or other authorities, including in particular those relating to the definition of relevant substitute fees. Therefore, income earned by PGE Group companies from the sale of certificates of origin of energy produced thereby depends on administrative decision and legal regulations.

Risk connected with the application of the Excise Act

The transfer of an obligation to pay excise from electricity producers to entities selling electricity to end-users as of March 1, 2009 is subject, in practice, to the detailed analysis of all issues connected with the calculation and collection of the tax by competent services at PGE Group companies. Because of the shortage of experience and stabilised practice both at PGE Group companies and tax authorities, many detailed mechanisms of the Excise Tax, like the construction of a tax duty, excise payment and declaration duty, principles for excise exemptions or registration obligations, rise controversies and doubts.

Given the above doubts, as well as further changes in the excise anticipated by the Ministry of Finance, which in the Ministry's opinion, are to solve interpretation problems connected with the provisions of the act, it is difficult to fully and clearly predict the final impact of the applicable and future regulations on the final shape and complete scope of related tax burdens within the PGE Group.

Risk connected with the programme of CO_2 emissions reduction

The electricity and heat generation at power plants and CHP plants fuelled with fossil fuels is connected with relatively high CO_2 emissions. Therefore, any regulations on the reduction of emission of CO_2 to the environment, including regulations coming within the so called power and climate package of the European Union, will have a significant impact on the Group's activity. In particular, the limited number of free CO2 emission allowances in the NAP II for the years 2008-2012, in comparison to NAP I for the years 2005-2007, mean that CO2 emissions outside the scope of free allowances allocated to Polish installations under NAP requires the purchase of EUA emission allowances or CER or ERU units, the prices of which fluctuate.

Risk of restrictions on emissions of substances other than CO_2 to the environment and the enforcement of more restrictive BAT standards

The activity of Group companies, including in particular the electricity and heat generation, is connected with the emission of not only CO_2, but NOx, SO_2, dusts and other substances, to the environment. The systems that require an integrated permit, i.e. systems that, due to their type and scale of operation, may materially pollute some component parts or the environment as a whole, must comply with the best available techniques requirements (Best Available Techniques, "BAT"), and that involves making significant investment expenditures. It is also possible that, in future, requirements for the best available techniques will be more restrictive or the scope thereof will be expanded and the Group will be forced to make substantial expenses to adapt to new requirements. Therefore, there is a risk that certain of our equipment or installations will not be adjusted to applicable requirements by the imposed deadline, which may reduce electricity output.

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

Risk of disruption of fuel supplies to our power plants, CHP plants and heat plants

The generation of electricity and heat by Group power plants, CHP plants and heat plants depends on fuel supplies, including lignite (in particular to PGE Elektrownia Bełchatów S.A. and PGE Elektrownia Turów S.A.), hard coal (in particular to PGE Elektrownia Opole S.A. and PGE ZEDO S.A.), and gas. There is a risk of disruptions in fuel supplies to Group's 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 unfavorable 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.

Risk of insufficient stocks of fuel

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 electric power 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.

Risk connected with mining site rehabilitation expenses

Mining companies representing the Mining and Generation segment 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.

Risk connected with weather conditions

Weather conditions influence technical and economic conditions of energy generation and distribution and create seasonable demand for energy. Such factors may cause limitations to energy generation, mainly as a result of water in natural and artificial basins that is used for cooling the generating units getting too hot or too low, as well as limitations to transmission capacities of the electrical and power 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 electricity 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 or limitations to power supply. It must be added that all the above phenomena are mostly unpredictable.

Risk relating to maintenance, repairs and modernisations

PGE Group companies' business activity consisting in lignite mining and energy 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. Untimely or inadequate maintenance or repair and operation services shorten the life and worsen parameters of assets. This may contribute to breakdowns and outages or limitations to coal mining, energy generation and power supply, which may consequently result in the reduction of the companies' income. While assets recovery and modernisation investments are subject to substantial expenditure and, at the same time, particular stages of modernisation works may be delayed, for example, by uncertainty relating to the acquisition of sufficient financial resources, protests of environmental organisations, strikes of employees, growth of costs, delays caused by contractors, difficulties in the acquisition of necessary permits, or other unexpected difficulties.

