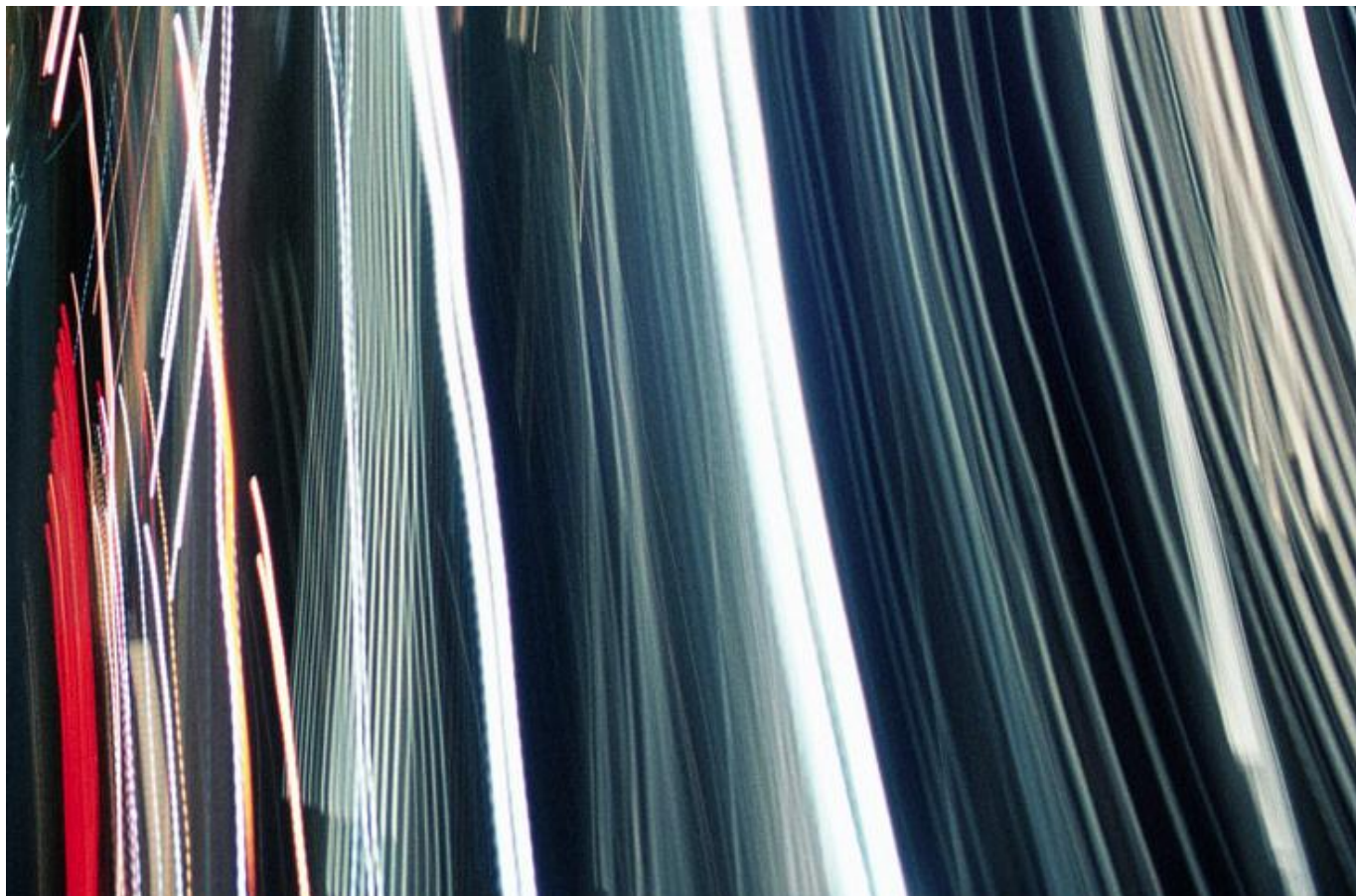




# **Management Board's report on activities of the Capital Group of PGE Polska Grupa Energetyczna S.A. for the year 2014**

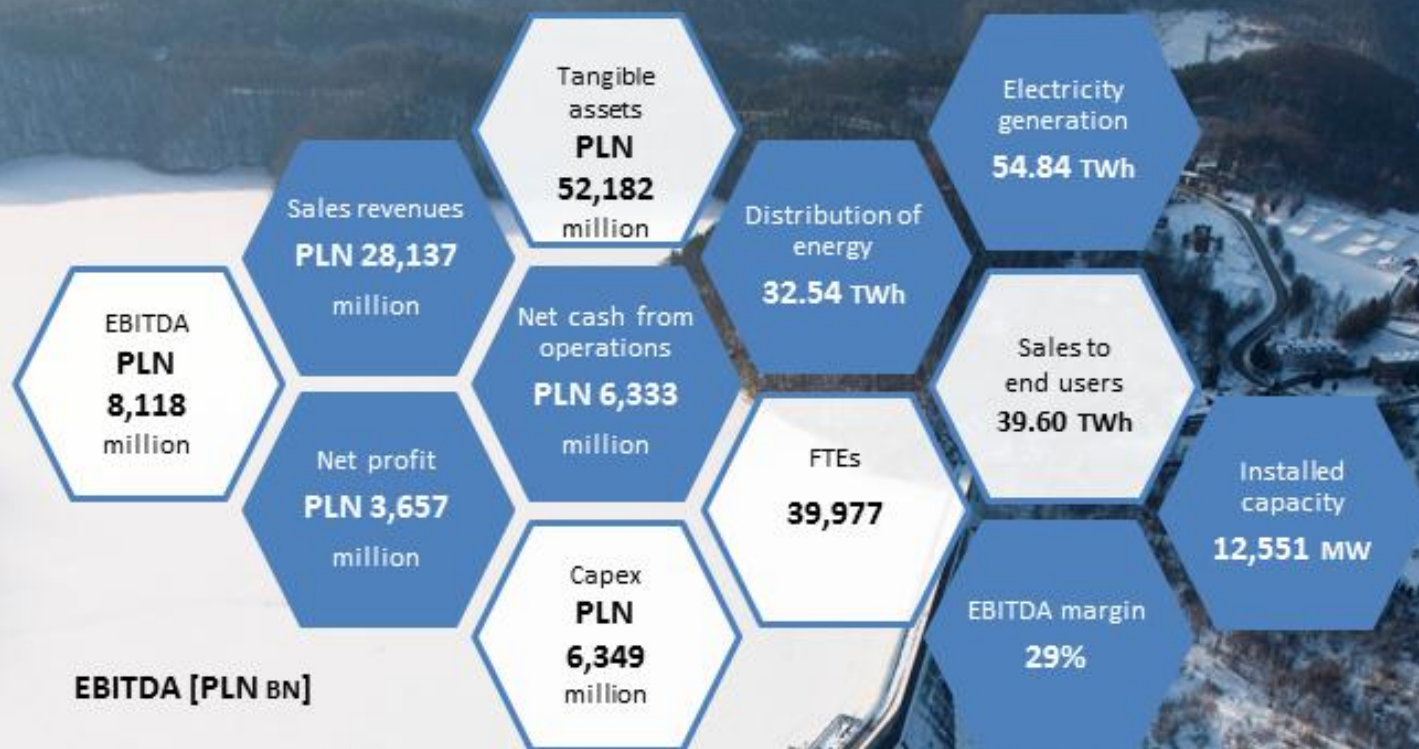
**ended December 31, 2014**

## Contents

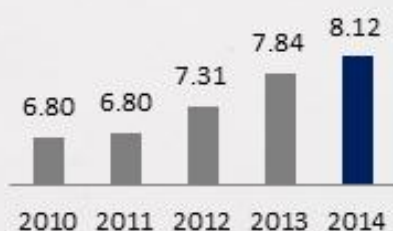
|      |                                                                                                                                                                                                           |     |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 1    | Description of activity of the Capital Group                                                                                                                                                              | 8   |
| 1.1  | Factors important for the development of the PGE Capital Group                                                                                                                                            | 8   |
| 1.2  | Factors and events affecting results                                                                                                                                                                      | 9   |
| 2    | Strategy of the PGE Capital Group for years 2014 - 2020 and key activities in 2014                                                                                                                        | 26  |
| 3    | Results achieved in PGE Capital Group                                                                                                                                                                     | 34  |
| 3.1  | Financial results of PGE Capital Group                                                                                                                                                                    | 34  |
| 3.2  | Key operational figures of PGE Capital Group                                                                                                                                                              | 39  |
| 3.3  | Business segments – operational data                                                                                                                                                                      | 41  |
| 3.4  | Business segments – financial data                                                                                                                                                                        | 51  |
| 3.5  | Transactions with related entities                                                                                                                                                                        | 62  |
| 3.6  | Publication of financial forecasts                                                                                                                                                                        | 62  |
| 3.7  | Entity authorised to audit of financial statements                                                                                                                                                        | 62  |
| 3.8  | Management of financial resources and financial liquidity                                                                                                                                                 | 63  |
| 4    | Risks and threats of the PGE Capital Group                                                                                                                                                                | 73  |
| 5    | PGE Capital Group on the capital market                                                                                                                                                                   | 79  |
| 5.1  | PGE share quotations                                                                                                                                                                                      | 79  |
| 5.2  | PGE S.A. shares                                                                                                                                                                                           | 80  |
| 5.3  | PGE Investor Relations                                                                                                                                                                                    | 81  |
| 5.4  | PGE S.A. reporting calendar.                                                                                                                                                                              | 81  |
| 5.5  | Dividend policy of PGE Polska Grupa Energetyczna S.A.                                                                                                                                                     | 82  |
| 6    | Statement on implementation of Corporate Governance                                                                                                                                                       | 83  |
| 6.1  | Corporate governance principles which the Company was obliged to follow in 2013                                                                                                                           | 83  |
| 6.2  | Information on exceptions in application of the corporate governance principles                                                                                                                           | 83  |
| 6.3  | Description of the basic characteristics of internal control systems and risk management systems used in the Company during preparation of the financial statements and consolidated financial statements | 84  |
| 6.4  | Shareholders with a significant stake                                                                                                                                                                     | 84  |
| 6.5  | Shareholders with special control powers                                                                                                                                                                  | 84  |
| 6.6  | Limitations regarding exercise of the voting rights from the existing shares                                                                                                                              | 85  |
| 6.7  | Limitations regarding the transfer of ownership of the Company's securities                                                                                                                               | 85  |
| 6.8  | Rules for amendments to the Company's Statutes                                                                                                                                                            | 86  |
| 6.9  | Mode of operation of the General Meeting of the Company, its key powers and the rights of shareholders and the manner of their execution                                                                  | 86  |
| 6.10 | Composition and the description of operations of the management and supervisory bodies of the Company and committees of the supervisory body                                                              | 88  |
| 6.11 | Remuneration of the management of PGE S.A.                                                                                                                                                                | 95  |
| 6.12 | Information about shares and other securities                                                                                                                                                             | 96  |
| 7    | Description of the organisation of the PGE Capital Group                                                                                                                                                  | 100 |
| 7.1  | Changes in organisation of the Capital Group                                                                                                                                                              | 100 |
| 7.2  | Changes in management procedures of the Company and the Capital Group                                                                                                                                     | 104 |
| 7.3  | Branches of the companies of the PGE Capital Group                                                                                                                                                        | 105 |
| 8    | Commitment                                                                                                                                                                                                | 107 |
| 8.1  | PGE Foundation "Energy from Heart"                                                                                                                                                                        | 107 |
| 8.2  | PGE and work environment                                                                                                                                                                                  | 107 |
| 8.3  | PGE and the natural environment                                                                                                                                                                           | 109 |
| 8.4  | PGE and research and development                                                                                                                                                                          | 115 |
| 8.5  | PGE and customer relations                                                                                                                                                                                | 118 |
| 8.6  | PGE and education                                                                                                                                                                                         | 119 |
| 8.7  | PGE and human rights                                                                                                                                                                                      | 121 |
| 8.8  | PGE and promotion of other social goals                                                                                                                                                                   | 121 |

|                                                                                                                                                         |     |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 9 Other significant events of the reporting period and subsequent events                                                                                | 124 |
| 9.1 Activities related to nuclear energy                                                                                                                | 124 |
| 9.2 Legal aspects                                                                                                                                       | 126 |
| 9.3 Description of material agreements                                                                                                                  | 127 |
| 9.4 Decisions of the President of the Energy Regulatory Office related to realisation of LTC Act                                                        | 128 |
| 9.5 Information concerning proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration authorities | 129 |
| 9.6 Information on issue, redemption and repayment of debt securities and other securities                                                              | 129 |
| 10 Statements of the Management Board                                                                                                                   | 130 |
| 10.1 Statement on the reliable preparation of the financial statements                                                                                  | 130 |
| 10.2 Statement on the entity authorised to audit the financial statements                                                                               | 130 |
| 11 Approval of the Management Board's Report                                                                                                            | 130 |
| GLOSSARY                                                                                                                                                | 131 |





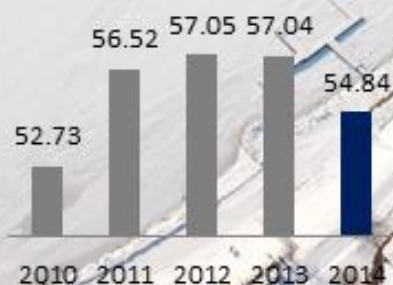
**EBITDA [PLN BN]**



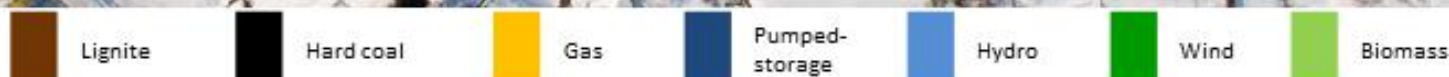
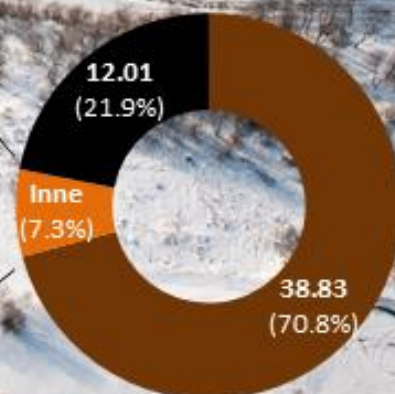
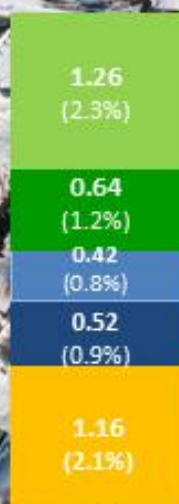
**REVENUES [PLN BN]**



**NET ELECTRICITY PRODUCTION [TWh]**



**GENERATION STRUCTURE BY FUELS [TWh]**





## CONVENTIONAL GENERATION



## RENEWABLE ENERGY



## WHOLESALE TRADING



### Operations

Extraction of lignite and generation of electricity and heat from conventional sources and distribution of heat.

Electricity generation from renewable sources and in pumped storage power plants.

Trading of electricity, related products and fuels.

### Key assets of the segment

4 conventional power plants  
8 CHPs  
2 lignite mines

10 wind power plants;  
29 run-of-river hydro power plants;  
4 pumped storage power plants, including 2 with natural flow.

-

### Energy volumes

Annual generation  
53.26 TWh

Annual generation  
1.58 TWh\*

Sale on wholesale market  
62.44 TWh

### Market position

PGE is a leader in lignite mining in Poland (78%), as well as the largest electricity producer (approx. 38% of domestic generation)

PGE is the leading producer of energy from renewable sources with market share of 11%

Wholesale trading leader in Poland.

### Revenues [PLNm]

12,906

722

9,722

### EBITDA [PLNm]

4,992

349

478

### Share in EBITDA of the group [without consolidation adjustments]

61%

4%

6%

### Capital expenditures [PLNm]

4,362

374

12

### Assets [PLNm]

35,358

4,110

1,257

### Installed capacity [MW]

10,636

1,915\*

\* Including hydro power plants managed by the Supply segment



## DISTRIBUTION

## SUPPLY



### Operations

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

Sale and supply of electricity to final off-takers.

### Key assets of the segment

281,290 km of distribution lines

-

### Energy volumes

Energy distributed  
32.54 TWh

Sales to end users  
39.64 TWh

### Market position

Second energy distributor with regard to number of customers with approx. 26% share in Polish energy distribution market.

Approx. 30% share in the domestic market, second largest energy supplier in Poland.

### Revenues [PLNm]

5,775

12,371

### EBITDA [PLNm]

2,311

-193

Share in EBITDA of the group  
[without consolidation adjustments]

28%

-2%

### Capital expenditures [PLNm]

1,508

5

### Assets [PLNm]

15,725

2,345



# 2014

**JANUARY**

NTP issued for units 5&6  
in Opole power plant  
(1,800 MW)

**FEBRUARY**

Inauguration of the  
construction of new  
units in Opole power  
plant

**MARCH**

Selection of contractor  
for construction of unit  
11 in Turów power plant  
(490 MW)

Commissioning of  
Wojciechowo wind farm  
(28 MW)

**MAY**

Strategy of the Group for  
years 2014-2020  
announced

EMTN program of up to  
EUR 2 billion established

**JUNE**

Issue of 5-year bonds  
(EUR 500 million)

**JULY**

AMEC Nuclear UK Ltd.  
chosen as Owner's  
Engineer in the nuclear  
project

Contract for construction  
of new unit in Turów  
signed

**SEPTEMBER**

Conclusion of Partners'  
agreement of the Polish  
nuclear program

Groundbreaking for  
CCGT unit in Gorzów  
(138 MWe)

New Capital Tax Group  
established

**OCTOBER**

Inauguration of the  
construction of Lotnisko  
wind farm  
(90 MW)

**NOVEMBER**

Groundbreaking for new  
units in Opole power  
plant

Commissioning of  
cogeneration unit in  
Rzeszów CHP (29 MWe)

**DECEMBER**

NTP issued for unit 11 in  
Turów power plant

## 1 Description of activity of the Capital Group

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

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

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

- Conventional Generation
- Renewable Energy
- Wholesale Trading
- Distribution
- Supply.

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

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

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

### 1.1 Factors important for the development of the PGE Capital Group

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

| Market environment        |                                                                                                                                                                                                          | Description in p. |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Demand                    | ● demand for electricity and heat                                                                                                                                                                        | 1.2.1             |
|                           | ● seasonality and weather conditions                                                                                                                                                                     | 1.2.1             |
| Electricity market        | ● wholesale electricity prices                                                                                                                                                                           | 1.2.5             |
|                           | ● prices and tariffs on electricity and heat retail sale markets                                                                                                                                         | 1.2.4             |
|                           | ● tariffs for transmission and distribution of heat and tariffs for electricity distribution                                                                                                             | 1.2.4             |
| Related markets           | ● prices of property rights (certificates of origin of electricity)                                                                                                                                      | 1.2.6             |
|                           | ● availability and prices of fuels used in generation of electricity and heat, in particular prices of hard coal, fuel gas and biomass, as well as costs of fuels transportation to the generating units | 1.2.3             |
|                           | ● prices of CO2 emission rights                                                                                                                                                                          | 1.2.6             |
| Power infrastructure      | ● availability of cross-border transmission capacities                                                                                                                                                   | 1.2.5             |
|                           | ● growth of generating capacity in national electro-energy system, including renewable energy and cogeneration                                                                                           | 1.2.5             |
|                           | ● development and modernisation of energy grid                                                                                                                                                           |                   |
| Macroeconomic environment | ● GDP dynamics, particularly in industrial production                                                                                                                                                    | 1.2.1             |
|                           | ● interest rates and exchange rates, values of which affect evaluation of assets and liabilities shown by the Group                                                                                      |                   |
| Regulatory environment    |                                                                                                                                                                                                          |                   |
| Domestic                  | ● implementation and possible changes to the Poland's energy policy                                                                                                                                      |                   |
|                           | ● changes in scope of services like:                                                                                                                                                                     |                   |
|                           | ■ modification of current Operational Reserve mechanism                                                                                                                                                  |                   |
|                           | ■ implementation of cold reserve mechanism                                                                                                                                                               |                   |
|                           | ■ implementation of further packages for demand reduction services                                                                                                                                       |                   |



- amendments to the Energy Law, particularly in scope of optimisation of support scheme for renewable energy sources and for co-generation and amendments to other acts
- results of explanatory proceedings before the ERO President in case of issue of certificates of origin of energy produced from biomass for some of the branches of PGE Górnictwo i Energetyka Konwencjonalna S.A. ("PGE GiEK S.A.")
- decisions of the ERO President related to realisation of the Act ("LTC Act") and court's rulings on the disputes between the ERO President and generators from the PGE Group entitled to receive compensations under LTC Act with regard to the annual adjustments of the stranded costs for 2009 and 2010 and annual adjustments of costs generated in gas-fuelled units for 2009-2012
- issue of implementation of the ETS directive into the domestic law – inter alia CO<sub>2</sub> derogations. Currently process of obtaining free allowances in exchange for pursuing investments from the National Investment Plan, does not have a clear legal basis.
- Issue of implementation of the Energy Efficiency Directive into the domestic law
- matter of implementation of quality tariff in distribution, that will make regulated income dependant on SAIDI and SAIFI ratios
- draft Water Law Act with regard to imposition of charges for energy entities for use of water for energy purposes
- possible different decision in law disputes, from which most relevant were presented in Note B.23 to the consolidated financial statements

#### International

- regulations of 2030 climate and energy package – including EU climate summit decisions from October 2014 particularly: at least 40% CO<sub>2</sub> reduction targets, 27% RES share target, 27% efficiency improvement target; , possibility of granting free CO<sub>2</sub> allowances for energy sector (so called derogations), possible allocation of funds for energy sector modernization. There is a necessity to develop details rules for allocation of aid.
- revision of BAT (Best Available Techniques) – uncertainty with regard to future norms of SO<sub>2</sub>, NO<sub>x</sub>, dust and new pollutions (including mercury) emissions from 2020
- draft NEC Directive with regard to national limits of emissions of pollution to the atmosphere and its impact on the power sector
- works on connection of Poland to market coupling mechanisms (connection of markets)

## 1.2 Factors and events affecting results

### 1.2.1 Macroeconomic situation

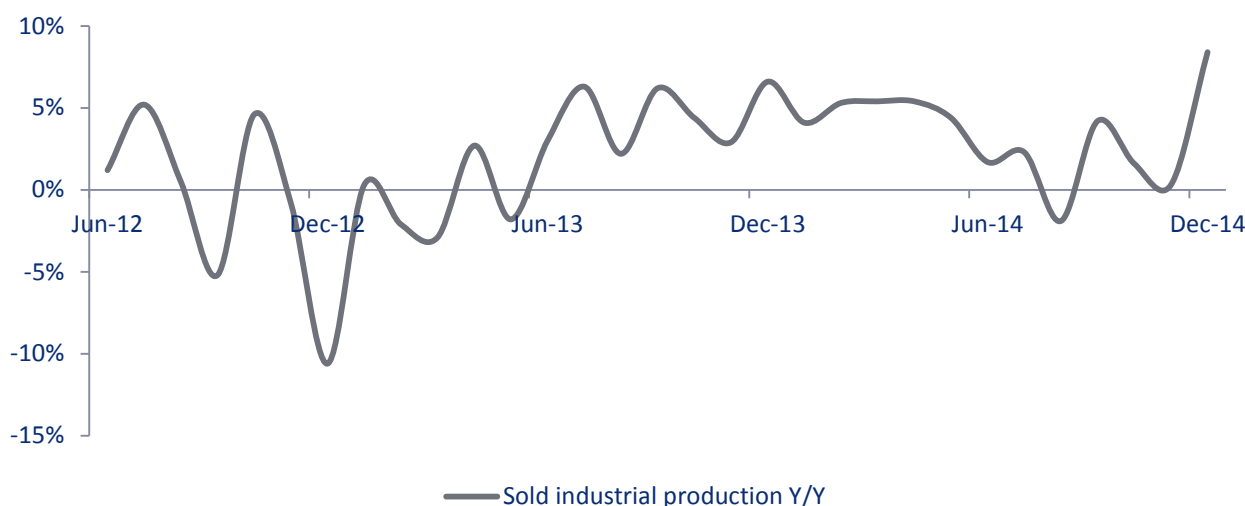
PGE Group's main operating area continues to be Poland, and the domestic macroeconomic backdrop has a substantial impact on Company's results. At the same time, the condition of Poland's economy remains largely tied to the situation across the European Union and in global markets. The Group's financial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

As a rule of thumb, there is a correlation between rising electricity demand and economic growth. Considering PGE Group's position on the Polish power generation market, as well as its substantial share in the electricity sales and distribution market, changes in power and heat demand may have a significant impact on the Company's results.

The GDP data for Poland published so far indicate that strong economic growth continues – GDP (not adjusted seasonally) grew 3.3% in the third quarter of 2014, and 3.4% and 3.5% y/y in the first and second quarter, respectively. According to preliminary GUS (Central Statistical Office of Poland ) data for 2014, full-year GDP growth reached 3.3%. Among the main GDP components, domestic demand growth was 4.6% y/y, what means significant growth compared to 2013. Growth of value added by industrial production was weaker than in 2013 reaching 3.6% y/y.

Industry accounts for approx. 45% of domestic electricity consumption hence the economic and financial situation in this sector has an impact on PGE Group's business. Total industrial output during 2014 expanded by 3.3% y/y, with positive growth in the crucial industrial-processing sector (4.6% y/y) and negative growth in mining and extraction (-4.2% y/y) and the energy sector (-4.1% y/y).

Diagram: Sold industrial production dynamics in Poland (y-o-y)

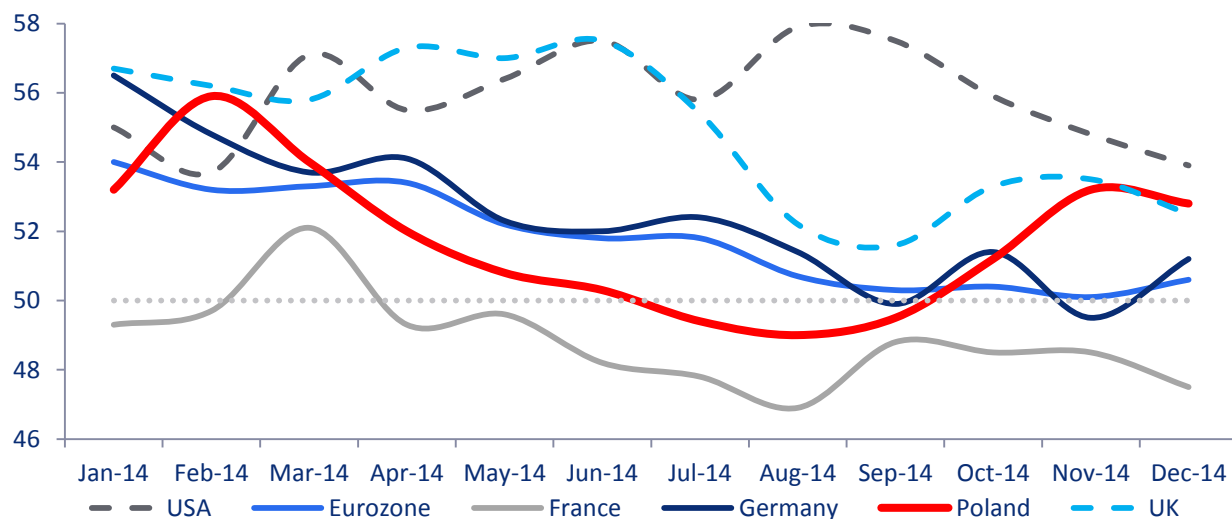


Source: Central Statistical Office of Poland

An improvement in Polish manufacturing towards the end of the year was signalled by PMI, which systematically grew after some third-quarter weakness. The businesses polled indicated growing new order volumes (domestic and exports), production levels while lacking significant changes in the production costs.

Following a strong decline in the third quarter, the Eurozone PMI stabilised just above the 50-point mark. Conditions in the Irish, Spanish and Dutch industries are viewed as the most favourable. Germany is slightly weaker, although still positive, and new export orders helped maintain the positive dynamic in manufacturing. Industrial recession continues in France and Italy

Diagram: Manufacturing PMI in particular countries (in points).

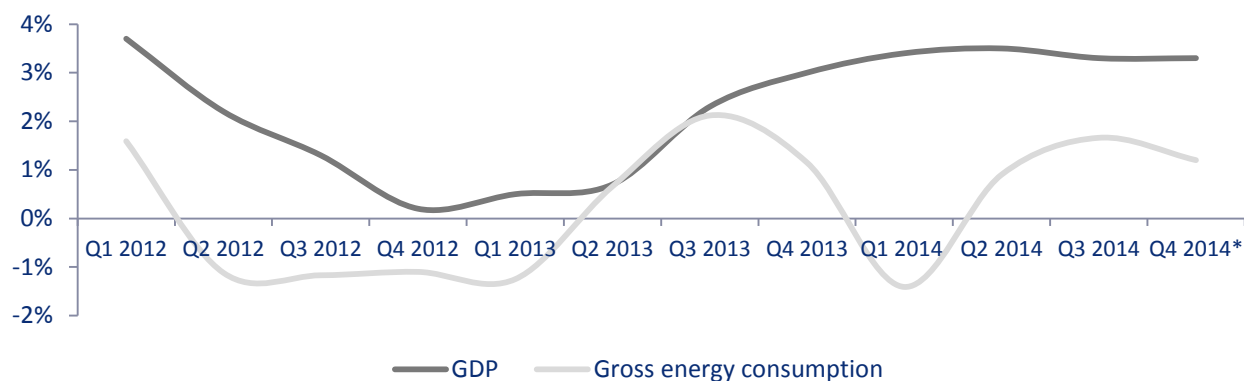


Source: Markit Economics



Throughout all of 2014, gross electricity consumption increased by 0.49% from the previous year. The fourth quarter alone brought an increase of 0.9% y/y. Energy consumption varied significantly through the year, resulting mainly from relatively high average temperature in the first quarter. Adjusting for weather and calendar factors, electricity demand grew approx. 1.0% in 2014. Despite higher domestic consumption, electricity production fell by 3.65% y/y, resulting from a change in the cross-border exchange balance.

Diagram: GDP change vs. change in gross electricity consumption

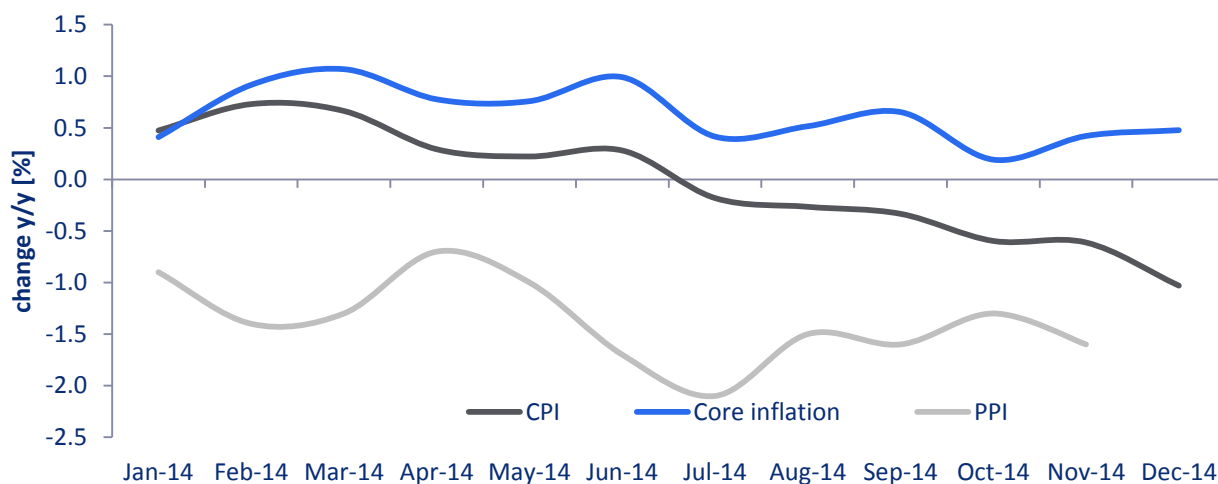


Source: Central Statistical Office of Poland, PSE S.A.

\*Average from forecasts in Q4 2014

Inflationary pressure continued to soften in 2014, both in Poland and across Europe, which had a strong influence on the actions taken by central banks and entities responsible for monetary policy. Eurozone inflation remained substantially below the ECB's inflation target and dipped into negative territory towards the end of the year. CPI in Poland also fell below zero in July and remained negative, reaching -1.0% in December. According to GUS estimates, average annual inflation in 2014 reached 0.0%, i.e. the lowest level since 1972.

Diagram: CPI, PPI and core inflation excluding food and energy prices



Inflation remaining below the NBP's target for a long time has an impact on the Monetary Policy Council's (MPC) interest rate decisions. The NBP's base projection expects deflation to continue for several months, but the 2.5% inflation target will only be reached towards the end of 2016. The majority of MPC members agree that deflation in Poland is temporary and is of a supply nature, caused by external factors – including falling oil prices. Excluding food and energy, base inflation is still positive.

At its October meeting, the MPC decided to lower the reference rate by 50 basis points, without ruling out further cuts in the future. The reference rate is currently at 2.0%, with the lombard rate at 3.0% and the deposit rate at 1.0%.

Table: Key economic indicators for Poland

| Key economic indicators<br>(% change y-o-y)                  | 2014              | 2013   |
|--------------------------------------------------------------|-------------------|--------|
| GDP                                                          | 3.30 <sup>1</sup> | 1.70   |
| CPI <sup>2</sup>                                             | 0.00              | -0.90  |
| PPI <sup>2</sup>                                             | -1.50             | -1.30  |
| Sold industrial production <sup>2</sup>                      | 3.30              | 2.20   |
| Sold production – manufacturing <sup>2</sup>                 | 4.60              | 2.30   |
| Sold production – energy <sup>3</sup>                        | -4.10             | -0.60  |
| Gross domestic electricity consumption <sup>4</sup>          | 0.49              | 0.62   |
| Gross domestic electricity consumption<br>(TWh) <sup>4</sup> | 158.73            | 157.98 |

Source: <sup>1</sup> Preliminary data - Central Statistical Office of Poland <sup>2</sup> Central Statistical Office of Poland, <sup>3</sup> Central Statistical Office of Poland - Energy generation and supply of electricity, gas, steam and hot water supply, <sup>4</sup> PSE S.A.

### 1.2.2 Supply markets

#### Provision of raw materials

Lignite, hard coal, natural gas and biomass are key fuels used to generate electricity and heat by power plants and heat and power plants belonging to the PGE Group. The cost of fuel procurement constitutes a major share in electricity generation costs. PGE S.A., on the ground of Agreement for Commercial Management of Generation Capacities, secures hard coal and gas supplies to the branches of the Conventional Generation segment and as of August 1, 2014 also supplies of biomass.

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

The main supplier of the hard coal for the production needs in the Conventional Generation segment is Kompania Węglowa S.A. with an approximate share of 72% in the yearly demand for this raw material. Majority of the rest of supplies were provided by Jastrzębska Spółka Węglowa S.A. and Katowicki Holding Węglowy S.A.

Natural gas for electricity and heat production in CHPs: Gorzów, Lublin Wrotków and Rzeszów, is mainly supplied on the ground of agreements with Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG S.A.). Gas supply for the Rzeszów CHP is secured through purchases on the OTC market and the TGE exchange (Towarowa Giełda Energii S.A.). In connection with the statutory support system for electricity production in gas-fuelled high-efficiency cogeneration being restored, gas supplies to the Lublin Wrotków and Rzeszów CHPs were resumed in the second half of 2014. The Gorzów CHP was supplied with gas throughout the year, while the Zgierz CHP received gas during the period from May to October 2014.

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

As regards fuel supplies at PGE Group in 2014, no threats were identified such as could have disrupted continuity of the production process. Fuels were available on the market, and only in the case of gas supplies were temporarily suspended due to the lack of state support for production of electricity in highly-efficient cogeneration.



## Purchases of transmission and distribution services

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

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

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

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

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

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

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

In 2014, **PGE GiEK S.A.** extended provision of the following system services:

- I. **Energy consumption reduction at the TSO's request** ("negawatts"), valid for the next two years (i.e. 2015 and 2016), the service consists of shutting down, specific volumes of electricity supply in 4-hour blocks at a request issued by the TSO in order to ensure the continuous security of the National Power System (KSE). Agreements have been executed with:
  - PGE GiEK S.A. Branch KWB Bełchatów,
  - PGE GiEK S.A. Branch KWB Turów.
- II. **Generating unit availability** (i.e. GWS – generation forced by grid considerations) during the period from January 1, 2014 to December 31, 2014. This service consists of generating electricity by heat and power plants that have signed agreements to provide the GWS service at the hours and volumes specified in the TSO's request, issued in order to ensure the continuous security of the National Power System. Agreement for 2014 have been executed with:
  - PGE GiEK S.A. Branch Bydgoszcz CHPs,
  - PGE GiEK S.A. Branch ZEDO,
  - PGE GiEK S.A. Branch Lublin-Wrotków CHP.

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

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

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

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

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

The services will cover:

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

In 2014 purchase of services from PSE S.A. constituted approx. 6% of operating costs incurred by the Group. PSE S.A. is an entity related to PGE S.A. as a subsidiary of the State Treasury.

### Electricity trading

In 2014, pursuant to the electricity trading model applied in the PGE Group, the Group's generators sold electricity on power exchanges (under the provisions of art. 49a section 1 and 2 of the Energy Law, i.e. under the so-called "power exchange obligation"), to PGE S.A. and to external customers. Energy purchased by PGE S.A. came from power exchange, trading platforms and from generators from the Group. Then energy was sold in the PGE Group, among others to the Supply company and to the Distribution company. Energy was also sold outside the PGE Group in bilateral contracts on domestic market. In addition, the Supply company in the PGE Group purchased energy from local markets, i.e. from generating sources located in the areas where the company acts as a supplier of last resort.