Risk of unsettled legal status

In the case of many properties (land and buildings) owned by the PGE Group (in particular those used by distribution companies), there are doubts as to the legal title of such companies to use the properties. Very frequently, investments, mainly linear ones, 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 operators. We may not exclude further cases of this type and related additional costs or even a need to stop using certain properties.

Risk relating to obtaining debt financing

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. In particular, the economic crisis, which in 2008 occurred in many EU member states and the United States, may have a negative impact on the Group's activity. The crisis is reflected, without limitation, by significant reduction of finance granted by commercial banks or additional collaterals requested thereby. Such circumstances may, at the same time, extent the procedure of finance acquisition, have a negative impact on terms of finance, and result in the growth of costs in the form of higher interest rates, commissions, etc. More difficult finance acquisition conditions will affect the Group's results.

Risk connected with the termination of long-term power and electricity purchase contracts (LTC)

PGE S.A. and certain Group generators ware parties to LTC. The termination of LTC set forth in the LTC Act is a precedential programme of this type in Poland. 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 an obligation to return funds received in the case of the negative (annual or final) correction of stranded costs. On July 31, 2009, the President of the Energy Regulatory Office issued decisions concerning the annual correction of stranded costs for 2008 (the first partial year in which the Act is in force) in relation to PGE Group generation companies that are entitled to receive funds to cover their stranded costs under the LTC Act. All such decisions, in the opinion of their addressees, are unfavourable and were issued against the LTC Act. Some decisions provided for an obligation to return to Zarządca Rozliczeń S.A. the correction of annual stranded costs of approximately PLN 141 million in total. PGE Group generation companies authorised to receive funds to cover stranded costs under the LTC Act appealed to the court against all decisions of the President of the Energy Regulatory Office concerning the annual adjustment of stranded costs for 2008.

In addition, it is necessary to point out that the LTC Act does not directly provide for the merger of producers authorised to receive funds to cover stranded costs under the LTC Act. Lack of such regulations generates a risk that funds obtained by producers under the LTC Act will be reduced, which may have a negative impact on the Group's financial results and delay its ongoing consolidation.

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 now implementing unified standards regarding the compiling of documentation and procedures in this regard, we can not preclude potential disputes with the tax authorities in this regard.

Risk of insufficient insurance protection

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

Risk relating to court, arbitration and administrative proceedings

PGE S.A. and other 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 to our benefit, but there is a risk that they will be resolved unfavourably for Group companies. 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 performance.

Risks connected with court, arbitration and administrative proceedings that are essential for the Group's activity are described in Note 39 to the consolidated financial statement.

Risk of collective disputes

At PGE S.A. and Group companies, there are over 100 company and intercompany trade unions associating over 27 000 employees of the Group. Based on binding legal regulations, trade unions can influence the legislative process. They also have various instruments at their disposal to influence employers, including collective disputes. PGE Group companies are parties to corporate and intercompany collective bargaining agreements. In addition, managements of many PGE Group companies concluded so called social agreements with trade unions. Such agreements provide for many rights of employees and trade unions. A need to consult or agree on certain actions with trade unions may delay, and even prevent from, certain actions and cause collective disputes, including strikes or other forms of employee protests. In addition, in the case of any significant Group employment reductions in the future, an obligation to pay high compensations to employees may delay or significantly reduce the Company's ability to take up such actions or increase the costs thereof.

Risk of long-lasting and expensive consolidation of PGE Group

The PGE Capital Group was established as a result of the government strategy for the power sector in Poland. Its ownership and management structure must be adjusted to the Group's activity in major business lines. Pursuant to its policy, the PGE Capital Group implements the Consolidation Programme to simplify its corporate structure and concentrate its core activity in six companies responsible for each business line of the Group. There is a risk that the performance of Group consolidation actions will be difficult, delayed or will generate significant costs.