### 1.2.3 Fuel purchase costs

Table: Volume and cost of purchase of fuels from third party suppliers in the fourth quarter of 2014 and 2013.

| Type of fuel               | Q4 2014               |                | Q4 2013               |                |
|----------------------------|-----------------------|----------------|-----------------------|----------------|
|                            | Volume<br>(tons 000') | Cost<br>(PLNm) | Volume<br>(tons 000') | Cost<br>(PLNm) |
| Hard coal                  | 1,712                 | 429            | 1,893                 | 426            |
| Gas (cubic metres ths)     | 201,645               | 198            | 72,360                | 32             |
| Biomass                    | 291                   | 86             | 241                   | 72             |
| Fuel oil (heavy and light) | 13                    | 23             | 11                    | 23             |
| <b>TOTAL</b>               |                       | <b>736</b>     |                       | <b>553</b>     |

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

| Type of fuel                | 2014                  |                | 2013                  |                |
|-----------------------------|-----------------------|----------------|-----------------------|----------------|
|                             | Volume<br>(tons 000') | Cost<br>(PLNm) | Volume<br>(tons 000') | Cost<br>(PLNm) |
| Hard coal                   | 6,197                 | 1,536          | 6,109                 | 1,557          |
| Gas (cubic metres thousand) | 378,949               | 258            | 377,177               | 271            |
| Biomass                     | 1,236                 | 353            | 1,061                 | 304            |
| Fuel oil (heavy and light)  | 40                    | 75             | 44                    | 96             |
| <b>TOTAL</b>                |                       | <b>2,222</b>   |                       | <b>2,228</b>   |

In 2014 the costs of purchasing primary fuels from providers outside the Group amounted to PLN 2,222 million and were at the 2013 level.

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

- Decreased average hard-coal purchase price by 3% in comparison to price realised by PGE Group in 2013 (lower purchase price resulted in costs lower by approx. PLN 43 million), increased purchase volume increased the costs by PLN 22 million;
- Decreased average fuel oil purchase price by 14% in comparison to 2013, which was affected by lower prices of crude oil and refinery products on international markets and lower purchase costs (margin and transportation costs) resulting from change of fuel oil supplier. Purchase volume lower by 9% also attributed to the decreased costs of purchase of fuel;
- Decreased average gas purchase price by 5%, is a result of lower prices of nitrogen-rich gas from local sources, that had 60% share in total use of gas by PGE Group in 2014. Due to lower gas prices, the purchase costs were lower by PLN 14 million.

In accordance with the amended Energy Law, which came into force on April 30, 2014, cogeneration support scheme was restored and prolonged until June 30, 2019. Support for CHP plants which generate electricity and heat in gas-fired installations improves efficiency of these producers and contributes to the increase in the consumption of this type of fuel, what occurred in the fourth quarter of 2014 and attributed to the keeping of volume of gas used in the whole 2014 at the similar level as in 2013.

- Higher volume of biomass purchase by 16% caused increase of purchase costs of this fuel by PLN 50 million as compared to 2013 and in result levelled aggregate decrease of cost of purchase of other fuels from third party suppliers in PGE Group.

In 2014 approximately 71% of the electricity was produced from internally sourced lignite, whose extraction price is fully controlled by PGE Capital Group.



#### 1.2.4 Tariffs

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

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

##### Sales of electricity

In 2014 tariffs for sales of energy to the corporate customers (key and business) and to individuals (other than G tariff customers connected to the distribution network of PGE Dystrybucja S.A.) were not subject to approval of the President of the Energy Regulatory Office.

In 2014 sales of electricity to off-takers from the G tariff group, connected to the distribution network of PGE Dystrybucja S.A., was conducted on the basis of electricity Tariff for PGE Obrót S.A. approved by the decision of the President of the Energy Regulatory Office for the period from January 1, 2014 till December 31, 2014. In comparison to the analogical period of 2013 tariffs in G tariff group decreased by approximately 8%.

##### Distribution of electricity

Methodology of and assumptions for tariffs determination were published in the document "Tariffs for the DSO for the year 2014", which was prepared and published by the President of the Energy Regulatory Office.

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

Distribution tariffs for 2014 approved by the President of the Energy Regulatory Office, contributed to changes in average payments for customers in particular tariff groups in comparison to year 2013:

- A tariff group – increase by 5.26%;
- B tariff group – increase by 1.10%;
- C+R tariff group – increase by 1.65%;
- G tariff group – increase by 3.37%.

An average price of energy distribution services in comparison to last tariffs binding in 2013 increased by approx. 2.78 %.

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

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

##### Tariff for heat

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

Average sale price of heat in PGE increased by approx. 5.7% in comparison to the prices from 2013.

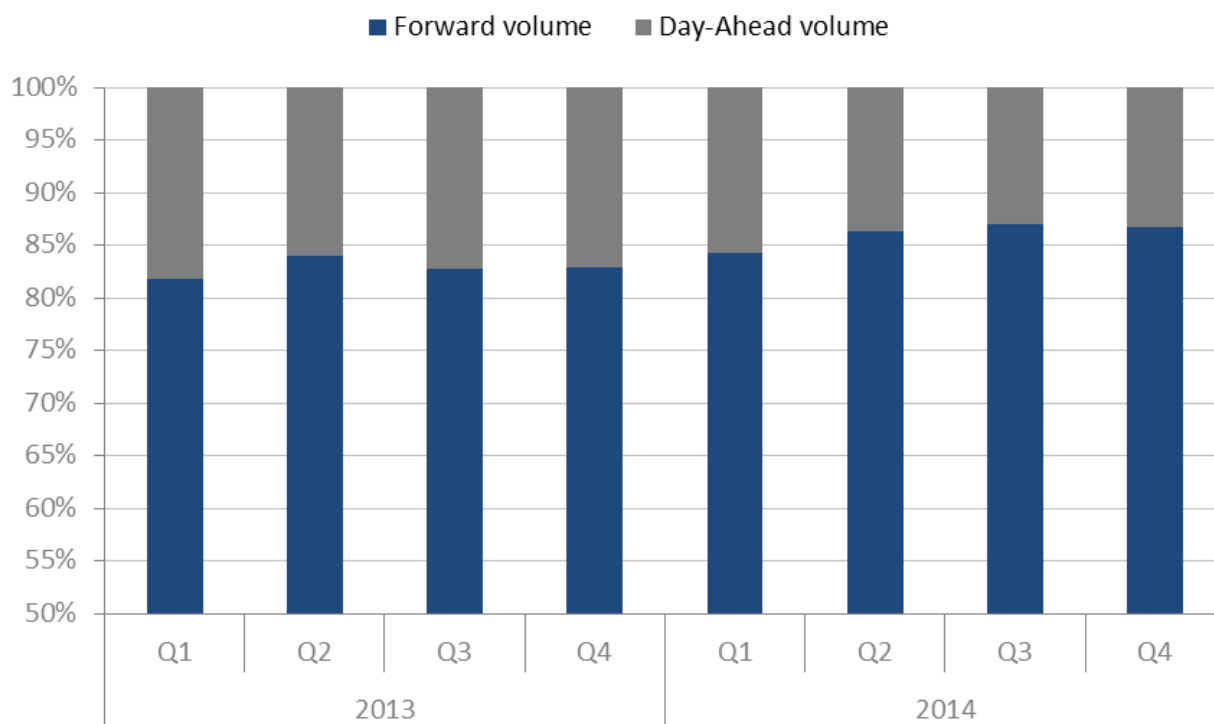
### 1.2.5 Electricity prices

#### Domestic market – trading volumes

In 2014, liquidity on the day-ahead market of Towarowa Giełda Energii S.A. (TGE) increased by 7% compared with 2013. The higher liquidity seen on the day-ahead market in the first half of 2014 (+16% on average) significantly slowed down in the second half, which led to a slight overall decrease in volumes (-1% y/y). The main reason for the reversal of this trend was substantial volatility, leading some traders to leave the market because of the significant price swings and escalating risk. Overall trading volume on the day-ahead market was 23.74 TWh.

Trading volumes on the futures market continued to trend up throughout all of 2014, generating 37% growth y/y. The structure of products traded changed in 2014 – the share of PEAK contracts fell from 20% to 11% relative to the BASE product. Overall volume on the day-ahead and futures markets grew 32% to 170.87 TWh in 2014. This means that TGE trading volumes exceeded domestic electricity consumption levels, which amounted to a cumulative 158.73 TWh for the period from January to December 2014. The excess of electricity trading volumes over domestic consumption suggests an increasing share of speculative trading and dynamically growing electricity portfolio management, both of which have a positive impact on market liquidity.

Chart: Quarterly trading volumes on the day ahead market (RDN) and futures market (RTT) in 2013-2014.



#### Domestic market - Prices

##### Day-ahead market

In 2014, prices on the day-ahead market showed a pronounced uptrend, starting in January. The average day-ahead price (the IRDN index) in 2014 was PLN 184.15/MWh, compared with PLN 155.98/MWh in 2013, which was an 18% increase. In the first quarter of 2014, prices increased (by 3% y/y), the second and third quarters priced at an even higher level (up by 21% and 20% y/y, respectively), while the final quarter saw a 31% y/y jump in prices.

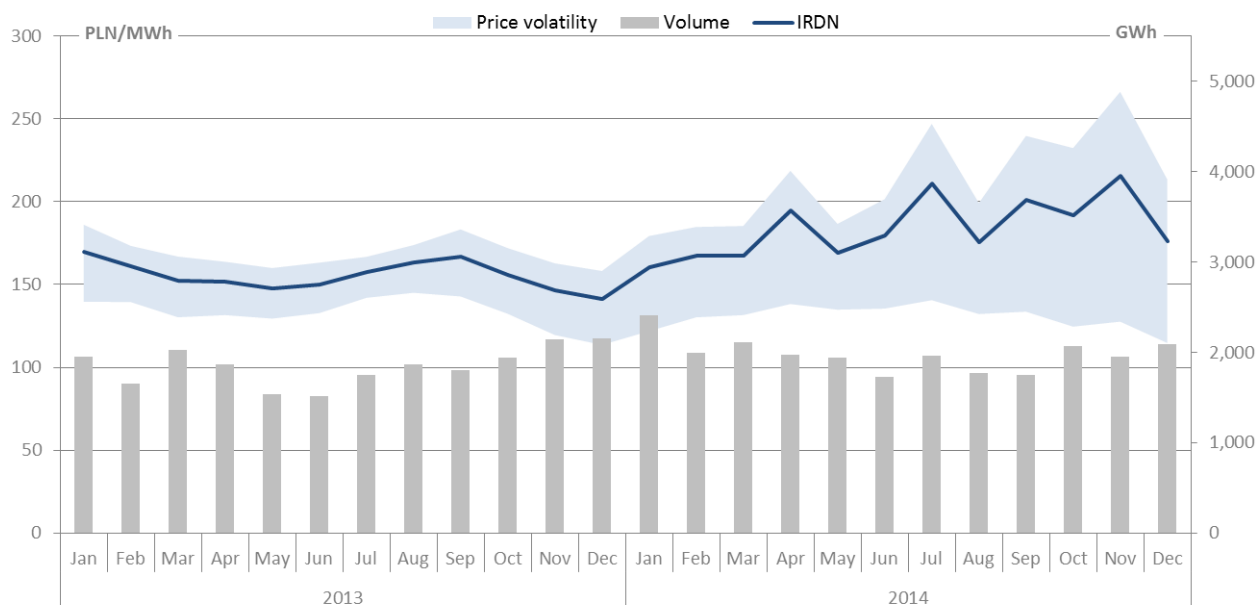
Moreover, the situation in 2014 was characterised by a 58% y/y uptick in price volatility. This was caused not only by growth in peak pricing (the sIRDN index went up 25% y/y), but also a decrease in off-peak prices (the offIRDN index declined 3% y/y), pointing to an increasing amplitude of price swings – the sIRDN index currently constitutes 164% of the offIRDN index, compared with 127% a year ago. The strong growth of prices in peak hours demand resulted from having to start up new generating units from the merit order that are characterised by high variable costs. The decline in off-peak prices had to do with the changing structure of electricity production, and particularly dynamic growth of wind generation (up 23.38% y/y, according to PSE S.A.).

The following factors had the biggest impact on day-ahead prices in Poland in 2014:

- change in fees for active production Schedule Units (JGwa) under the cold reserve operating system control service, and;
- low capacity reserve in the National Power System.

The highest average monthly prices on the day-ahead market were noted in November, when the IRDN index exceeded PLN 215/MWh. The year's most expensive day was the first Wednesday of December, with the day-ahead price averaging PLN 452.26/MWh and at times exceeding PLN 1,000/MWh during peak hours for capacity demand.

Chart: Monthly prices and price volatility at the day ahead market in 2013-2014 (TGE)\*.



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

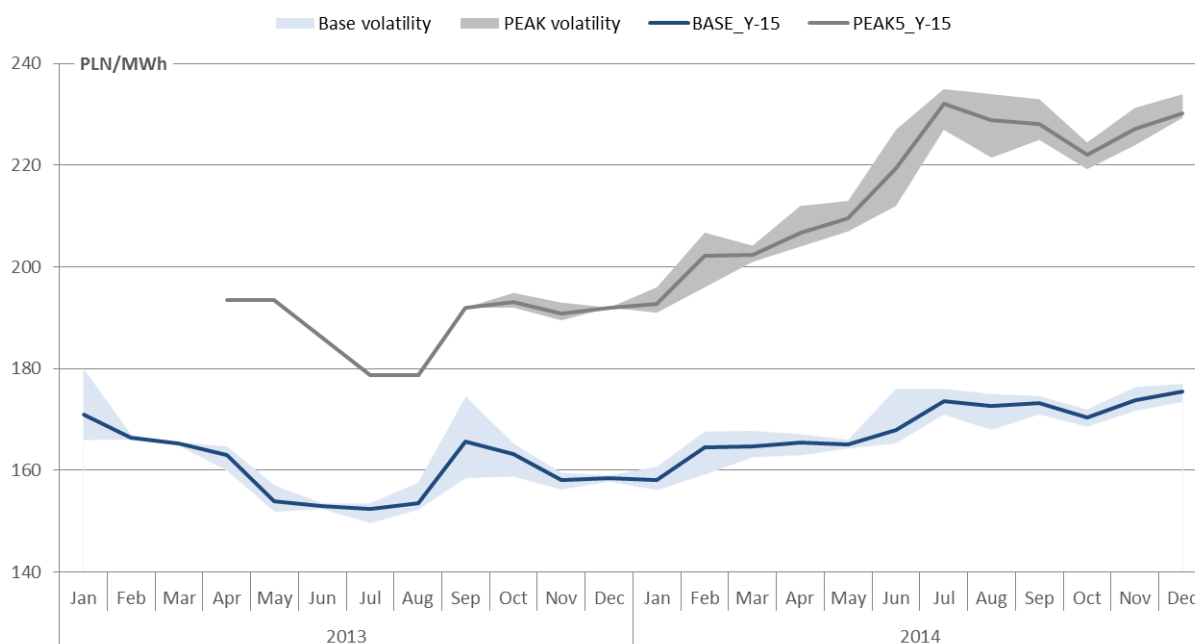
### Futures market

In 2014, we observed rising prices for both BASE and PEAK contracts. They were supported by positive information about the Polish economy, particularly the stronger growth of GDP and industrial production. Market prices in both the day-ahead market and the futures market were furthermore affected by an update of the System Balancing and System Constraint Management section of the Transmission Grid Operation and Maintenance Manual, including an updated operating model for the Operational Capacity Reserve service.

The average price for the BASE\_Y-15 instrument in 2014 was PLN 167.92/MWh, denoting an increase of 5% in comparison with the previous year. The average price for the PEAK5\_YH-15 product in 2014 was PLN 218.69/MWh, meaning that it was nearly 15% higher than in 2013. The year's cheapest month on the futures market was January, with an average price for BASE\_Y-15 of PLN 158.04/MWh, while the most expensive was December, with the average price being 11% higher than that in January.



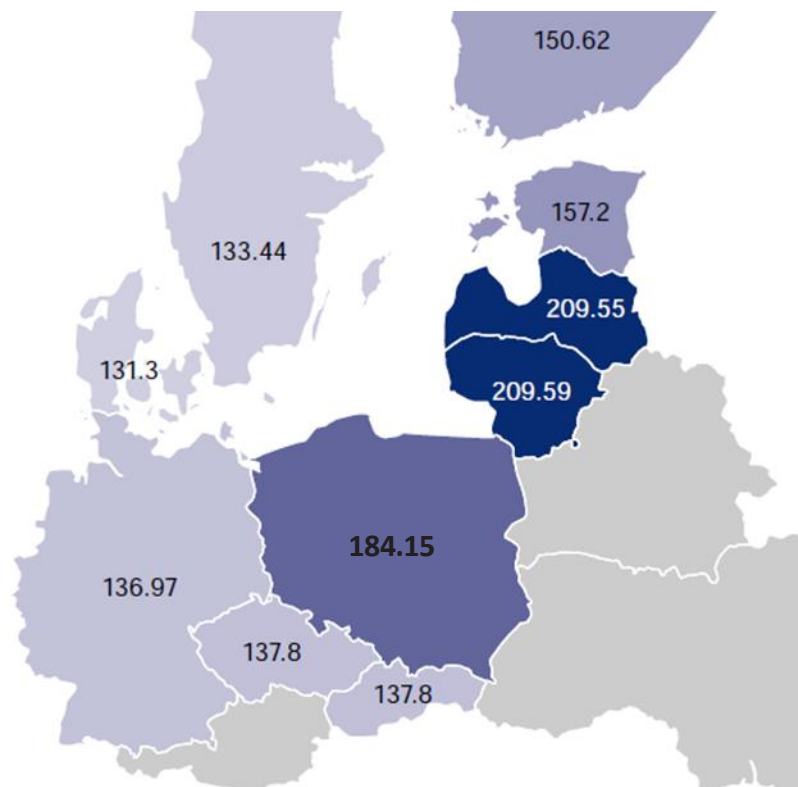
Chart: Average prices and price volatility on the futures market in 2013-2014 (TGE).



### International markets

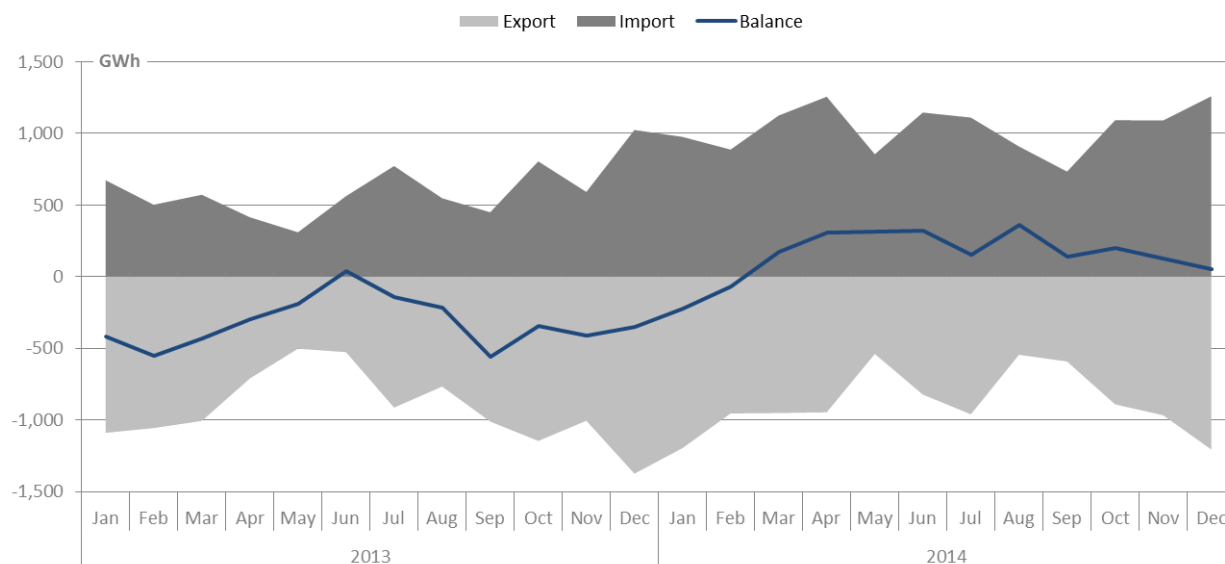
In 2014, prices on the Polish market were higher than those in Sweden, Germany, the Czech Republic and Slovakia. 2014 saw the average price on the German market decrease by 13% compared with 2013 – mainly due to higher wind and photovoltaics production. An even more pronounced decline was observed in the Scandinavian markets (-20%), driven by hydrological conditions. The rising average prices in Poland, coupled with strong declines in foreign markets, resulted in a situation where the Polish market became the most expensive out of those mentioned above. This led to a change in 2014 to a positive cross-border exchange balance.

Chart: Comparison of average prices on Polish market and on European markets in 2014.



In 2014, physical flows changed substantially. Because of the lower power prices in surrounding markets and given the low capacity reserve, the cross-border exchange balance was positive. There was a substantial increase in imports (up by nearly 72% y/y), concurrent with a decline in exports (-5% y/y). As regards cross-border exchange by country, the situation did not change much – Germany and Sweden remained the largest importers, while exports were mainly realised to the Czech Republic and Slovakia.

Chart: Monthly imports, exports and cross-border exchange balance in 2013-2014.

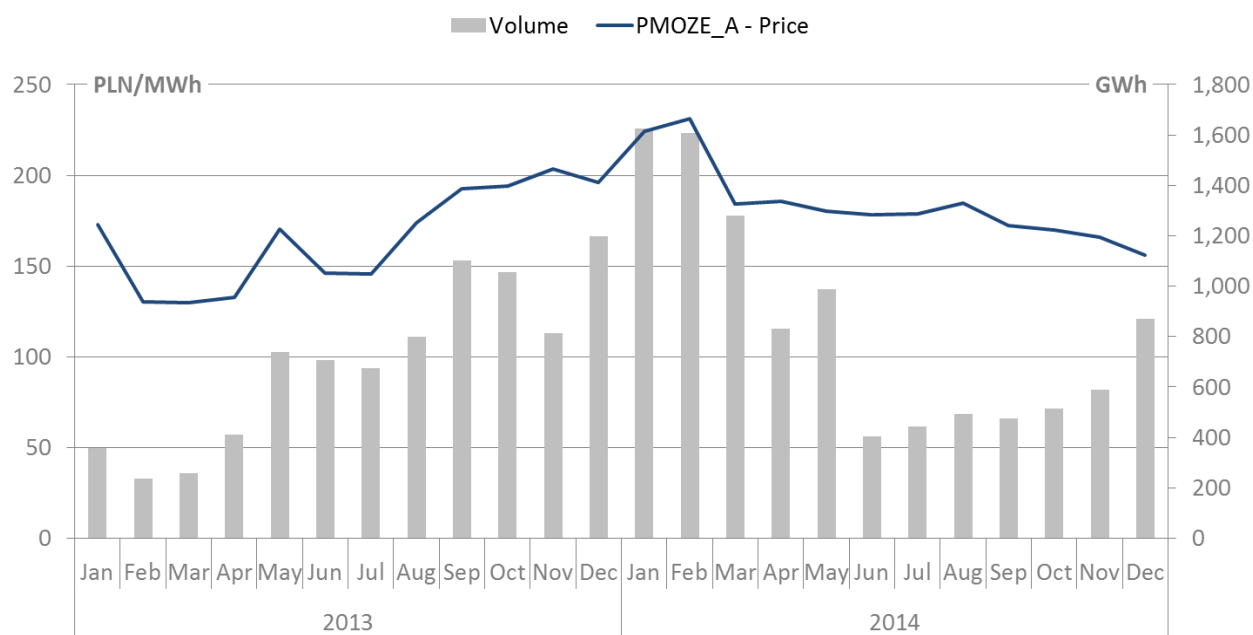


### 1.2.6 Prices of property rights

#### Green certificates – Renewable Energy Sources

In 2014, pursuant to the Energy Law and the relevant Ordinance of the Minister of Finance, companies selling electricity were required to obtain and present for redemption certificates of origin, or pay a substitute fee equal to not less than 13% of total annual sales to end users. The substitute fee, following adjustment through a decision of the ERO President, amounted to PLN 300.03/MWh. Trade in property rights deriving from renewable energy sources ("green certificates," "PMOZE\_A") on the TGE exchange was accumulated in the first quarter of 2014, resulting from the fact that the settlement period for 2013 ended on March 31, 2014. Growth in green certificate prices in the first quarter of 2014 was caused by the introduction of regulations imposing the obligation for units generating electricity with the use of biomass to present certificates of biomass origin. This led to the ERO President suspending issuance of property rights deriving from biomass-firing or co-firing installations. Reduced supply and temporarily increased demand caused the price of green certificates to rise, peaking in February at an average price for the OZEX\_A index of PLN 231.21/MWh. Since then, green certificate prices trended downward, reaching a minimum in December, when the average price for the OZEX\_A index was PLN 155.98/MWh.

Chart: Monthly prices and trading volumes of green certificates in 2013-2014.



#### Yellow, red and violet certificates - cogeneration

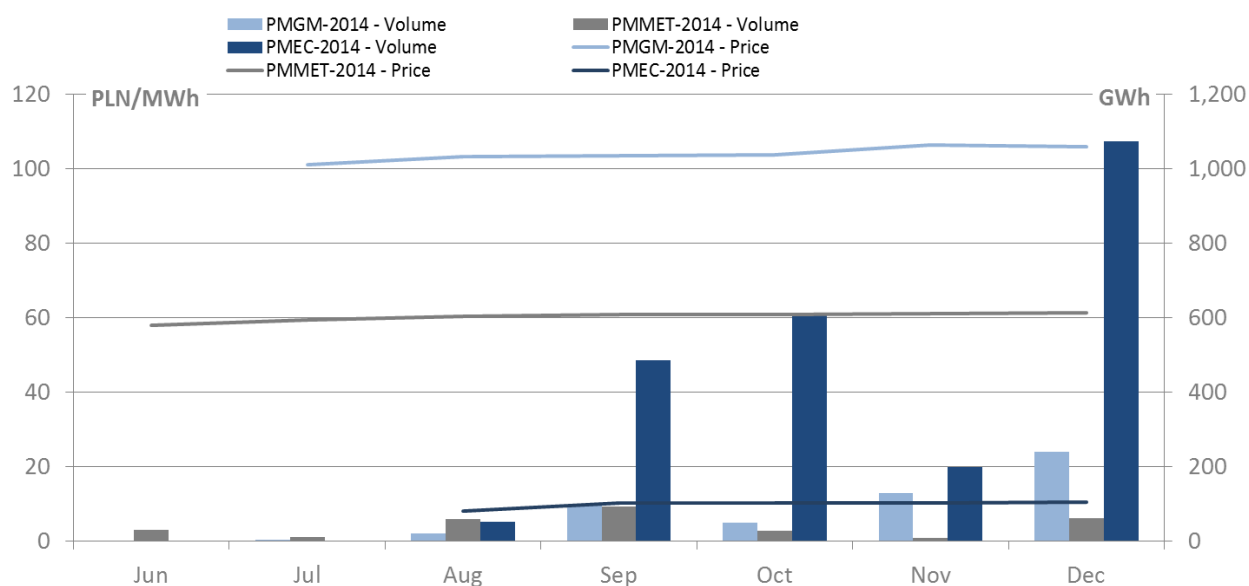
On April 30, 2014, the Energy Law and certain other acts were amended to extend the support scheme for producers of electricity and heat from cogeneration to June 30, 2019. The scheme in Poland has been in force since 2007 and requires energy trading companies to present for redemption certificates of origin for highly-efficient cogeneration or, if they do not have such certificates, to pay a substitute fee. Certificates can be obtained in respect of: energy generated in gas fuel-fired cogeneration installations or units with capacity below 1 MW ("yellow certificates," "PMGM"), energy generated in cogeneration units fuelled by methane or gas obtained from biomass processing ("purple certificates," "PMMET") and energy generated from other cogeneration sources ("red certificates," "PMEC").

In accordance with the above amendment, energy trading companies in 2014 had to hold yellow certificates for 3.9% of the electricity supplied to end users - with the figure set to be raised to 8% in 2018. As regards purple certificates, the level required in 2014 was 1.1%, set to be raised to 2.3% in 2018. For red certificates, the figure is 23.2% annually during 2014-2018. The deadline for paying the substitute fee and redeeming certificates of origin was also changed, from March 31 to June 30 of each year. As a result of these changes, the market de facto began operating in June 2014, which is also when the above certificates were listed on the TGE.

Prices for yellow, purple and red cogeneration certificates remained at levels close to the substitute fees throughout 2014. The average price for yellow certificates in 2014 amounted to PLN 105.20/MWh (substitute fee: PLN 110.00/MWh), purple certificates: PLN 60.55/MWh (substitute fee: PLN 63.26/MWh), red certificates: PLN 10.31/MWh (substitute fee: PLN 11.00/MWh). The steep prices resulted from a long-term deficit of supply relative to demand.



Chart: Prices and trading volumes of cogeneration certificates in the second half of 2014.

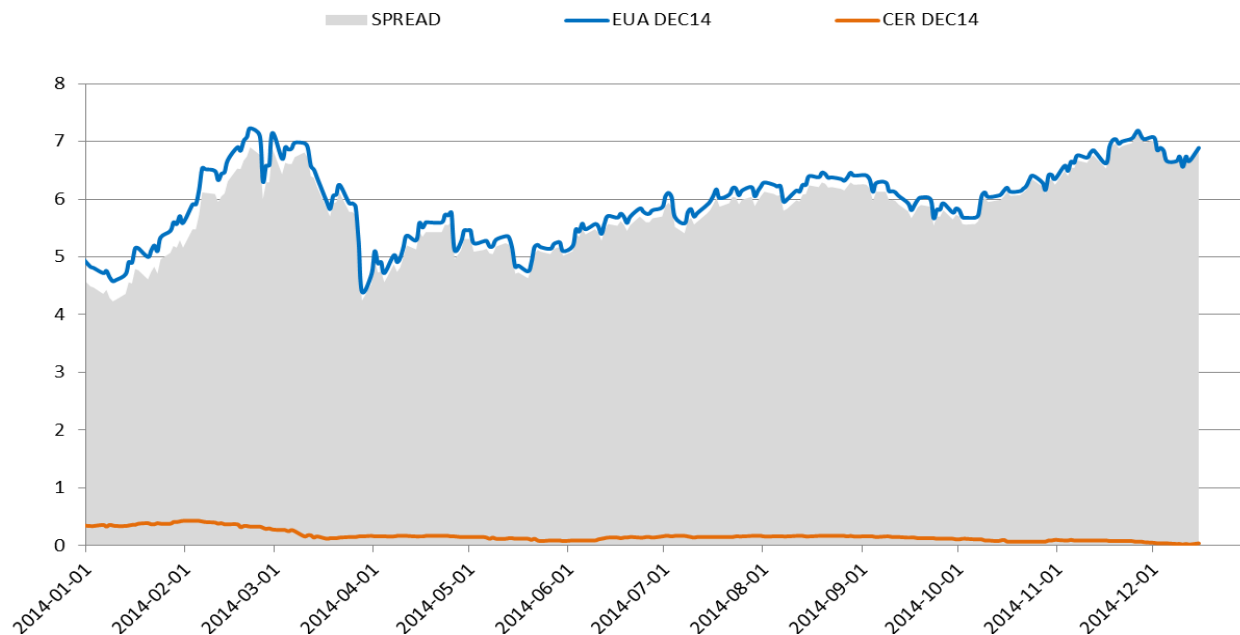


### 1.2.7 Prices of CO<sub>2</sub> emission rights

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

Years 2013-2020 constitute the third settlement period under the EU Emissions Trading System (EU-ETS). The third period has since the beginning featured a substantial surplus of CO<sub>2</sub> allowances (more than 2 billion tonnes), resulting in low prices that do not compel investment in low-emission technologies. Given the above, the European Commission undertook a number of activities aiming to drive the allowance prices higher. The first one, backloading, is meant to withhold 900 million allowances schedule to be auctioned in 2014-2016 by reducing the auctioned volumes. The next step is the introduction of the Market Stability Reserve (MSR), aimed at consuming the existing surplus and leading to a balance between demand and supply. In addition, the European Commission proposed as part of its 2030 framework for climate and energy policies a CO<sub>2</sub> reduction target of at least 40% compared to 1990. Taking into consideration the above measures undertaken by the EC and the decreasing annual allocations of free allowances, it should be expected that the growth of price of CO<sub>2</sub> allowances will have a substantial impact on final electricity prices.

Chart: Prices of CO<sub>2</sub> emission rights in 2014



Source: own work based on the data from ICE exchange (closing prices)

2014 was the second year of the third settlement period of the EU-ETS system. The year featured high volatility of prices of CO<sub>2</sub> emission allowances. During this time, the EC's activities as well as political and economic events had a strong impact on the prices of CO<sub>2</sub> allowances. Since the beginning of 2014, CO<sub>2</sub> allowances became substantially more expensive on account of the backloading reform being implemented. On February 24, 2014, the European Parliament decided that 400 million allowances will be withheld from the market in 2014, another 300 million in 2015 and 200 million in 2016. The above decision resulted in the prices for CO<sub>2</sub> allowances exceeding EUR 7.00/tonne.

#### Impact of changes in prices of CO<sub>2</sub> allowances in 2014

|          |                                                                                                                                                                                                                                                                                                                                                               |
|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| March    | <ul style="list-style-type: none"> <li>EUA prices decreased due to allocation of free allowances to installations in accordance with art. 10a of the ETS Directive and publication of a British report examining the volume of emissions covered by ETS (a 7.5% decline from 2013).</li> </ul>                                                                |
| April    | <ul style="list-style-type: none"> <li>the down trend was broken at the beginning of April as the end of the 2013 emission settlement period approached. Allowance prices also went up thanks to stronger demand and a supply that was limited by backloading.</li> </ul>                                                                                     |
| May      | <ul style="list-style-type: none"> <li>an EC representative announced that a structural reform of the MSR market may begin during the present settlement period. The above information drove EUA prices higher, which also continued in the subsequent months.</li> </ul>                                                                                     |
| July     | <ul style="list-style-type: none"> <li>the new European Parliament took office. The Committee on the Environment, Food Safety and Public Health published the work schedule for the MSR structural reform.</li> </ul>                                                                                                                                         |
| October  | <ul style="list-style-type: none"> <li>European Council climate summit. A new 2030 framework for climate and energy policies was agreed there, which drove EUA prices higher.</li> </ul>                                                                                                                                                                      |
| November | <ul style="list-style-type: none"> <li>prices were impacted by talks regarding implementation of the MSR, with the legislation process being planned for January 2015.</li> </ul>                                                                                                                                                                             |
| December | <ul style="list-style-type: none"> <li>Lima Climate Change Conference, during which an agreement was reached that made it likely that a new global climate agreement will be signed in Paris in 2015. One of the conclusions from the Lima conference requires EU member states to establish their own emission reduction targets by October 2015.</li> </ul> |

In 2014, prices of certified emission reduction units (CERs) were in a downtrend, losing substantial value throughout the year, from EUR 0.43/tonne to EUR 0.04/tonne. The main reason for the fall in CER prices is their oversupply on the market and the limited capabilities to use them in the current settlement period. In accordance with the provisions of the EU-ETS Directive, installation operators may redeem CERs from various types of projects. CERs from projects that were eligible for

use in the Community scheme during the period from 2008 to 2012, issued in respect of emission reductions until 2012, may be used only up to March 31, 2015.

In 2014, the value of ERUs went down to EUR 0.03-0.24/tonne.

#### 1.2.8 Emission rights granted free of charge for years 2013-2020

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

PGE GiEK S.A. accounts were credited with free allowances for heating energy for 2014, while free allowances for electricity will be received by the Group by the end of April 2015, after verification of reports from investments submitted to the National Investment Plan.

The following table presents data concerning CO<sub>2</sub> emission from major Group installations in 2014 in comparison to the allocations.

Table: Emission of CO<sub>2</sub> from major Group installations in 2014 in comparison to allocation of CO<sub>2</sub> emission rights for 2014 (in Mg).

| Operator              | CO <sub>2</sub> emissions<br>in 2014 | Allocation of CO <sub>2</sub><br>emission rights for<br>2014 | % of the emission<br>covered by the<br>free allowances |
|-----------------------|--------------------------------------|--------------------------------------------------------------|--------------------------------------------------------|
| Bełchatów Power Plant | 36,886,457                           | 15,535,037                                                   | 42%                                                    |
| Turów Power Plant     | 8,140,080                            | 6,247,900                                                    | 77%                                                    |
| Opole Power Plant     | 6,422,060                            | 3,587,594                                                    | 56%                                                    |
| ZEDO                  | 5,135,457                            | 2,931,631                                                    | 57%                                                    |
| Bydgoszcz CHPs        | 773,842                              | 708,528                                                      | 92%                                                    |
| Gorzów CHP            | 444,238                              | 297,971                                                      | 67%                                                    |
| Lublin Wrotków CHP    | 364,782                              | 387,687                                                      | 106%                                                   |
| Rzeszów CHP           | 237,758                              | 140,185                                                      | 59%                                                    |
| Kielce CHP            | 167,182                              | 128,824                                                      | 77%                                                    |
| Zgierz CHP            | 93,732                               | 56,103                                                       | 60%                                                    |
| <b>TOTAL</b>          | <b>58,665,588</b>                    | <b>30,021,460</b>                                            | <b>51%</b>                                             |

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

### 1.2.9 Termination of long-term contracts (LTC)

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

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

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

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

The impact of LTC compensations on results achieved by the PGE Group is described in Note B.28.1 to the consolidated financial statements and in p. 9.4 of this report.



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

In response to the recent developments in the electricity market and in order to better utilise strengths of the PGE Group, a new Strategy of the PGE Capital Group for years 2014-2020 was adopted. Adoption of the strategy was preceded by development of a broad range of possible market scenarios. During these works, an investment portfolio had been reviewed in order to yield the most robust returns to the stakeholders.

The strategy has acknowledged significant changes in the PGE Group's market environment and is based on understanding of key market trends and on key competences and competitive advantages of PGE Group:

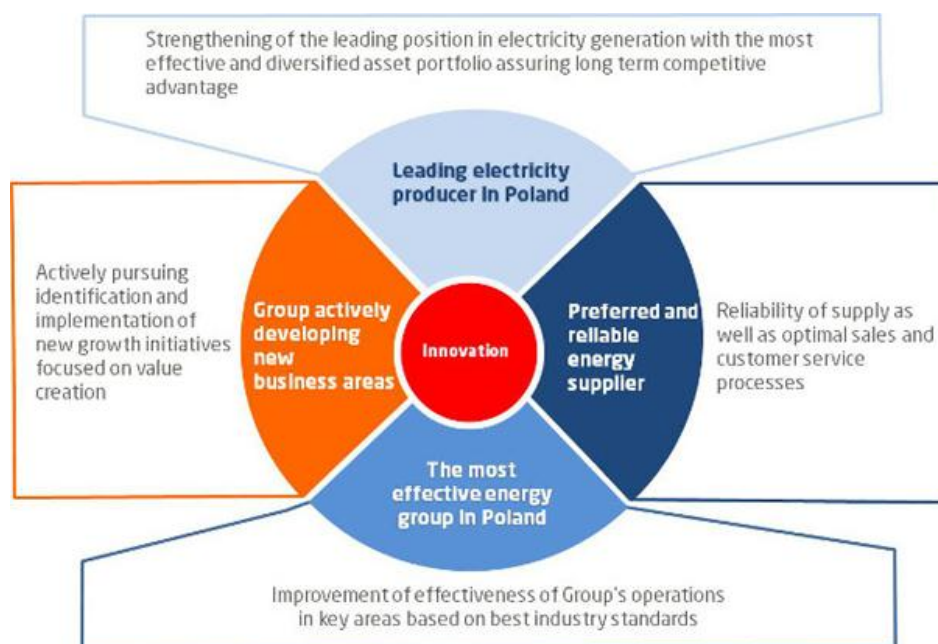
- PGE is the largest vertically integrated power utility in Poland with regard to energy production and installed capacity;
- PGE is leading in the cost efficient, base-load generation technologies in Poland and has the youngest generation asset base.