7. PGE Capital Group's development perspectives

7.1. Factors important for the development of the PGE Capital Group

In the opinion of the Company Management Board, the following factors will influence the Company and the Group's performance at least by 2010:

- the size of demand for electricity and heat,
- prices of electricity in the wholesale market,
- property right prices,
- the availability and prices of fuels used to produce electricity and heat, including in particular prices of hard coal, natural gas and fuel oil,
- the availability and prices of CO_2 emission rights,
- any further proceeding concerning the number of CO_2 emission allowances, in relation to the order of September 23, 2009 of the First Instance Court of European Communities invalidating the decision of the European Commission concerning the National Allocation Plan for the years 2008-2012 (NAP 2) notified by the Republic of Poland,
- the availability of cross-border transmission capacities,
- the tariff process for 2011, including in particular costs recognised by the President of the Energy Regulatory Office as reasonable and the amount of reasonable return on equity, as well as tariff approval date,
- decisions of the President of the Energy Regulatory Office on implementation of the LTC Act,
- results of a dispute between the President of the Energy Regulatory Office and PGE Group generation companies authorised to obtain compensations under the LTC Act concerning the annual adjustment of stranded costs for 2008,
- the amendment of the Energy Law and other acts concerning the implementation of an obligation to sell electricity under bids or through exchanges by producers coming within vertically integrated groups and authorised to obtain compensations under the LTC Act,
- possible different settlement of legal, tax disputes or other contingent liabilities, whose most important examples are presented in Note 39 to the consolidated financial statements,
- changes in the macroeconomic environment of the Group, including, in particular, interest rates and foreign exchange rates which influence the measurement of the Group's assets and liabilities,
- PGE Group consolidation.

7.2. Realisation of PGE Capital Group's strategy in 2010

The primary goal of the PGE Group is to increase value of the Company by profitably satisfying customer demand for electricity and heat. The strategy has been built around four main courses of action:

- domestic and foreign growth,
- development of an integrated company,
- efficiency improvement,
- improvement of competitiveness and regulatory environment.

In accordance with its strategy, the PGE Capital Group intends to continue activities relating to the generation of electricity from conventional and renewable sources, lignite mining, the sale and distribution of electricity to final consumers, the production and sale of heat, the electricity wholesale trading in the domestic and international markets.

In 2010 PGE Group will continue implementation of the projects described in p. 1.3 of this report. In addition, the Group plans to carry out its investment programme, and in particular continue the Group's key investment projects:

- the construction of the new 858 MW unit in PGE Elektrownia Bełchatów S.A.; the company expects that the unit will be commissioned in 2011.
- construction of a new coal-fired units in PGE Elektrownia Opole S.A. In 2010 the initial works, including selection of the IOC and acquiring of relevant permits and administrative decisions, will be carried out.
- construction of a new unit in PGE Elektrownia Turów S.A. In 2010 the company will carry out works in the range of preparation of land, devices and installations for the building of a new unit and obtaining the terms of connection of a new unit to the transmission network.
- construction of a steam-gas unit and installation for biomass combustion in PGE ZEC Bydgoszcz S.A. In 2010 the company will carry out preparatory works with regard to the above projects.

8. Entity authorised to audit of financial statements

An entity authorised to audit stand-alone and consolidated financial statements of PGE S.A. is KPMG Audyt Sp. z o.o. The financial statement audit agreement was signed on November 21, 2008 for two years and covers the audit of stand-alone and consolidated financial statements for 2008 and 2009, as well as reviews of interim half-year consolidated financial statements prepared for the period ended June 30, 2009 and June 30, 2010.