### Strategy of the PGE Capital Group

#### Financial aspirations

- sustaining EBITDA level in the range of PLN 8-9 billion in 2015-2020
- maintaining the current policy of dividend pay-outs (40-50% of consolidated annual net profit)
- PLN 1.5 billion of sustained influence on EBIT (after 2016) as the effect of planned activities relating to improvement of effectiveness
- maintaining the long term ratings
- approx. PLN 50 billion of CAPEX in 2014-2020
- at least 1.5 % of annual consolidated net profit in 2015-2020 intended for R&D activities

Diagram: Strategic aspirations of PGE Capital Group



#### Leading electricity producer in Poland

In order to strengthen the leading position in electricity generation in Poland, PGE Group strategy assumes spendings of approx. PLN 34 billion in 2014-2020 for replacement, modernisation and construction of new generation assets. This value includes modernization and replacement expenditures with regard to existing assets in amount of approx. PLN 16.3 billion and capital expenditures for construction of new capacities in amount of approx. PLN 15.2 billion. PGE Group also plans to spend PLN 1.7 billion for construction of new RES capacities and PLN 0.7 billion for preparation of commencement of nuclear program until 2016.

**Key actions in this field include:**

- Modernisation and construction of highly efficient conventional units based on domestic fuel resources. By 2019 PGE Group will commission new highly efficient hard coal units in Opole power plant and lignite-fired unit Turów power plant with a total capacity of approx. 2,290 MW.
- Development of cogeneration in connection with the long-term support scheme. Currently, PGE Group is pursuing a 138 MWe co-generation project of CCGT unit in Gorzów CHP. Development of further projects is conditional upon long-term support system implementation.
- Diversification of generation portfolio through implementation of zero-carbon investments (nuclear, RES) in business models ensuring their economic predictability. PGE Group intends to continue developing project of construction of first Polish nuclear power plant and developing new capacities in onshore wind power plants. Both initiatives will be realized only in business models assuring their economic predictability. Construction of the first nuclear power plant is the key investment lowering the carbon intensity of generation portfolio of PGE Group, however development of the long-term support system is necessary for further project development with account taken to project financing and interest of the off-takers. Making the decision on physical commencement of the investment and application for the "fundamental decision" to be issued by the Government will be possible in 2018 based on the form of support system and results of the integrated proceeding. By the end of 2015 PGE Group plans commissioning of additional 218 MW of onshore wind farms. Construction or acquisition of other RES projects will be dependent on the future support system and therefore their potential for creating the PGE Group's value.
- Maintaining a position of leading operator of the regulatory assets. PGE expands and modernises regulatory assets to fully utilise their potential of cooperation with PSE S.A.. Further investments are planned until 2020 to assure highest operating standards and uninterrupted availability of assets.
- Provision of resource base for conventional generation as an strategic option for future growth depending on the direction of EU climate policy. Projects for obtaining concession for lignite extraction from Złoczew deposit and obtaining concession for lignite extraction from Gubin deposit are currently at the stage of obtaining the required administrative permits. In both cases the licenses for extraction are expected to be obtained after 2016. Exploitation of lignite deposits will be considered within the development strategy of the whole generation portfolio.

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**Key projects in 2014**

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|------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Construction of new units in Opole power plant | <ul style="list-style-type: none"> <li>● construction of two power units of 900 MW each</li> <li>● budget: approx. PLN 11 billion (net, without costs of financing)</li> <li>● <b>fuel:</b> hard coal</li> <li>● <b>efficiency:</b> 45.5%</li> <li>● <b>contractor:</b> syndicate of companies: Rafako, Polimex-Mostostal and Mostostal Warszawa; main subcontractor: Alstom</li> <li>● commissioning: unit 5 – Q3 2018; unit 6 – Q2 2019</li> <li>● January 31, 2014 – issue of Notice to Proceed</li> <li>● works currently underway: construction of foundations for the main buildings and basic equipment, assembly of communication pillars for the boiler at unit no. 5</li> </ul> |
| Construction of new unit in Turów power plant  | <ul style="list-style-type: none"> <li>● construction of power unit with a capacity of 490 MW</li> <li>● budget: approx. PLN 3.65 billion (net, without costs of financing)</li> <li>● <b>fuel:</b> lignite</li> <li>● <b>efficiency:</b> 43.4%</li> <li>● <b>contractor:</b> syndicate of companies: Mitsubishi-Hitachi Power Systems Europe, Budimex and Tecnicas Reunidas</li> <li>● commissioning: Q3 2019</li> <li>● December 1, 2014 - issue of Notice to Proceed</li> </ul>                                                                                                                                                                                                        |
| Construction of new unit in Gorzów CHP         | <ul style="list-style-type: none"> <li>● construction of cogeneration CCGT unit with a capacity of 138 MWe and 88 MWt</li> <li>● budget: approx. PLN 625 million (net, without costs of financing)</li> <li>● <b>fuel:</b> local nitrogen-rich gas</li> <li>● <b>general efficiency:</b> 84%</li> <li>● <b>contractor:</b> Siemens</li> <li>● commissioning: Q1 2016</li> <li>● October 3, 2013 - issue of Notice to Proceed</li> </ul>                                                                                                                                                                                                                                                   |

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|--------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Investment in conventional energy sources - executed in 2014 | <p><b>Cogeneration unit producing electricity and heat powered by internal combustion piston engines - Rzeszów CHP</b></p> <ul style="list-style-type: none"> <li>capacity: 29 MWe and 26 MWt</li> <li>November 2014 – construction completed, commissioning protocol signed</li> </ul> <p><b>Deployment of an extraction-condensing turboset together with a peak-load and reserve boiler – Zgierz CHP</b></p> <ul style="list-style-type: none"> <li>capacity: 20 MWe and 18 MWt</li> <li>December 2014 - construction completed, commissioning protocol signed</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Investments in renewable energy sources - executed in 2014   | <p><b>Wojciechowo wind farm</b></p> <ul style="list-style-type: none"> <li>capacity: 28 MW (14 turbines with a capacity of 2 MW each)</li> <li>March 2014 – concession for power generation obtained</li> </ul> <p><b>Oława hydro power plant</b></p> <ul style="list-style-type: none"> <li>capacity: 3,2 MW</li> <li>January 2014 - concession for power generation obtained</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Investments in renewable energy sources – in progress        | <p><b>Karwice wind farm</b></p> <ul style="list-style-type: none"> <li>budget: ok. PLN 256 million (net, without costs of financing)</li> <li>capacity: 40 MW (16 turbines with a capacity of 2.5 MW)</li> <li>May 2014 – turnkey contract for construction of the wind farm (Aldesa)</li> <li>Q3 2015 – projected obtaining of occupancy permit</li> </ul> <p><b>Gniewino Lotnisko wind farm</b></p> <ul style="list-style-type: none"> <li>budget: approx. PLN 530 million (net, without costs of financing)</li> <li>capacity: 90 MW (30 turbines with a capacity of 3 MW)</li> <li>June 2014 – contract for supply of wind turbines (Alstom)</li> <li>August 2014 – contract for construction works (CJR)</li> <li>Q4 2015 - projected obtaining of occupancy permit</li> </ul> <p><b>Resko II wind farm</b></p> <ul style="list-style-type: none"> <li>budget: approx. PLN 386 million (net, without costs of financing)</li> <li>capacity: 76 MW (38 turbines with a capacity of 2 MW)</li> <li>October 2014 - contract for supply of wind turbines (Vestas)</li> <li>November 2014 - contract for construction works (Mega, Elektrobudowa)</li> <li>Q4 2015 - projected obtaining of occupancy permit</li> </ul> <p><b>Kisielice II wind farm</b></p> <ul style="list-style-type: none"> <li>budget: approx. PLN 87 million (net, without costs of financing)</li> <li>capacity: 12 MW (6 turbines with a capacity of 2 MW)</li> <li>January 2015 – turnkey contract for construction of the wind farm (Mega)</li> <li>Q4 2015 - projected obtaining of occupancy permit</li> </ul> <p>After completion of the above investments total installed capacity in PGE Group's wind farms will reach approx. <b>530 MW</b>.</p> |

Modernisation and  
replacement  
projects

#### **Comprehensive modernization of units 7-12 - Bełchatów power plant**

- **Project's objective:** to extend the life-time of the units up to 320 ths. hours which enables utilization of existing coal resources
- boosting the efficiency of the units by approx. 2%
- budget: approx. PLN 4.7 billion (net, without costs of financing)
- work progress: unit no. 7, 8 and 11 commissioned, unit no. 12 - final phase of modernization
- fuel: lignite
- Completion: 2016

#### **Modernization of desulphurization installations for units 3-12 - Bełchatów power plant**

- **project's objective:** to decrease the SO<sub>2</sub> emission level to the level required in IED ( $\leq 200 \text{ mg/Nm}^3$ )
- budget: ca. PLN 162 million (net, without costs of financing)
- fuel: lignite
- completion: 2015

#### **Change in technology of furnace waste storage for units 1-12 – Bełchatów power plant**

- **project's objective:** to provide the capability for storage of furnace waste produced during the operation of units 1-12 of Bełchatów power plant until exhaustion of lignite resources
- budget: ca. PLN 454 million (net, without costs of financing)
- completion: 2018

#### **Reduction of NO<sub>x</sub> emission - units 1, 2 and 4 Opole power plant**

- **project's objective:** to decrease the NO<sub>x</sub> emission level to standard required in IED ( $\leq 200 \text{ mg/Nm}^3$ ).
- budget: ca. PLN 148 million (net, without costs of financing)
- fuel: hard coal
- completion: 2016

#### **Construction of desulphurization installations for units 4-6 – Turów power plant**

- **project's objective:** to decrease the SO<sub>2</sub> emission level to standard required in IED ( $\leq 200 \text{ mg/Nm}^3$ ).
- budget: ca. PLN 530 million (net, without costs of financing)
- fuel: lignite
- completion: 2016

#### **Construction of overburden line in Bełchatów Lignite Mine (Szczerców Field)**

- **project's objective:** to increase the mine extraction capacity enabling to cover lignite needs of Bełchatów power plant
- budget: ca. PLN 108 million (net, without costs of financing)
- fuel: lignite
- completion: 2016



### Preferred and reliable energy supplier

PGE Group plans to reorganise the sales process based on effective trading strategy. In every customer segment the PGE Group will focus on understanding the needs of the customers and improvement of customer service quality. In particular it includes:

- In corporate customers segment, PGE Group intends to focus on effective margin management at the Group level and on securing optimal contracts of generating units of PGE Capital Group;
- In SME segment, PGE Group intends to focus on retention of historical customers while maintaining the margin levels, acquisition of new customers through improved customer service and expansion of product offering;
- In households segment, PGE Group intends to acquire new customers, expand product offering, lower the service and sales costs and build modern IT tools supporting sale processes.

In the distribution segment, assuring reliability of supply through operational and investment efficiency will be the main goal. PGE Group is committed to improve grid reliability - we intend to achieve a goal of 50% SAIDI reduction by 2020 mainly by refocusing the investment outlays on projects to the largest extent limiting the level of undelivered energy and by increasing operational performance. Total capital expenditures in the distribution segment in years 2014-2020 will amount to approx. PLN 12.3 billion.

### Key projects in 2014

|                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Trading strategy update             | <p>The following will be developed in the course of the project:</p> <ul style="list-style-type: none"> <li>● <b>value chain management strategy</b>, aimed at: <ul style="list-style-type: none"> <li>■ define the commercial process for managing the value chain</li> <li>■ develop decision-making mechanisms and operating procedures for processes that ensure the direct margin optimisation</li> </ul> </li> <li>● <b>wholesale trading strategy</b>, aimed at: <ul style="list-style-type: none"> <li>■ developing an operational model for wholesale trading</li> <li>■ specifying the scope of IT support tools</li> <li>■ developing an overall wholesale trading strategy and contracting strategy</li> </ul> </li> <li>● <b>supply strategy</b>, aimed at: <ul style="list-style-type: none"> <li>■ developing a strategy for the retail sales area and customer service</li> </ul> </li> <li>● <b>risk management strategy</b>, aimed at: <ul style="list-style-type: none"> <li>■ identifying risks</li> <li>■ developing recommendations for a risk management model and methodology with regard to wholesale trade in electricity and related products</li> </ul> </li> </ul> <p>Implementation work will be carried out in 2015.</p> |
| Project of network losses reduction | <ul style="list-style-type: none"> <li>● <b>the project is intended to</b> reduce electricity procurement costs for balancing differences</li> <li>● activities undertaken: <ul style="list-style-type: none"> <li>■ replacement of transformers with low-loss units</li> <li>■ innovations in the area of metering systems (AMI -Advanced Metering Infrastructure)</li> <li>■ gradual replacement of client-side inductive meters with static meters and implementation of remote metering data readings at HV networks, HV/MV and MV/LV transformer stations and client-side</li> <li>■ the offering and promoting of tariff solutions that incentivise clients to level out loads across the OSD distribution network</li> </ul> </li> <li>● <b>effects</b> of the activities carried out so far include a substantial reduction in the balancing differences ratio over a four-year period, from 6.87% in 2011 to 6.32% in 2014</li> </ul>                                                                                                                                                                                                                                                                                                          |
| CRM Billing                         | <ul style="list-style-type: none"> <li>● <b>the aim of the project is deployment of support systems</b> for settlements and customer service at PGE Obrót S.A. and PGE Dystrybucja S.A.</li> <li>● <b>the project will yield:</b> <ul style="list-style-type: none"> <li>■ improved operational performance and support tools for processes dealing with settlements and customer service</li> <li>■ stronger competitive position on the back of an expanded product offering</li> <li>■ higher customer service quality</li> </ul> </li> <li>● the above objectives will be attained through the <b>deployment of IT tools</b> that support billing, settlement, debt recovery, sales, post-sales, CRM and customer services processes, alongside the exchange of metering data and information concerning technical operations</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                            |

## The most effective energy group in Poland

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

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

## Key projects in 2014

|                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Optimisation of Conventional Generation business line      | <ul style="list-style-type: none"> <li>● <b>the project is intended to</b> prepare Conventional Generation segment for operating under changing market conditions and while facing challenges connected with new investments</li> <li>● 2014 saw the <b>launch of the programme's implementation</b>, which covers: <ul style="list-style-type: none"> <li>■ a number of initiatives aimed at restructuring the organisation and re-modelling its business processes</li> <li>■ cost optimisation</li> <li>■ revenue growth</li> </ul> </li> </ul> <p>Carrying out these initiatives will make it possible for Conventional Generation segment to adapt its operational costs to market changes as necessary, all the while maximising its revenue generating potential.</p> |
| Operational Efficiency Improvement in PGE Dystrybucja S.A. | <ul style="list-style-type: none"> <li>● <b>the aim of this programme</b> was to reduce the SAIDI quality factor and facilitate operational cost optimisation in respect of the power network.</li> <li>● main tasks: <ul style="list-style-type: none"> <li>■ increase the number of operational tasks, in particular step up the felling of trees and</li> <li>■ improve the operation of remote-controlled connectors</li> <li>■ introduce prioritisation for MV lines</li> </ul> </li> </ul> <p>The first effects of the programme's implementation are expected in 2015.</p>                                                                                                                                                                                            |
| Tax Capital Group ("PGK")                                  | <ul style="list-style-type: none"> <li>● the tax group has been formed with the <b>intent</b> to facilitate more effective Group management, including through the optimisation of tax settlements of companies belonging to PGK as well as reduction of fiscal risks</li> <li>● the tax group comprises 32 companies from PGE Group</li> <li>● the agreement concerning formation of the tax group was signed on September 18, 2014, and the tax group was launched on January 1, 2015 and will be in effect for the next 25 years</li> </ul>                                                                                                                                                                                                                               |
| Operating model                                            | <ul style="list-style-type: none"> <li>● <b>the aim of this project is</b> organisational performance improvement across PGE Group, which will be achieved through the following: <ul style="list-style-type: none"> <li>■ centralisation of management, decision-making and planning functions at the Corporate Centre, alongside a synergetic combination of potential of the Group's key value drivers – capital, experience, competences and knowledge – which are embedded across Business Lines</li> </ul> </li> <li>● as part of the project, a defined portfolio of 51 implementation projects was launched, the result of which will be permanent deployment of the designed changes to business processes.</li> </ul>                                              |
| PGE Group Code                                             | <ul style="list-style-type: none"> <li>● the aim of the project was to introduce a so called <b>statutory mechanism for managing PGE Group companies</b>, facilitating efficient and effective corporate management, while minimising legal risks</li> </ul> <p>Details of the project are presented in p. 7.2 Changes in management procedures of the Company and the Capital Group.</p>                                                                                                                                                                                                                                                                                                                                                                                    |

|                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Cash Management                                    | <ul style="list-style-type: none"> <li>● <b>the aim of this project is</b> centralisation of liquidity management in PGE Group through implementation of one-way real cash pooling</li> <li>● The project will result in: <ul style="list-style-type: none"> <li>▪ optimisation of the cash flows and improved liquidity management in the Group,</li> <li>▪ limited use of external financing thanks to use of the Group's own funds,</li> <li>▪ security of short-term financing of the Group entities,</li> <li>▪ lower bank fees.</li> </ul> </li> </ul> <p>Cash pooling agreements were concluded on December 22, 2014 between 16 companies from the PGE Capital Group and banks: Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A.</p>                                                                                                                                                                                              |
| Human Capital Management Strategy („HCM Strategy”) | <ul style="list-style-type: none"> <li>● <b>the aim of this project is</b> supporting the business strategy goals through: <ul style="list-style-type: none"> <li>▪ <b>enhancing the effectiveness of human resources management</b></li> <li>▪ <b>reinforcing strategic HR management</b> (separating transactional functions from strategic management)</li> <li>▪ <b>optimisation and standardisation of HR processes in terms of:</b> maximising the benefits through operational scale and specialisation (integration of IT tools and systems), harmonised operating standards, optimal use of resources,</li> </ul> </li> </ul> <p>HCM Strategy document was adopted in the PGE capital Group in 2014.</p>                                                                                                                                                                                                                                                      |
| Creation of Shared Services Center („SSC”)         | <ul style="list-style-type: none"> <li>● <b>the aim of the project</b> of SSC creation in fields of accounting, payroll and HR is: <ul style="list-style-type: none"> <li>▪ standardization, improvement of processes efficiency,</li> <li>▪ implementation of organisation management focused on processes and services to internal client,</li> <li>▪ efficient use of uniform IT tools,</li> <li>▪ better utilisation of in-house competencies and knowledge.</li> </ul> </li> </ul> <p>As of January 1, 2015 PGE Obsługa Księgowo-Kadrowa sp. z o.o. has commenced providing the finance and accounting services to the selected entities of the PGE Capital Group.</p>                                                                                                                                                                                                                                                                                            |
| Program SAP                                        | <ul style="list-style-type: none"> <li>● <b>the aim of the project is:</b> <ul style="list-style-type: none"> <li>▪ <b>improved operational efficiency through:</b> standardisation of processes within the Group, the aim of the project, optimisation of the technical assets efficiency, more efficient maintenance and development of the system</li> <li>▪ <b>improved transparency through:</b> creation of uniform records of economic events, access to the ongoing and compact of management information, streamlining and accelerating of decision making process</li> <li>▪ <b>base creation for:</b> creation of SSC within PGE Group, procurement system integration, maintaining a dominant market position while facing the growing competition</li> </ul> </li> </ul> <p>Implementation process of modules: Accounting and Logistics, HCM Strategy and Asset Management will be continued in 2015 in the major companies of the PGE Capital Group.</p> |

#### Group actively developing new business areas

PGE will actively identify and develop new products and business areas. Initially identified growth directions are dual fuel offering (purchase of electricity and gas from one supplier), modern electricity infrastructure (e-mobility infrastructure, distributed generation and storage, electrification of home heating).