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

PLN thousands	2009	2008
Fee of KPMG Audyt Sp. z o.o., including:	**4,008.0**	**5,755.0**
Obligatory audit of the yearly financial statements and audit for IPO purposes	2,433.0	2,095.0
Other attestation services	105,0	-
Tax advisory	-	-
Other services (IPO)	1,470.0	3,660.0

KPMG Audyt Sp. z o.o. also audited financial statements of other PGE Capital Group companies: PGE KWB Bełchatów S.A., PGE KWB Turów S.A., PGE Elektrownia Bełchatów S.A., PGE Elektrownia Opole S.A., PGE Elektrownia Turów S.A., PGE ZEDO S.A., PGE Elektrociepłownia Gorzów S.A., PGE Elektrociepłownia Rzeszów S.A., PGE Elektrociepłownia Kielce S.A. PGE Elektrociepłownia Lublin-Wrotków S.A., PGE ZEC Bydgoszcz S.A., ELBIS sp. z o.o. The fees payable from the above audits amounted to PLN 1,760.0 thousands in comparison to PLN 572.5 thousands in 2008.

9. Statement on implementation of corporate governance

This Statement on implementation of corporate governance in PGE Polska Grupa Energetyczna S.A. in 2009 was prepared on the basis of art. 91 section 5 point 4 of the Regulation of the Minister of Finance dated 19 February 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 16 December 2009.

9.1 Corporate governance principles which the Company was obliged to follow in 2009

Since the day of the first quotation of shares of PGE Polska Grupa Energetyczna S.A. ("Company", "PGE") i.e. November 6, 2009, the Company is 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. During preparations to the stock exchange debut of the Company, the Management Board passed a resolution approving Best Practices for application.

The Management Board of the Company acts with due diligence to observe all the principles of Best Practices. However, not all recommendations prescribed by the Best Practices may be followed, which is beyond the Company's control (see point 9.2 below).

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

9.2 Information on exceptions in application of the corporate governance principles

In 2009 the Company applied the corporate governance principles except principle no. 5 included in 'Recommendations for Best Practice for Listed Companies' described in point 1 of the Best Practices. Incomplete application of the aforementioned recommendations is related to provisions of the Act dated 3 March 2000 on remuneration of managers of certain legal entities (Dziennik Ustaw, 2000, no. 26 item 306) which describes the maximum remuneration of the members of the Company's authorities. Given the application of the said Act, the Supervisory Board and the General Meeting of Shareholders of the Company have limited options to change the remuneration of the members of the Management Board and Supervisory Board at the level which corresponds to the scope of responsibilities resulting from the functions performed in the authorities, the size of the Company and its economic results.

9.3 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: the Company's accounting policy, IFRS-compliant accounting policy of the PGE Capital Group, the procedure of closing accounting books and preparing consolidated financial statements of the PGE Capital Group in accordance with requirements of the Warsaw Stock Exchange. The IFRS-compliant accounting policy of the PGE Capital Group constitutes directives for companies subject to consolidation, which must be followed during preparation of IFRS-compliant reporting packages. The aforementioned regulations and guidelines ensure uniform accounting and statements principles in the PGE Group. 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. 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 unit and consolidated financial statements. Persons responsible for conducting books of account and the Management Board of the companies are responsible for preparation of reporting packages to be consolidated.

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 2009 financial statements of most important Companies in the PGE Group. The PGE Group has implemented a multi-stage process of approving financial statements with the participation of Supervisory Boards. Unit and consolidated financial statements of PGE S.A. are evaluated by the Supervisory Board. The Audit Committee operates within the Supervisory Board and is responsible, among others, for reviewing interim and annual financial statements of the Company. Unit 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. The audit plans are developed on the basis of risk analyses. 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.

9.4 Shareholders with a majority stake

As at 31 December 2009, the sole shareholder with a majority stake was the State Treasury with 1,470,576,500 shares accounting for 85% of the share capital of the Company, which entitle the State Treasury to 1,470,576,500 votes, accounting for 85% of the total number of votes at the General Meeting.

9.5 Shareholders with special control powers

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

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

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

Pursuant to the Act of 3 June 2005 on particular powers of the State Treasury and exercise of such powers in the companies of particular importance for the public order or public security (Dziennik Ustaw, 2005, no. 132 item 1108), the Minister of Treasury, as long as the State Treasury is a direct or indirect shareholder, may object to a resolution of the Management Board or another legal action by the Management Board, aimed at administration of a Company asset that is essential for the Company's operations. The objection applies solely to the legal action of the Company of particular importance for the public order or public security if there are reasonable grounds to suspect that such an action breaches the public order or public security. The Minister may also object to resolutions made by the General Meeting relating to:

1) winding up of the Company,
2) moving the registered office of the Company abroad,
3) changing the subject of activities of the Company,

4) sale or lease of the undertaking or its organised part and placing a limited material right on the undertaking

if there are reasonable grounds to suspect that such a resolution breaches the public order or public security.

At February 12, 2010 the Lower Chamber of Polish Parliament has passed the Act on exercising of particular rights of the State Treasury in respect of some companies and capital groups manage in electricity, oil and gas fuel sector. In March 2010 the Act was assumed by the Senate and at the day of this statement is still in legislative procedure. When this Act will entry into force, the Act dated on June 3, 2005 will be abolished.

9.6 Limitations regarding exercise of the voting rights in shares

There are no limitations regarding exercise of the voting rights in shares of the Company.

9.7 Limitations regarding the transfer of ownership of the Company's securities

The existing limitations regarding the transfer of ownership of the Company's securities are based on the State Treasury's obligation under which from October 6, 2009 for a period of 180 days from the first quotation of the rights to shares (i.e. November 6, 2009) on the Warsaw Stock Exchange, the State Treasury would not issue, offer, sell, commit to sell, pledge or otherwise dispose of (or make a public announcement of an issue of an offering, sale or disposal) Company's shares or securities convertible to Company's shares or granting rights to Company's shares by exercising rights related to such securities, warrants or other rights which allow the purchase of the Company's shares or other securities or financial instruments the value of which is fixed directly or indirectly by making a reference to the price of underlying securities, including equity swaps, futures and options, without a prior written consent of managers of the initial public offering of PGE S.A. (i.e. UniCredit CAIB Poland S.A. and Goldman Sachs International, jointly referred to as the IPO Managers).

In addition, under the Underwriting Agreement signed on October 27, 2009, the Company incurred an obligation under which in the period from the day the Underwriting Agreement is executed for a period of 180 days from the first quotation of the shares on the Warsaw Stock Exchange (i.e. December 15, 2009), the Company would not issue, offer, sell, commit to sell, pledge or otherwise dispose of (or undertake similar actions or actions with a similar effect) any ordinary shares of the Company or any securities similar to ordinary shares of the Company without the consent of the IPO Managers. This obligation also involves options, warrants or other rights to ordinary shares of the Company, securities convertible to shares of the Company or securities which grant rights to obtain shares of the Company.

9.8 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.

9.9 Activities and powers of the General Meeting, shareholder rights and exercise of such rights

Activities of the General Meeting are described in the Code of Commercial Companies and the Company's Statutes. The Management Board of the Company intends to present the General Meeting with Rules of General Meeting for approval. The Rules regulate additional issues related to the activities of the General Meeting. The Company's Statutes is available on the PGE's website at www.pgesa.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 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.

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 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. As long as the State Treasury remains a shareholder of the Company, the State Treasury may demand in writing that the General Meeting be convened.

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 shareholders making such a demand to convene the Extraordinary 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 referred to in subpar. 3 is made after the date referred to in art. 401 § 1 of the Code of Commercial Companies, 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.

General Meetings take place at the registered office of the Company.

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 29 July 2005 on public offering, conditions governing the introduction of financial Instruments to organised trading, and public companies (Dziennik Ustaw 2009, no. 185, item 1439).

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.pgesa.pl.

The Company shall make efforts to ensure that cancelling of the General Meeting or changing the date of the Meeting does not prevent or restrict the exercise of the shareholder right to participate in the General Meeting.

b) Competencies of the General Meeting of the Company

Within its basic competencies, the General Meeting:

- reviews and approves the report of the Management Board on the activities of the Company, financial statements and the consolidated financial statements for the past financial year,
- grants approval of fulfilment of duties by the Members of the Supervisory Board and Members of the Management Board,
- makes a decision on the distribution of profit or covering the loss,
- appoints and recalls Members of the Supervisory Board and determines rules of remuneration for the Members of the Supervisory Board,

- agrees on the acquisition and lease of the undertaking or its organised part and placing a limited material right thereon,
- enters into the 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,
- increases and reduces the share capital of the Company,
- issues convertible bonds or preferential bonds, issues subscription warrants,
- makes decisions regarding claims for repair of damage caused during founding of the company, management or supervision over the company,
- merges, transforms and divides the Company,
- redeems shares,
- amends the Statutestatutess and changes the essential subject of activities of the Company,
- dissolves and winds up the Company,
- fixes remuneration for the Members of the Management Board 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, subject 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).