#### Innovation

Apart from initially identified growth directions, PGE Group will continuously analyse market environment, identify and use innovative solutions to achieve its strategic goals. PGE Group aspiration is to spend at least 1.5 % of annual consolidated net profit as of 2015 on R&D activities with maximization of external financing.

## Key projects in 2014

|                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sector Programme; Cooperation with the National Centre for Research and Development (the "NCBiR") | <ul style="list-style-type: none"> <li>● the activities undertaken are intended to drive PGE Group's innovativeness and prepare it for effectively raising capital for R&amp;D purposes from public sources</li> <li>● main tasks: <ul style="list-style-type: none"> <li>▪ approval by PGE's Management Board of documents regulating work in the area of business development and innovation, which facilitate initiating and effectively managing R&amp;D projects across the entire Group</li> <li>▪ identification of strategic R&amp;D areas where PGE Group intends to carry out R&amp;D projects</li> <li>▪ commencement of bilateral cooperation with the NCBiR</li> <li>▪ submission to the NCBiR, together with the Consortium led by the Polish Electricity Association (PKEE), of a feasibility study for the Power Sector Research Programme</li> </ul> </li> </ul> <p>Ongoing works are described in broader range in p. 8 Commitment.</p> |
| R&D projects portfolio                                                                            | <ul style="list-style-type: none"> <li>● a number of R&amp;D ventures were being carried out in the area of mining and conventional energy generation with the participation of technical universities and Polish and foreign research institutions</li> <li>● the key tasks being implemented as part of the projects are as follows: <ul style="list-style-type: none"> <li>▪ analysis of technology for reducing pollution introduced to the atmosphere by coal combustion processes</li> <li>▪ potential changes to the technology for combustion waste storage</li> <li>▪ use of alternative fuels in electricity generation processes, including communal waste</li> <li>▪ deployment of a management and monitoring system for electricity consumed by technological processes</li> </ul> </li> </ul> <p>Detailed description of the pursued R&amp;D tasks is presented in p. 8 Commitment.</p>                                                    |



### 3 Results achieved in PGE Capital Group

#### 3.1 Financial results of PGE Capital Group

| Key financial data                                               | Unit               | Year ended<br>December 31,<br>2014 | Year ended<br>December 31,<br>2013<br><i>data restated</i> | % change    |
|------------------------------------------------------------------|--------------------|------------------------------------|------------------------------------------------------------|-------------|
| Sales revenues                                                   | PLN million        | 28,137                             | 30,145                                                     | -7%         |
| <b>EBIT</b>                                                      | <b>PLN million</b> | <b>5,096</b>                       | <b>4,847</b>                                               | <b>5%</b>   |
| <b>EBITDA</b>                                                    | <b>PLN million</b> | <b>8,118</b>                       | <b>7,837</b>                                               | <b>4%</b>   |
| Net profit attributable to equity holders of the parent company  | PLN million        | 3,638                              | 3,948                                                      | -8%         |
| LTC compensations                                                | PLN million        | 1,785                              | 638                                                        | 180%        |
| <i>Revenues from LTC compensations</i>                           | <i>PLN million</i> | <i>1,539</i>                       | <i>301</i>                                                 | <i>411%</i> |
| <i>Reversal of provisions for LTC (other operating revenues)</i> | <i>PLN million</i> | <i>246</i>                         | <i>337</i>                                                 | <i>-27%</i> |
| <b>Capital expenditures</b>                                      | <b>PLN million</b> | <b>6,349</b>                       | <b>4,357</b>                                               | <b>46%</b>  |
| Net cash from operating activities                               | PLN million        | 6,333                              | 7,941                                                      | -20%        |
| Net cash from investing activities                               | PLN million        | -6,296                             | -5,717                                                     | -10%        |
| Net cash from financial activities                               | PLN million        | 284                                | -1,066                                                     | -           |
| Net earnings per share                                           | PLN                | 1.95                               | 2.11                                                       | -8%         |
| <b>EBITDA margin</b>                                             | <b>%</b>           | <b>29%</b>                         | <b>26%</b>                                                 |             |
| Key financial data                                               | Unit               | As at<br>December 31,<br>2014      | As at<br>December 31,<br>2013<br><i>data restated</i>      | % change    |
| Working capital                                                  | PLN million        | 6,753                              | 5,223                                                      | 29%         |
| <b>Net debt/LTM EBITDA *</b>                                     | <b>x</b>           | <b>-0.11x</b>                      | <b>-0.40x</b>                                              |             |

\* LTM EBITDA - Last Twelve Months EBITDA

### 3.1.1 Consolidated statement of comprehensive income

In 2014 total sales revenues of the Group amounted to PLN 28,137 million compared to PLN 30,145 million in 2013, what means decrease by approx. 7%

#### Sales revenues – decline by PLN 2,008 million

|                 |                                                                                                                                                                                                                                                                                                                                     |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Negative impact | <ul style="list-style-type: none"> <li>decreased revenues from sales of electricity by PLN 3,550 million</li> <li>decreased revenues from sales of heat by PLN 24 million</li> <li>decreased revenues from sales lignite by PLN 19 million</li> <li>decreased revenues from ancillary control services by PLN 14 million</li> </ul> |
| Positive impact | <ul style="list-style-type: none"> <li>increase of revenues from LTC compensations by PLN 1,238 million</li> <li>increased revenues from sales of certificates of energy origin by PLN 193 million</li> </ul>                                                                                                                       |

Cost of goods sold in 2014 amounted to PLN 21,546 million, what means decrease by approx. 8% in comparison to 2013.

#### Cost of goods sold – decrease by PLN 1,814 million

|                 |                                                                                                                                                                                                                                                                                                                                                                                                  |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Positive impact | <ul style="list-style-type: none"> <li>lower merchandise and materials sold (including energy purchased for resale) by PLN 1,580 million</li> <li>decreased costs of fees for CO<sub>2</sub> emissions by PLN 748 million (in 2013 a provision of PLN 751 million was raised due to lack of allocation of free allowances)</li> <li>lower costs of production fuel by PLN 176 million</li> </ul> |
| Negative impact | <ul style="list-style-type: none"> <li>higher personnel expenses (mainly costs of Voluntary Leave Programs) by PLN 378 million</li> </ul>                                                                                                                                                                                                                                                        |

Gross profit on sales in 2014 amounted to PLN 6,591 million compared to PLN 6,785 million in 2013 what means decrease by approx. 3%.

In 2014 distribution and selling expenses of PGE Group amounted to PLN 1,540 million and were higher by approx. 24% in comparison to 2013. The increased selling and distribution expenses were mainly associated with higher costs of redemption of property rights incurred by PGE Obrót S.A.

In 2014 general and administrative expenses amounted to PLN 831 million, i.e. growth by approximately 5% in comparison to 2013.

Result on other operating activities in 2014 was positive and amounted to PLN 876 million in comparison to positive result of PLN 101 million in 2013.

Other operating revenues of the Group in 2014 amounted to PLN 1,561 million, what means increase by approx. 95% in relation to PLN 802 million achieved in 2013.

#### Other operating revenues – increase by PLN 759 million

|                           |                                                                                                                                                                                                                                                                            |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Positive impact on result | <ul style="list-style-type: none"> <li>reversal of provision for purchase of CO<sub>2</sub> emission rights in amount of PLN 751 million</li> <li>donations received – increase by PLN 71 million</li> <li>impairment of receivables – change by PLN 58 million</li> </ul> |
| Negative impact on result | <ul style="list-style-type: none"> <li>decline in LTC compensations (disputes) by PLN 91 million</li> <li>impact of change in reclamation provision by PLN 77 million</li> <li>compensations, penalties and fines received lower by PLN 23 million</li> </ul>              |

Other operating expenses of the Group in 2014 amounted to PLN 685 million compared to PLN 701 million in 2013 what means decrease by approx. 2%.

In 2014 result on financial activities was negative and amounted to PLN (-) 483 million, in comparison to positive result in amount of PLN 1 million in 2013.

The Group's financial revenues in 2014 amounted to PLN 385 million, million what means increase by approx. 23% in relation to PLN 314 million achieved in 2013.

Increased financial revenues mainly result from revenues from foreign exchange translations higher by PLN 97 million.

**Financial expenses** of the Group in 2014 amounted to PLN 868 million, what means increase by 177% in comparison to PLN 313 million achieved in 2013.

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**Financial expenses - increase by PLN 555 million**

---

|                           |                                                                                                                                                                                                                                                                                                          |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Negative impact on result | <ul style="list-style-type: none"> <li>● recognition of estimated loss of value of bonds issued by Autostrada Wielkopolska S.A. PLN 386 million</li> <li>● higher exchange losses by PLN 117 million</li> <li>● recognition of revaluation of CCIRS and IRS hedge transactions PLN 56 million</li> </ul> |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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Detailed description of CCIRS and IRS transactions is presented in note B.24.1.3 to the consolidated financial statements.

As a result of the factors discussed above, the gross profit of the Group in 2014 amounted to PLN 4,613 million, compared to PLN 4,847 million in 2013.

In 2014 **gross profit margin** of the Group (gross profit to total sales revenues) amounted to 16% and was at similar level as in 2013.

**Net profit** of the PGE Capital Group in 2014 amounted to PLN 3,657 million compared to PLN 3,971 million in 2013.

**Net profit attributable to the equity holders of the parent company** in 2014 decreased by PLN 310 million, in comparison to 2013 and amounted to PLN 3,638 million.

**Total comprehensive income** of the Group amounted to PLN 3,273 million in 2014, in comparison to PLN 4,224 million in 2013.

**3.1.2 Consolidated statement of financial position**

**Non-current assets** of the Group as at December 31, 2014 and as at December 31, 2013 amounted respectively to PLN 52,182 million and PLN 48,239 million.

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**Non-current assets - increase by PLN 3,943 million**

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|         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Growth  | <ul style="list-style-type: none"> <li>● Capital expenditures incurred for property, plant and equipment and intangible assets in amount of PLN 6,349 million, including: <ul style="list-style-type: none"> <li>■ Conventional Generation - PLN 4,362 million</li> <li>■ Distribution – PLN 1,508 million</li> <li>■ Renewable Energy - PLN 374 million</li> </ul> </li> <li>● advances for construction in progress PLN 591 million</li> <li>● deferred tax assets by PLN 81 million</li> </ul> |
| Decline | <ul style="list-style-type: none"> <li>● depreciation charges and impairment losses on fixed assets and intangible assets in amount of PLN 3,175 million</li> <li>● impairment loss on value of bonds issued by Autostrada Wielkopolska S.A. in amount of PLN 386 million</li> </ul>                                                                                                                                                                                                              |

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**Current assets** of the Group as at December 31, 2014 and as at December 31, 2013 amounted respectively to PLN 14,019 million and PLN 13,013 million.

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**Current assets - increase by PLN 1,006 million**

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|         |                                                                                                                                                                                                                                                                                                                                                                                              |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Growth  | <ul style="list-style-type: none"> <li>● higher inventories by PLN 491 million</li> <li>● higher cash and cash equivalents by PLN 330 million</li> <li>● increased LTC receivables by PLN 293 million</li> <li>● increased other short-term assets by PLN 264 million</li> <li>● increase in greenhouse gases emission rights by PLN 148 million</li> </ul>                                  |
| Decline | <ul style="list-style-type: none"> <li>● decreased trade receivables by PLN 463 million</li> <li>● decrease in short-term financial assets at fair value through profit or loss by PLN 93 million, including: <ul style="list-style-type: none"> <li>■ commodity forward – negative impact of PLN 96 million</li> <li>■ FX forward – positive impact of PLN 3 million</li> </ul> </li> </ul> |

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Higher inventories resulted mainly from increased value of certificates of energy origin, CO<sub>2</sub> emission rights intended for trade and materials.

Higher other short-term assets result from increased VAT receivables and additional estimation of sales.

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

Increase in greenhouse gases emission rights results from purchases of CO<sub>2</sub> emission rights for the Group's own needs.

**Total equity of the Group** as at December 31, 2014 and as at December 31, 2013 amounted respectively to PLN 44,884 million and PLN 43,808 million.

**Non-controlling interest** as at December 31, 2014 and as at December 31, 2013 amounted respectively to 116 million and PLN 268 million.

The increase in total equity by PLN 1,076 million mainly resulted from recognition of the net profit for the year ended December 31, 2014 in amount of 3,657 million. Total equity of the Group was negatively affected by distribution of the profit for 2013 and allocation of part of the net profit i.e. PLN 2,061 million for dividend payment.

**Long-term liabilities** as at December 31, 2014 and as at December 31, 2013 amounted respectively to PLN 14,051 million and PLN 9,654 million.

---

#### **Long-term liabilities - increase by PLN 4,397 million**

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|        |                                                                                                                                                                                                                                                                |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Growth | <ul style="list-style-type: none"> <li>● increase in interest-bearing loans, borrowings, bonds and lease by PLN 2,694 million</li> <li>● increased provisions by PLN 1,333 million</li> <li>● increase of deferred tax liability by PLN 388 million</li> </ul> |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

---

Increase in interest-bearing loans, borrowings, bonds and lease is mainly connected with issue of Eurobonds in amount of PLN 2.679 million.

Increased long-term provisions result from increased provision for reclamation of land (result of discount rate change from 4.35% to 2.60%). This growth was partly adjusted by changed assumptions with regard to inflation and other factors. Increased actuarial provisions also attributed to the growth of actuarial provisions – mainly due to discount rate change.

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

**Short-term liabilities** as at December 31, 2014 and as at December 31, 2013 amounted respectively to PLN 7,266 million and PLN 7,790 million.

---

#### **Short-term liabilities – decline by PLN 524 million**

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|         |                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Decline | <ul style="list-style-type: none"> <li>● increased provisions by PLN 365 million</li> <li>● VAT liabilities by PLN 360 million</li> <li>● short-term part of interest-bearing loans, borrowings, bonds and lease by PLN 171 million</li> <li>● income tax liabilities by PLN 74 million</li> </ul>                                                                                                       |
| Growth  | <ul style="list-style-type: none"> <li>● trade receivables by PLN 244 million</li> <li>● financial liabilities at fair value through profit or loss by PLN 93 million, including:                             <ul style="list-style-type: none"> <li>■ IRS transactions by PLN 49 million</li> <li>■ commodity forward PLN 37 million</li> <li>■ CCIRS transactions PLN 8 million</li> </ul> </li> </ul> |

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Lower short-term provisions mainly result from reversal and use of provision for purchase of CO<sub>2</sub> emission rights. This decline was partly compensated by increased provision for property rights.

Decrease in short-term part of interest-bearing loans, borrowings, bonds and lease results from lower use of current account credit limits by the Group companies.



### 3.1.3 Consolidated statement of cash flows

The total net cash flow from operating activities for the 12-month period ended December 31, 2014 amounted to PLN 6,333 million in comparison to PLN 7,941 million in the 12-month period ended December 31, 2013.

Negative net cash flow from investing activities for the 12-month period ended December 31, 2014 amounted to PLN 6,296 million as compared to negative net cash flow in amount of PLN 5,717 million in 2013.

#### Cash flow from investing activities

|                 |                                                                                            |
|-----------------|--------------------------------------------------------------------------------------------|
| Negative impact | ● funds spent on purchase of tangible and intangible assets in amount of PLN 6,376 million |
| Positive impact | ● change on deposits by PLN 75 million                                                     |

Positive net cash flow from financial activities for the 12-month period ended December 31, 2014 amounted to PLN 284 million compared to negative net cash flow in amount of PLN 1,066 million in the 12-month period ended December 31, 2013.

Cash flow from financial activities in 2014 was mainly affected by positive balance of proceeds/repayments from/of bank loans, borrowings, bonds and finance lease amounting to PLN 2,420 million and dividend paid to the shareholders in amount of PLN 2,061 million.

### 3.1.4 Geographical areas

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

| in PLN million   | Total income  |             |               |             |            |
|------------------|---------------|-------------|---------------|-------------|------------|
|                  | 2014          | % share     | 2013          | % share     | % change   |
| Domestic market  | 27,968        | 99%         | 29,607        | 98%         | -6%        |
| EU member states | 154           | 1%          | 523           | 2%          | -71%       |
| Other countries  | 15            | 0%          | 15            | 0%          | 0%         |
| <b>TOTAL</b>     | <b>28,137</b> | <b>100%</b> | <b>30,145</b> | <b>100%</b> | <b>-7%</b> |

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

The decrease of revenues on the domestic market resulted mainly from:

- ceasing of electricity sales within the contract with Energa - Obrót S.A. which was pursued in 2013,
- lower electricity production in 2014,
- lower prices of energy on the market.

The decrease of revenues from sales to the EU member states is connected with lower transaction values within bilateral contracts concluded by PGE S.A. and lower sales by PGE Trading GmbH.

### 3.2 Key operational figures of PGE Capital Group

Table: Key operational figures.

| Key figures                   | Unit   | Q4<br>2014 | Q4<br>2013 | %<br>change | 2014  | 2013  | %<br>change |
|-------------------------------|--------|------------|------------|-------------|-------|-------|-------------|
| Lignite extraction            | Tons m | 12.88      | 13.34      | -3%         | 49.97 | 51.31 | -3%         |
| Net electricity production,   | TWh    | 14.42      | 14.26      | 1%          | 54.84 | 57.04 | -4%         |
| Heat sales                    | GJ m   | 6.56       | 6.20       | 6%          | 17.94 | 19.98 | -10%        |
| Sales to final customers*     | TWh    | 10.27      | 9.61       | 7%          | 39.64 | 36.95 | 7%          |
| Distribution of electricity** | TWh    | 8.48       | 8.27       | 3%          | 32.54 | 31.78 | 2%          |

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

\*\* with additional estimation

#### 3.2.1 Balance of energy of PGE Capital Group

##### Sales of electricity

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

| Sales volume                                                   | Q4<br>2014   | Q4<br>2013   | %<br>change | 2014          | 2013          | %<br>change |
|----------------------------------------------------------------|--------------|--------------|-------------|---------------|---------------|-------------|
| <b>SALES IN TWh, including:</b>                                | <b>29.17</b> | <b>28.61</b> | <b>2%</b>   | <b>103.14</b> | <b>109.75</b> | <b>-6%</b>  |
| Sales to end-users *                                           | 10.26        | 9.58         | 7%          | 39.60         | 36.91         | 7%          |
| Sales on the wholesale market, including:                      | 18.65        | 18.71        | 0%          | 62.44         | 71.37         | -13%        |
| <i>Sales on the domestic wholesale market - power exchange</i> | 15.47        | 14.43        | 7%          | 56.54         | 54.73         | 3%          |
| <i>Other sales on the domestic wholesale market</i>            | 0.72         | 4.07         | -82%        | 3.10          | 15.67         | -80%        |
| <i>Sales to foreign customers</i>                              | 2.46         | 0.21         | 1,071%      | 2.80          | 0.97          | 189%        |
| Sales on the Balancing Market                                  | 0.26         | 0.32         | -19%        | 1.10          | 1.47          | -25%        |

\* after elimination of internal sales within PGE Group

The decrease of volume of electricity sold by the Group on the wholesale market resulted from ceasing of electricity sales within the contract with Energa - Obrót S.A. which was pursued in 2013.