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. The Proxy may grant further proxies unless text of the proxy stipulates otherwise. One Proxy may represent more than one shareholder. In such a case, the Proxy may vote differently with the shares of each shareholder. 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 explanations and information pertaining to the Company to participants of the General Meeting, 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 Shareholders

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. The absolute majority is understood as more votes in favour of than votes against or abstaining.

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.

9.10 Members and activities of the Company's management and supervisory bodies and the Company's committees

Activities of the Management Board and the Supervisory Board are regulated by the provisions of the Code of Commercial Companies, the Company's Statutes, the Rules of the Management Board and the Rules of the Supervisory Board. Activities of such authorities of PGE Polska Grupa Energetyczna S.A. are also subject to the corporate governance principles established by the Warsaw Stock Exchange. The Company's Statutes and the Rules of the Management Board and Rules of the Supervisory Board are available on the PGE's website at www.pgesa.pl.

A. Management Board

Members of the Management Board

In 2009, the Management Board of the Company consisted of:

Name and surname of the Member of the Management Board	Function
Tomasz Zadroga	President of the Management Board
Marek Szostek	Vice-President of the Management Board responsible for Organisation since Nov 20 2009 Vice-President of the Management Board Aug 3, 2009 –Nov 19, 2009
Piotr Szymanek	Vice-President of the Management Board responsible for Corporate Affairs since Apr 28, 2009 Vice-President of the Management Board responsible for Legal and Corporate Affairs Dec 15, 2008 –Apr 27 2009
Wojciech Topolnicki	Vice-President of the Management Board responsible for Development and Finance since Apr 28, 2009 Vice-President of the Management Board responsible for Finance Dec 15, 2008 –Apr 27, 2009
Marek Trawiński	Vice-President of the Management Board responsible for Operations since Apr 28, 2009 Vice-President of the Management Board responsible for Trade and Distribution Dec 15, 2008 – Apr 27, 2009
Adam Cichocki	Vice-President of the Management Board responsible for Human Resources Dec 15, 2008 – Feb 27, 2009
Henryk Majchrzak	Vice-President of the Management Board responsible for Manufacturing Dec 15, 2008 – Feb 27, 2009

Rules of appointing and recalling the management staff

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.

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.

Members of the Management Board are authorised and obliged to manage the affairs of the Company jointly. Each Member of the Management Board may manage the affairs which fall within the scope of ordinary activities of the Management Board, without a prior resolution of the Management Board, within the agreed division of responsibilities unless any Member of the Management Board objects. Resolutions of the Management Board must be made for all the affairs which fall beyond the scope of ordinary activities of the Company. If there are equal votes at the meeting of the Management Board, the President of the Management Board has the decisive vote.

In accordance with the Statutes, resolutions of the Management Board are required in particular for:

- purchase (taking up) or administration over the following assets: (a) real properties, perpetual usufruct or shares in real properties; (b) assets other than real property worth more than €400,000; (c) shares, stocks or other titles of participation in companies;
- encumbering eligible assets as listed above with a limited material right for the amount (sum of the collateral) in excess of €400,000;
- entering into contracts other than listed above or obligations other than listed above, in excess of €400,000;
- granting of guaranties and suretyship by the Company;
- approving the rules of the Management Board;
- approving the organisational rules of the Company's undertaking;
- establishment and liquidation of branches;
- entering into contracts not related to the subject of activities of the Company specified in the Statutes;
- making donations and release from debt;
- appointment of proxies;
- approval of annual and long-term financial plans of the Company;
- approval of the Company's development strategy;
- deciding on the method of exercising the right to vote at the general meetings of companies in which the Company holds shares or stocks;
- matters referred by the Management Board to the Supervisory Board for review, 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 redemption of shares.

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 makes decisions in the form of resolutions passed at the meetings. 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, stating the agenda. The notification of the meeting date is distributed to the members of the Management Board at least two working days before the planned date of the meeting. In reasonable circumstances, the meeting may be convened one day prior to the scheduled meeting. When the President of the Management Board is absent, meetings of the Management Board are convened by the appointed member of the Management Board. Meetings of the Management Board are presided by the President of the Management Board or another member of the Management Board. The agenda can be changed if all members of the Management Board are present at the meeting and all the members agree to such a change.

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

Resolutions of the Management Board are passed with an absolute majority of votes in an open voting. 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 and at least half of the members of the Management Board must be present for the resolutions to be valid. A resolution on appointment of proxies requires an unanimous decision of all members of the Management Board. A member of the Management Board voting against a resolution may present an opposing opinion with a justification. Resolutions are made in writing or using means of direct remote communications.

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

B. Supervisory Board

Members of the Supervisory Board

In 2009 the Supervisory Board consisted of:

Name and surname of the member of the Supervisory Board	Function
Marcin Zieliński	Chairman of the Supervisory Board
Maciej Bałtowski	Vice-Chairman of the Supervisory Board
Wojciech Cichoński	Secretary of the Supervisory Board
Jacek Barylski	Member of the Supervisory Board
Katarzyna Prus	Member of the Supervisory Board
Zbigniew Szmuniewski	Member of the Supervisory Board
Ryszard Malarski	Member of the Supervisory Board since Jan 14, 2009
Małgorzata Dec	Member of the Supervisory Board since Jul 30, 2009
Mikołaj Budzanowski	Member of the Supervisory Board since Jul 20, 2009

Rules of appointing and recalling the supervisory personnel

The Supervisory Board consists of seven to nine members appointed and recalled by the General Meeting. In addition, the State Treasury is authorised to appoint and recall one member of the Supervisory Board by means of a written statement presented to the Company at the General Meeting of Shareholders or outside the General Meeting, through the Management Board, where the State Treasury exercises this right regardless of the right to vote on appointing other members of the Supervisory Board.

In accordance with provisions of the Statutes, the Supervisory Board should comprise at least one person appointed by the General Meeting out of persons which meet the criteria of independence as specified by the corporate governance principles approved by the Warsaw Stock Exchange. Candidates for the position of a member of the Supervisory Board submit a statement regarding their independence.

If the State Treasury fails to make the appointment or the General Meeting fails to appoint aforementioned members of the Supervisory Board, or if such persons are not members of the Supervisory Board, the Supervisory Board may pass binding resolutions nonetheless.

The Chairman of the Supervisory Board is appointed by the General Meeting. The Supervisory Board appoints the Vice-Chairman and Secretary out of its members.

Members of the Supervisory Board are appointed for a joint term of office of three years. The mandate of a member of the Supervisory Board expires at the latest on the day of the General Meeting which approves the financial statements for the past complete financial year during which the member of the Supervisory Board performed his/her function and in other cases as provided for by the Code of Commercial Companies. A member of the Supervisory Board may be recalled by the General Meeting at any time, except the member of the Supervisory Board appointed by the State Treasury, which may be recalled by the State Treasury only.

Activities and organisation of the Supervisory Board

The operating procedure of the Supervisory Board is described 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 should 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). 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 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 agenda may be changed if all members of the Supervisory Board are present at the meeting and no one objects to the change.

Members of the Supervisory Board must present reasons for their absence at the meetings in writing.

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 are 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.

The Supervisory Board may appoint ad hoc commissions out of the Supervisory Board members.

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.