Increased sales to end users was pursued mainly in large and medium enterprises segment.

Increased sales of electricity to foreign customers is connected with financial contracts concluded by PGE Trading GmbH on EEX and Nordpool in the fourth quarter of 2014.

##### Purchases of electricity

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

| Purchases volume                                            | Q4<br>2014   | Q4<br>2013   | %<br>change | 2014         | 2013         | %<br>change |
|-------------------------------------------------------------|--------------|--------------|-------------|--------------|--------------|-------------|
| <b>PURCHASES IN TWh, including:</b>                         | <b>16.11</b> | <b>16.10</b> | <b>0%</b>   | <b>53.18</b> | <b>57.58</b> | <b>-8%</b>  |
| Purchases on the domestic wholesale market – power exchange | 10.33        | 12.57        | -18%        | 37.82        | 46.73        | -19%        |
| Purchases on the domestic wholesale market, other           | 1.26         | 1.67         | -25%        | 5.20         | 4.93         | 5%          |
| Purchases from abroad                                       | 2.46         | 0.11         | 2,136%      | 2.75         | 0.41         | 571%        |
| Purchases from Balancing Market                             | 2.06         | 1.75         | 18%         | 7.41         | 5.51         | 34%         |

In 2013, PGE S.A. purchased larger volumes under an agreement with Energa - Obrót S.A., which terminated in 2013. In 2014 the decrease of purchase on the wholesale market –power exchange was lower than the decrease on the other domestic wholesale market because purchased volumes were used for coverage of increased sales to the final off-takers. An increase in other purchases on the domestic wholesale market results from the purchase by PGE Obrót S.A. of electricity on a local market, which was necessitated by the requirement to procure electricity from renewable sources. Increased purchases from abroad customers is connected with financial contracts concluded by PGE Trading GmbH on EEX and Nordpool in the fourth quarter of 2014.

#### Production of electricity

| Generation volume                           | Q4<br>2014   | Q4<br>2013   | %<br>change | 2014         | 2013         | %<br>change |
|---------------------------------------------|--------------|--------------|-------------|--------------|--------------|-------------|
| <b>ENERGY GENERATION IN TWh, including:</b> | <b>14.42</b> | <b>14.26</b> | <b>1%</b>   | <b>54.84</b> | <b>57.04</b> | <b>-4%</b>  |
| Lignite-fired power plants                  | 10.07        | 10.55        | -5%         | 39.22        | 41.36        | -5%         |
| <i>Including co-combustion of biomass</i>   | 0.11         | 0.11         | 0%          | 0.39         | 0.27         | 44%         |
| Coal-fired power plants                     | 2.81         | 2.68         | 5%          | 11.35        | 11.57        | -2%         |
| <i>Including co-combustion of biomass</i>   | 0.12         | 0.08         | 50%         | 0.44         | 0.32         | 38%         |
| Coal-fired CHP plants                       | 0.32         | 0.29         | 10%         | 1.10         | 1.11         | -1%         |
| Gas-fired CHP plants                        | 0.76         | 0.16         | 375%        | 1.16         | 1.11         | 5%          |
| Biomass-fired CHP plants                    | 0.08         | 0.10         | -20%        | 0.43         | 0.44         | -2%         |
| Pumped storage power plants                 | 0.13         | 0.19         | -32%        | 0.52         | 0.53         | -2%         |
| Hydroelectric plants                        | 0.08         | 0.09         | -11%        | 0.42         | 0.49         | -14%        |
| Wind power plants                           | 0.17         | 0.20         | -15%        | 0.64         | 0.43         | 49%         |

A decrease in production of electricity at lignite-fired power plants in 2014 results mainly from lower production in Turów Power Plant, as a result of decommissioning of unit no. 10 by the end of 2013, shorter operation time of units no. 11,12 and 14 at Bełchatów Power Plant. Unit no. 14 went through repairs in April 2014, unit no. 11 was being modernized between December 2013 and September 2014, while unit no. 12 has been modernised since May 2014.

A decrease in production of electricity at coal-fired power plants results from lower production in Dolna Odra power plant what is a consequence of decommissioning of unit no. 3 in November 2013.

An increase in production at gas-fired CHP plants is a result of higher generation in Rzeszów CHP resulting from restoration of the support scheme for the highly efficient cogeneration and resumption of generation as of September 2014 and generation from new gas- engine unit as of November 2014.

A decrease of production in hydroelectric power plants is a result of worse hydrological conditions.

An increase of production in wind power plants in 2014 compared to 2013 is a result of commissioning of Wojciechowo wind farm - belonging to PGE EO S.A. – in March 2014 what increased installed capacity by 28 MW. Production from wind farms belonging to PGE Energia Natury in 2013 was lower than in 2014 due to the fact that acquisition of those wind farms occurred in July 2013.

Generation in coal-fired CHP plants and in pumped storage power plants was at levels similar to year 2013.

#### 3.2.2 Sales of heat

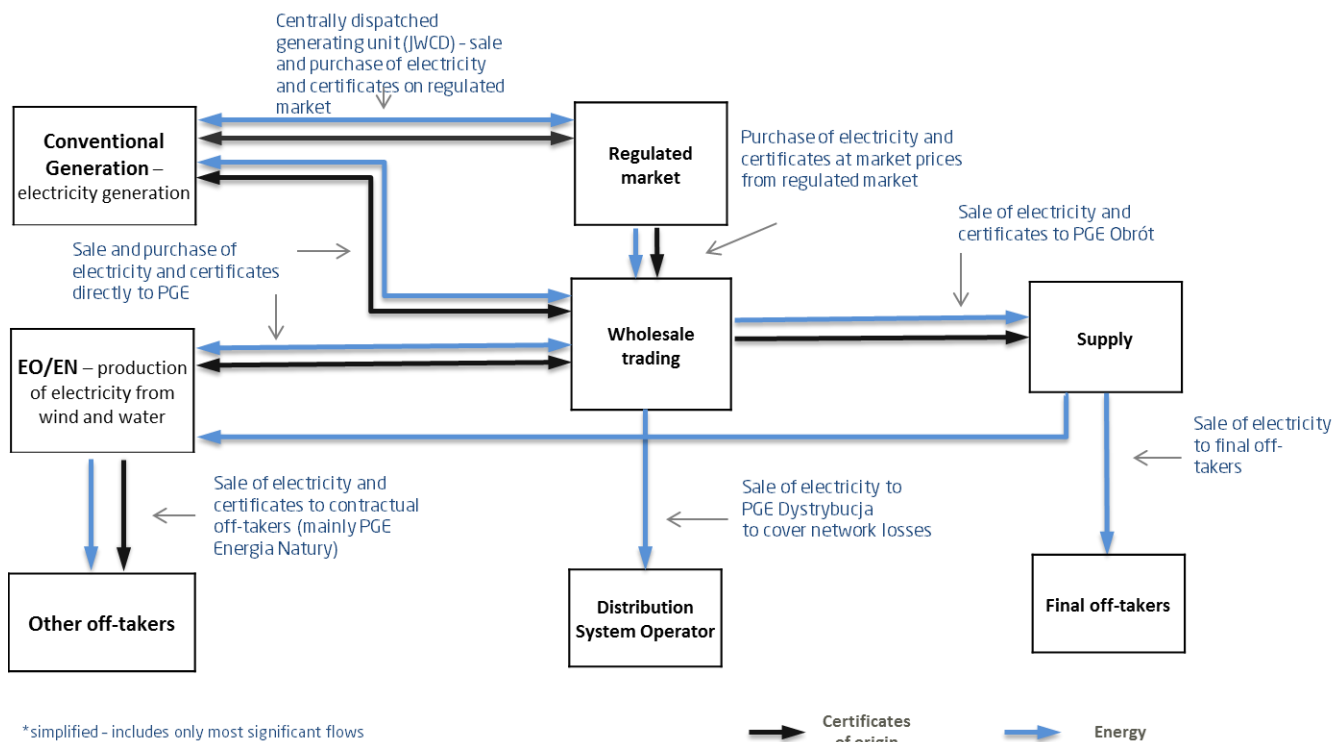
In 2014 the heat sales in PGE Capital Group totalled 17.94 GJ million and were lower by 10% as compared to 2013. Lower sales of heat results from lower demand for heat due to higher average outside temperatures in winter. In addition, ceasing of heat input by a key off taker of Bydgoszcz CHPs also affected the heat sales.

### 3.3 Business segments – operational data

#### 3.3.1 Electricity and property rights trading model of PGE Capital Group in 2014

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

Diagram: Electricity and property rights trading model of PGE Capital Group in 2014



#### 3.3.2 Conventional Generation

##### 3.3.2.1 Assets

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

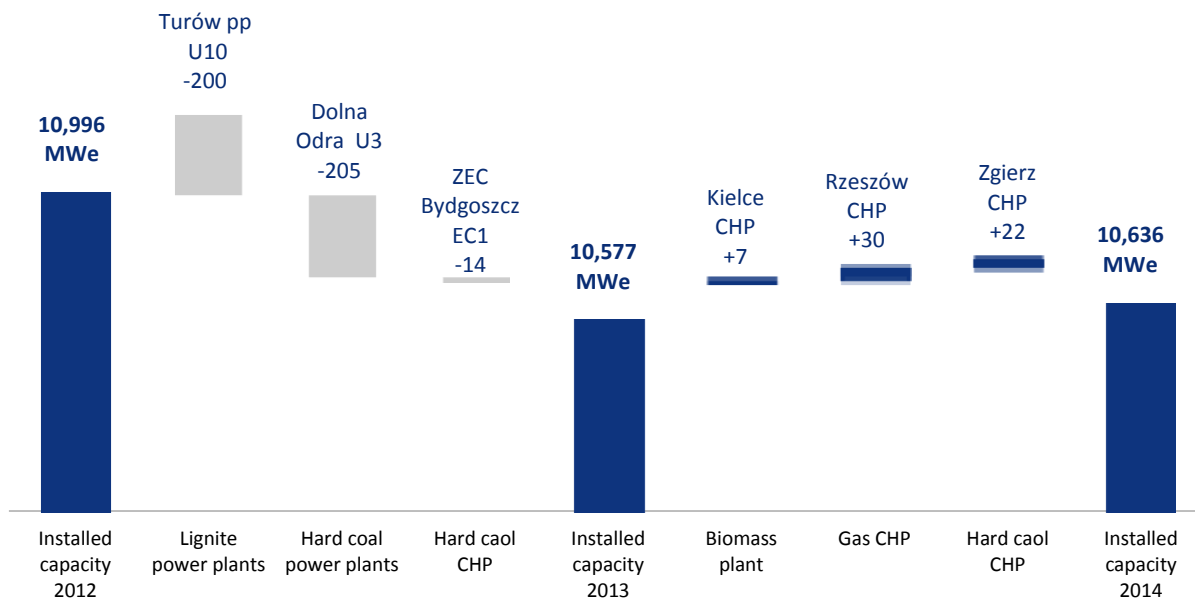
The Group is the leader of lignite mining, with a share in the extraction market of this raw material accounting for 78% of domestic extraction; it is also the largest generator of electricity as it generates approx. 38% of domestic electricity. The generation is based on lignite extracted from mines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

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

| Branches               | Main fuel types    | Annual energy generation<br>[GWh]<br>2014 | Annual heat generation<br>[TJ]<br>2014 | Annual energy generation<br>[GWh]<br>2013 | Annual heat generation<br>[TJ]<br>2013 | Installed capacity<br>[MWe]<br>2014 |
|------------------------|--------------------|-------------------------------------------|----------------------------------------|-------------------------------------------|----------------------------------------|-------------------------------------|
| Bełchatów power plant  | lignite, biomass   | 31,515                                    | 1,904                                  | 32,036                                    | 2,056                                  | 5,298                               |
| Turów power plant      | lignite, biomass   | 7,711                                     | 492                                    | 9,329                                     | 539                                    | 1,499                               |
| Opole power plant      | hard coal, biomass | 6,816                                     | 119                                    | 6,650                                     | 131                                    | 1,492                               |
| Dolna Odra power plant | hard coal, biomass | 4,536                                     | 311                                    | 4,920                                     | 336                                    | 1,362                               |
| Pomorzany CHP          | hard coal          | 510                                       | 2,739                                  | 469                                       | 3,052                                  | 134                                 |

|                       |                                                 |               |               |               |               |               |
|-----------------------|-------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Szczecin CHP          | biomass                                         | 400           | 624           | 430           | 734           | 69            |
| Bydgoszcz CHP         | hard coal, biomass,<br>fuel oil                 | 424           | 4,519         | 480           | 5.088         | 248           |
| Gorzów CHP            | gas, hard coal                                  | 586           | 1,390         | 585           | 1.592         | 98            |
| Lublin<br>Wrotków CHP | methane-rich gas,<br>hard coal                  | 417           | 2,845         | 450           | 3.050         | 247           |
| Rzeszów CHP           | methane-rich gas,<br>hard coal                  | 264           | 1,637         | 192           | 1.874         | 132           |
| Kielce CHP            | hard coal in form<br>of coal-dust, bio-<br>mass | 61            | 1,485         | 43            | 1.694         | 18            |
| Zgierz CHP            | lignite, hard coal                              | 20            | 363           | 12            | 402           | 39            |
| <b>TOTAL</b>          |                                                 | <b>53,260</b> | <b>18,428</b> | <b>55.596</b> | <b>20,548</b> | <b>10,636</b> |

Chart: Change of installed capacity in Conventional Generation.



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



### 3.3.2.2 Lignite mining

#### Review of main issues regarding resources

##### Lignite quality parameters

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

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

| Deposit                     | Average value<br>of heat content<br>(Q <sub>ir</sub> ) | Average ash content<br>(A <sub>r</sub> ) | Average sulphur content<br>(S <sub>t</sub> <sup>r</sup> ) |
|-----------------------------|--------------------------------------------------------|------------------------------------------|-----------------------------------------------------------|
|                             | [kJ/kg]                                                | [%]                                      | [%]                                                       |
| Bełchatów – Field Szczerców | 7,560                                                  | 12.50                                    | 1.35                                                      |
| Bełchatów – Field Bełchatów | 7,579                                                  | 11.90                                    | 0.73                                                      |
| Deposit I                   | 9,729                                                  | 11.37                                    | 0.28                                                      |
| Turów Deposit II            | 9,523                                                  | 11.86                                    | 0.71                                                      |
| Deposit III                 | 9,070                                                  | 14.69                                    | 0.62                                                      |

##### Lignite resources

Lignite deposit reserves are determined based on a reserves inventory maintained in the reserves register for the given year by February 28 in accordance with the status as at December 31 of the preceding year. Given that works are underway to prepare a reserves register for 2014, the following table presents lignite reserves as of the end of 2013, together with volumes extracted in 2014

Table: Lignite resources data as at the end of 2013 and lignite output in 2014.

| Deposit                         | Resources - as at the end of 2013 |              | Output in 2014 |
|---------------------------------|-----------------------------------|--------------|----------------|
|                                 |                                   | [million Mg] | [million Mg]   |
| Bełchatów – Field Szczerców (*) | geological                        | 891.09       | 15.8           |
|                                 | industrial                        | 679.88       |                |
| Bełchatów – Field Bełchatów     | geological                        | 166.36       | 26.6           |
|                                 | industrial                        | 120.86       |                |
| Turów                           | geological                        | 381.39       | 7.6            |
|                                 | industrial                        | 333.52       |                |

\*Data based on Supplement 1 to the Bełchatów Deposit – Szczerców Field Management Project, which constitutes an attachment to the concession application of February 18, 2014, as approved by the Minister of the Environment.

## Long-term projects

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

### "Złoczew" deposit

As part of projects conducted in 2012, exploratory drillings were completed in the "Złoczew" deposit; their results were used to compile the geological documentation. On October 28, 2013, the Minister of the Environment issued a decision approving Addendum no. 1 to the geological documentation of the "Złoczew" deposit and on February 7, 2014 a decision approving the "Hydrogeological report specifying the hydrogeological conditions in connection with the planned drainage for the purpose of lignite extraction in the Złoczew deposit of category B+C1". On March 12, 2014, the "geological model for the Złoczew deposit," which was drafted in the course of stage 1 of the project, was delivered. On October 3, 2014, the Contractor delivered an excavation and dump model as part of the project.

Based on the approved Addendum No. 1 to the geological documentation, the lignite resources supposed economic in the "Złoczew" deposit amount to 612 million Mg, which compared with the previous geological documentation constitutes an increase of approx. 125 million Mg. Similarly to the Bełchatów deposit, the "Złoczew" deposit takes the form of a rift valley. Average overburden for the deposit supposed economic amounts to 215.1 metres and average thickness of the deposit is 51.4 metres. N:W ratio (ratio of amount of overburden to the amount of lignite) ranges from 1.5 to 11.4. Quality parameters of lignite in the deposit:

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

### "Gubin" deposit

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

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

## Current rehabilitation operations

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

- I. Technical (basic) reclamation phase
- II. Biological (detailed) reclamation phase

Technical (basic) reclamation includes the following work:

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

Detailed reclamation covers the following work:

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

## A. Bełchatów lignite mine

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

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

### Bełchatów field

The following work was performed in 2014:

- basic reclamation (north sedimentation area no. 1) covering an area of 9.46ha;
- detailed reclamation (north sedimentation area no. 1) covering an area of 9.46ha;

From the beginning of the reclamation process to the end of 2014, the following work was performed:

- basic reclamation covering an area of 1,018.96ha;
- detailed reclamation covering an area of 367.25ha.

### Szczerców field

The following work was performed in 2014:

- basic reclamation covering an area of 62.81ha;
- detailed reclamation covering an area of 45.50ha.

From the beginning of the reclamation process to the end of 2014, the following work was performed:

- basic reclamation covering an area of 541.93 ha;
- detailed reclamation covering an area of 138.20 ha.

Reclamation targets:

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

Completion of reclamation (year):

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

## B. Turów lignite mine

In 2014, rehabilitation on post-mining land involved reforestation on an area of 12.54ha. Recultivation covered an area of 1.99ha. The work involved planting of 43,688 pieces of trees together with land neutralisation and application of a grass mix and papilionaceous plants. Supplementations and additional forestation on land rehabilitated in the previous years covered the planting of 37,320 pieces of trees and shrubs. In addition, supplementary fertilisation was applied to some of land which had been rehabilitated earlier. The treatment was performed on an area of 67.35ha.