Competencies of the Supervisory Board

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

In accordance with the Statutes, the Supervisory Board:

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

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

- purchase (taking up) or administration over the following assets: (a) real properties, perpetual usufruct or shares in real properties; (b) fixed assets other than real property; (c) shares, stocks or other titles of participation in companies – worth or exceeding €5m;
- encumbering eligible assets as listed above with a limited material right for the amount (sum of the collateral) equal or in excess of €5m;
- entering into the following agreements by the Company: (a) agreements of donation or release from debt worth at least €5,000, (b) agreements not related to the statutory subject of activities of the Company worth at least €5,000;
- granting of guarantees 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 €100m, where entering into contracts or incurring of obligations consisting in

electricity trade with direct or indirect subsidiaries (as defined by the Code of Commercial Companies) does not need any consent;

- payment of an advance against the expected dividend.

C. 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 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 work within the Supervisory Board: the Audit Committee, the Strategy and Development Committee, the Appointment and Remuneration Committee, and the Corporate Governance Committee.

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 (unit 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, 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.

In 2009, the Audit Committee consisted of:

Name and surname	**Function**
	until Jan 29, 2009
Wojciech Cichoński	Chairman
Zbigniew Szmuniewski	Committee Member
	since Jan 29, 2009
Wojciech Cichoński	Chairman
Jacek Barylski	Committee Member
Zbigniew Szmuniewski	Committee Member
Marcin Zieliński	Committee Member
	since Sep 1, 2009
Wojciech Cichoński	Chairman
Jacek Barylski	Committee Member
Zbigniew Szmuniewski	Committee Member
Marcin Zieliński	Committee Member
Małgorzata Dec	Committee Member
	since Nov 3, 2009
Wojciech Cichoński	Chairman
Maciej Bałtowski	Committee Member
Jacek Barylski	Committee Member
Małgorzata Dec	Committee Member
Zbigniew Szmuniewski	Committee Member
Marcin Zieliński	Committee Member

II. The Corporate Governance Committee

The Corporate Governance Committee:

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

In 2009 the Corporate Governance Committee consisted of:

Name and surname	Function
	until Jan 29, 2009
Maciej Bałtowski	Committee Member
	since Jan 29, 2009
Katarzyna Prus	Chairwoman
Maciej Bałtowski	Committee Member
Mikołaj Budzanowski	Committee Member until Jul 20, 2009
Ryszard Malarski	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 all the strategic documents submitted to the Supervisory Board by the Management Board,
- provides opinions on the annual and long-term financial plans, as well as the development strategy of the Company.

In 2009 the Strategy and Development Committee consisted of:

Name and surname	Function
	until Jan 29, 2009
Zbigniew Szmuniewski	Committee Member
	since Jan 29, 2009
Ryszard Malarski	Chairman
Mikołaj Budzanowski	Committee Member until Jul 20, 2009
Zbigniew Szmuniewski	Committee Member
Marcin Zieliński	Committee Member
	since Sep 1, 2009
Ryszard Malarski	Chairman
Małgorzata Dec	Committee Member
Zbigniew Szmuniewski	Committee Member
Marcin Zieliński	Committee Member

IV. The Appointment and Remuneration Committee

The Appointment and Remuneration Committee is responsible for facilitating achievement of strategic goals of the Company by presenting the Supervisory Board with opinions and motions on the development of the management structure, including the organisational solutions, 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 dependant 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.

In 2009 the Appointment and Remuneration Committee consisted of:

Name and surname	Function
	until Jan 29, 2009
Wojciech Cichoński	Chairman
Maciej Bałtowski	Committee Member
	since Jan 29, 2009
Maciej Bałtowski	Chairman
Jacek Barylski	Committee Member
Wojciech Cichoński	Committee Member
Katarzyna Prus	Committee Member
Marcin Zieliński	Committee Member

10. Statements of the Management Board

10.1. Statement on the reliable preparation of the financial statements

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

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

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

The Management Board of PGE Polska Grupa Energetyczna 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.

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

Tomasz Zadroga

President of the Management Board

Wojciech Topolnicki

Vice-president of the Management Board

Marek Szostek

Vice-president of the Management Board

Piotr Szymanek

Vice-president of the Management Board

Marek Trawiński

Vice-president of the Management Board