### Mine Liquidation Fund and provision for rehabilitation of land

#### Mine Liquidation Fund

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

### Provisions for post-mining land rehabilitation

Mines belonging to the Group estimate future expenses to be incurred for the rehabilitation of land where mining operations ended. The amount of the costs is determined based on projected costs of rehabilitation operations and the final pit improvement. Estimates of anticipated rehabilitation expenses are updated not less frequently than every five years, with the reservation that the level of costs is verified each year against current assumptions regarding the inflation rate, discount rates and extraction output.

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

| <b>Liquidation fund and provision for rehabilitation of land<br/>[PLN million]</b> | <b>KWB<br/>Bełchatów</b> | <b>KWB<br/>Turów</b> | <b>Total</b> |
|------------------------------------------------------------------------------------|--------------------------|----------------------|--------------|
| Fund as at January 1, 2014                                                         | 84                       | 25                   | 109          |
| • change due to on-going extraction                                                | 10                       | 2                    | 12           |
| Fund as at December 31, 2014                                                       | 94                       | 27                   | 121          |
| Provision as at January 1, 2014*                                                   | 1,258                    | 844                  | 2,102        |
| • change due to significant adjustment of discount rate and inflation rate         | 513                      | 163                  | 676          |
| • change due to on-going extraction and discount                                   | 114                      | 34                   | 148          |
| Provision as at December 31, 2014                                                  | 1,885                    | 1,041                | 2,926        |
| <b>Fund and provision as at January 1, 2014*</b>                                   | <b>1,342</b>             | <b>869</b>           | <b>2,211</b> |
| • change due to significant adjustment of discount rate and inflation rate         | 513                      | 163                  | 676          |
| • change due to on-going extraction and discount                                   | 124                      | 36                   | 160          |
| <b>Fund and provision as at December 31, 2014</b>                                  | <b>1,979</b>             | <b>1,068</b>         | <b>3,047</b> |

\* data restated

In 2014, the Group changed the valuation methodology for mine reclamation provisions. The impact of these changes is described in detail in Notes A.2.4.27 and B.20.1 to the consolidated financial statements.

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

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

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

| <b>Tangible assets - rehabilitation costs of final excavations<br/>[PLN million]</b> | <b>KWB<br/>Bełchatów</b> | <b>KWB<br/>Turów</b> | <b>Total</b> |
|--------------------------------------------------------------------------------------|--------------------------|----------------------|--------------|
| <b>Asset as at January 1, 2014*</b>                                                  | <b>417</b>               | <b>84</b>            | <b>501</b>   |
| • change due to significant adjustment of discount rate and inflation rate           | 374                      | 110                  | 484          |
| • change due to amortisation                                                         | -23                      | -2                   | -25          |
| • change due to capitalisation of overburden                                         | 54                       | 0                    | 54           |
| <b>Asset as at December 31, 2014</b>                                                 | <b>822</b>               | <b>192</b>           | <b>1,014</b> |

\* data restated

### 3.3.3 Renewable energy

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

- 10 wind farms;
- 29 run-of-river hydro power plants, including 3 plants managed by Supply segment;
- 4 pumped-storage power plants, including 2 with natural flow.

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

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



|                          |      |      |      |
|--------------------------|------|------|------|
| Elektrownia Wodna Dychów | 49.7 | 70.6 | 91.3 |
|--------------------------|------|------|------|

\* plants managed by Supply segment

\*\*including generation from pump-storage cycle of 4.4 GWh and generation from natural flow of 118.9 GWh. Total generation from pump-storage cycle in 2014 amounted to 517.3 GWh and generation from water totalled 417.8 GWh

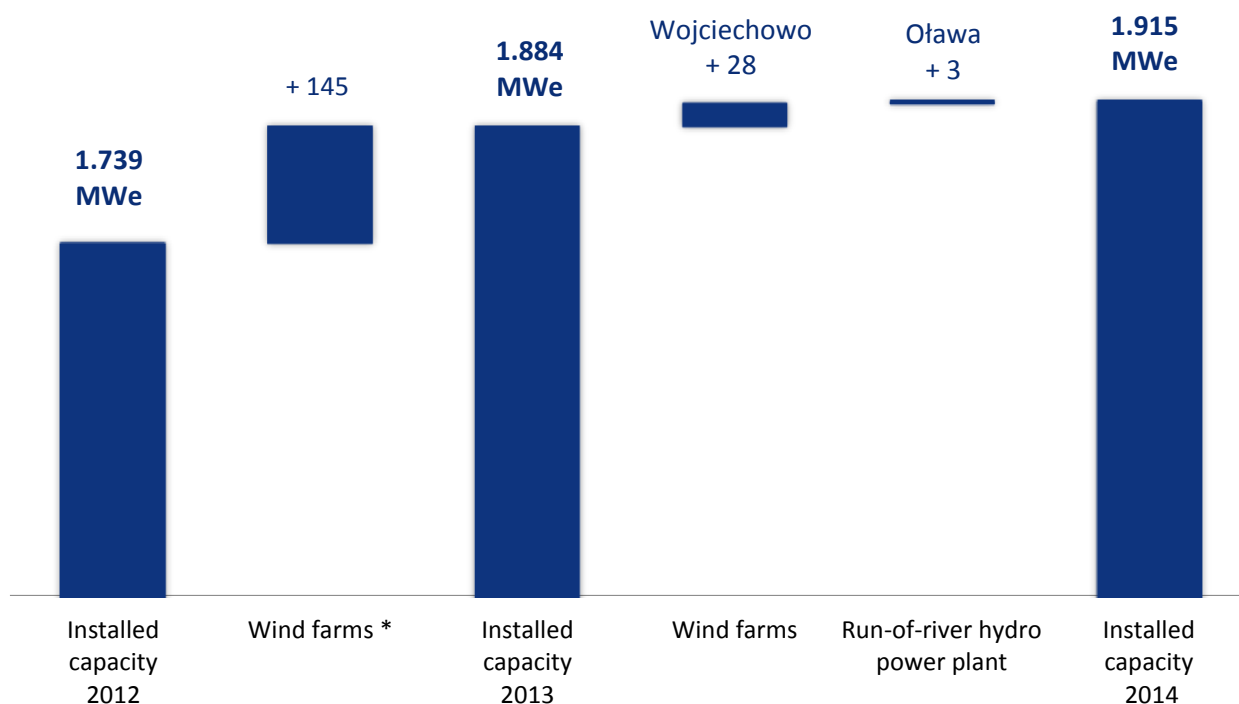
|                   |                |                |                |
|-------------------|----------------|----------------|----------------|
| <b>Wind farms</b> | <b>643.0</b>   | <b>427.3</b>   | <b>311.0</b>   |
| Żuromin           | 145.0          | 133.1          | 60.0           |
| Pelplin           | 94.9           | 97.6           | 48.0           |
| Kisielice***      | 76.1           | 34.3           | 40.5           |
| Lake Ostrowo**    | 74.7           | 38.5           | 30.6           |
| Karnice I**       | 59.6           | 30.4           | 29.9           |
| Kamieńsk          | 55.0           | 55.7           | 30.0           |
| Wojciechowo*      | 51.4           | 0.0            | 28.0           |
| Malbork***        | 37.3           | 18.0           | 18.0           |
| Resko I           | 27.7           | 8.3            | 14.0           |
| Galicja***        | 21.3           | 11.4           | 12.0           |
| <b>TOTAL:</b>     | <b>1,578.2</b> | <b>1,443.8</b> | <b>1,915.2</b> |

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

\*\* data for 2013 relate to period July – December 2013

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

Chart: Change of installed capacity in Renewable energy



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

### 3.3.4 Distribution

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

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

| Tariff            | Volume of distributed energy |              | Number of customers according to power take-off points |                  |
|-------------------|------------------------------|--------------|--------------------------------------------------------|------------------|
|                   | [TWh]*                       |              |                                                        |                  |
|                   | 2014                         | 2013         | 2014                                                   | 2013             |
| A tariff group    | 5.08                         | 4.96         | 86                                                     | 83               |
| B tariff group    | 11.76                        | 11.14        | 10,626                                                 | 10,374           |
| C+R tariff groups | 6.56                         | 6.46         | 496,054                                                | 501,098          |
| G tariff group    | 9.14                         | 9.22         | 4,718,887                                              | 4,682,166        |
| <b>TOTAL</b>      | <b>32.54</b>                 | <b>31.78</b> | <b>5,225,653</b>                                       | <b>5,193,721</b> |

\* with additional estimation of sales

Table: Key operational data in 2014 and 2013

| Operational data               | Unit    | 2014    | 2013    |
|--------------------------------|---------|---------|---------|
| Number of stations:            | pieces  | 91,374  | 90,685  |
| number of transformer stations | pieces  | 91,019  | 90,304  |
| MVA power                      | MVA     | 28,714  | 28,178  |
| Length of power lines          | km      | 281,290 | 279,704 |
| HV lines                       | km      | 10,096  | 10,079  |
| MV lines                       | km      | 109,054 | 108,571 |
| LV lines                       | km      | 162,140 | 161,054 |
| Grid loss ratio *              | %       | 6.3%    | 6.5%    |
| SAIDI ratio **                 | minutes | 474     | 528     |

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

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

### 3.3.5 Supply

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

Revenues are mainly generated from electricity sales to final customers and sales of distribution services under master agreements. The main costs of operation in the segment are costs of electricity purchase and expenses incurred in compliance with the obligation to buy units of ownership which are subject to remittance under the System of Support for Renewable Energy Sources and Energy Efficiency. As an alternative, a substitute fee may be contributed.

The volume of electricity sales to final customers amounted to 39.64 TWh, what means a 7% growth in comparison to the previous year.

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

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

Table: Substitution fees.

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

Table: Obligation to redeem the property rights.

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

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

### 3.4 Business segments – financial data

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

| PLN million                      | Total income   |                |            |
|----------------------------------|----------------|----------------|------------|
|                                  | 2014           | 2013           | % change   |
| Conventional Generation          | 12,906         | 12,211         | 6%         |
| Renewable Energy                 | 722            | 734            | -2%        |
| Wholesale Trading                | 9,722          | 12,489         | -22%       |
| Distribution                     | 5,775          | 5,616          | 3%         |
| Supply                           | 12,371         | 13,028         | -5%        |
| Other activity                   | 1,854          | 1,838          | 1%         |
| <b>TOTAL</b>                     | <b>43,350</b>  | <b>45,916</b>  | <b>-6%</b> |
| <b>Consolidation adjustments</b> | <b>-15,213</b> | <b>-15,771</b> | <b>-4%</b> |
| <b>TOTAL AFTER ADJUSTMENTS</b>   | <b>28,137</b>  | <b>30,145</b>  | <b>-7%</b> |

Table: Key financial indicators for each business segment for the year 2014 (after eliminations).

| PLN million                      | EBITDA       | EBIT         | Capital expendi-<br>tures | Assets of the seg-<br>ment * |
|----------------------------------|--------------|--------------|---------------------------|------------------------------|
|                                  | 2014         |              |                           |                              |
| Conventional Generation          | 4,992        | 3,296        | 4,362                     | 35,358                       |
| Renewable Energy                 | 349          | 137          | 374                       | 4,110                        |
| Wholesale Trading                | 478          | 464          | 12                        | 1,257                        |
| Distribution                     | 2,311        | 1,306        | 1,508                     | 15,725                       |
| Supply                           | -193         | -200         | 5                         | 2,345                        |
| Other activity                   | 161          | 31           | 158                       | 1,400                        |
| <b>TOTAL</b>                     | <b>8,098</b> | <b>5,034</b> | <b>6,419</b>              | <b>60,195</b>                |
| <b>Consolidation adjustments</b> | <b>20</b>    | <b>62</b>    | <b>-70</b>                | <b>-1,965</b>                |
| <b>TOTAL AFTER ADJUSTMENTS</b>   | <b>8,118</b> | <b>5,096</b> | <b>6,349</b>              | <b>58,230</b>                |

\* see Note B.1 to the consolidated financial statements

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

| PLN million               | EBITDA | EBIT  | Capital expenditures | Purchase of PPE* net, within purchase of new companies | Assets of the segment ** |
|---------------------------|--------|-------|----------------------|--------------------------------------------------------|--------------------------|
|                           |        |       | 2013***              |                                                        |                          |
| Conventional Generation   | 3,632  | 1,971 | 2,722                | 0                                                      | 31,525                   |
| Renewable Energy          | 386    | 188   | 196                  | 847                                                    | 3,616                    |
| Wholesale Trading         | 983    | 965   | 13                   | 0                                                      | 1,279                    |
| Distribution              | 2,209  | 1,221 | 1,335                | 0                                                      | 15,185                   |
| Supply                    | 411    | 403   | 6                    | 0                                                      | 2,064                    |
| Other activity            | 145    | 29    | 178                  | 0                                                      | 1,454                    |
| TOTAL                     | 7,766  | 4,777 | 4,450                | 847                                                    | 55,123                   |
| Consolidation adjustments | 71     | 70    | -93                  | 269                                                    | -1,584                   |
| TOTAL AFTER ADJUSTMENTS   | 7,837  | 4,847 | 4,357                | 1,116                                                  | 53,539                   |

\* PPE – property, plant and equipment

\*\* see Note B.1 to the consolidated financial statements

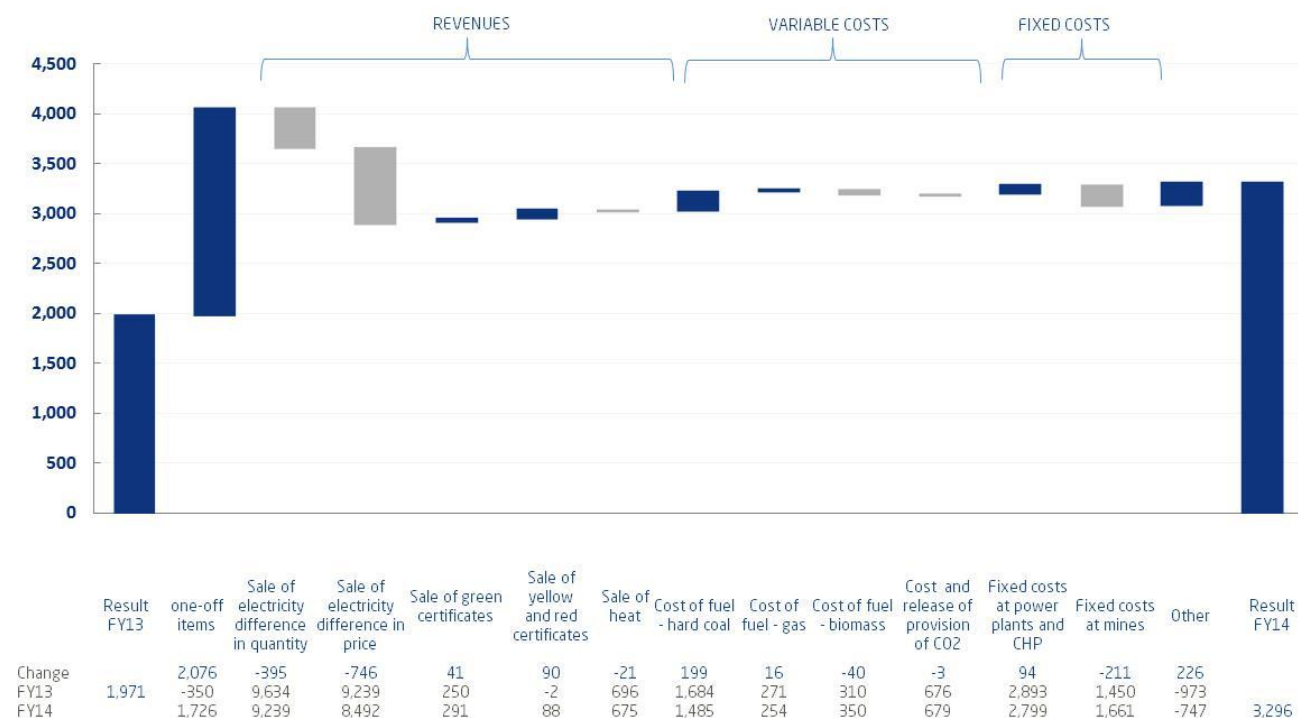
\*\*\* data restated

### 3.4.1 Conventional Generation

Table: Key figures for Conventional Generation

| PLN million          | 2014   | 2013   | % change |
|----------------------|--------|--------|----------|
| Sales revenues       | 12,906 | 12,211 | 6%       |
| EBIT                 | 3,296  | 1,971  | 67%      |
| EBITDA               | 4,992  | 3,632  | 37%      |
| Capital expenditures | 4,362  | 2,722  | 60%      |

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



Key factors affecting the results of Conventional Generation in 2014 compared to the results of the previous year included:

- Decreased sales revenues due to **lower electricity generation volume**, which was connected mainly with lower capacity available for sale than in the previous year (repairs in Bełchatów power plant, shut down of unit no 10 in Turów power plant and unit no 3 in Dolna Odra power plant). It also attributed to the **lower volume of hard coal use**, what with the decreased price of that fuel by approx. PLN 1/GJ caused accordingly lower cost.
- **Decreasing wholesale electricity prices**, what caused a drop in revenues from sales. Average sale price of electricity of generating units of Conventional Generation segment dropped to approx. PLN 164/MWh in 2014 from approx. PLN 178/MWh in 2013.
- Favourable economics of the biomass co-combustion contributed to the growth of electricity from co-combustion and resulting in **higher sale of green certificates**, as well as higher cost of biomass associated therewith.
- Reinstatement of cogeneration support, that allowed **the increased production and sale of red and yellow certificates**, at the same time – due to change in generation structure (shifting to Gorzów CHP, which uses cheaper nitrogen-rich gas) – average price and total cost of gas were slightly lower.
- Weather conditions, particularly relatively warm winter, what **caused a decline in heat sales**.
- **Lower costs of hard coal** resulting both from lower price of the fuel by approx. PLN 1/GJ, and lower production in hard-coal units.



In addition, results of the Conventional Generation segment were affected by the one-off events such as:

- Increased revenues from LTC compensations due to change of the discount rate and favourable verdicts in LTC court cases KDT (PLN 1,785 million);
- Increased revenues from CO<sub>2</sub> emission rights granted free of charge, for which a provision was raised in 2013 (PLN 751 million);
- Increased costs by PLN 213 million due to change of the discount rate to 3.5% from previously applied 4.35% with regard to the reclamation provision;
- As a result of tests for the impairment of assets, impairment of value of property, plant and equipment was recognised at the end of 2013 in Dolna Odra power plant, Zgierz CHP and Pomorzany CHP for the amount of PLN 153 million;
- Provision raised for the Voluntary Leave Program in amount of PLN 348 million and other actuarial provisions in amount of PLN 97 million.

## Capital expenditures

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

| PLN million                                      | Capital expenditures |              |            |
|--------------------------------------------------|----------------------|--------------|------------|
|                                                  | 2014                 | 2013         | % change   |
| Investments in generating capacities, including: | 2,839                | 957          | 197%       |
| ▪ Development                                    | 914                  | 69           | 1,225%     |
| ▪ Modernization and replacement                  | 1,925                | 888          | 117%       |
| Other                                            | 945                  | 1,145        | -17%       |
| <b>TOTAL</b>                                     | <b>3,784</b>         | <b>2,102</b> | <b>80%</b> |
| Capitalised costs of overburden removal in mines | 578                  | 620          | -7%        |
| <b>TOTAL</b>                                     | <b>4,362</b>         | <b>2,722</b> | <b>60%</b> |

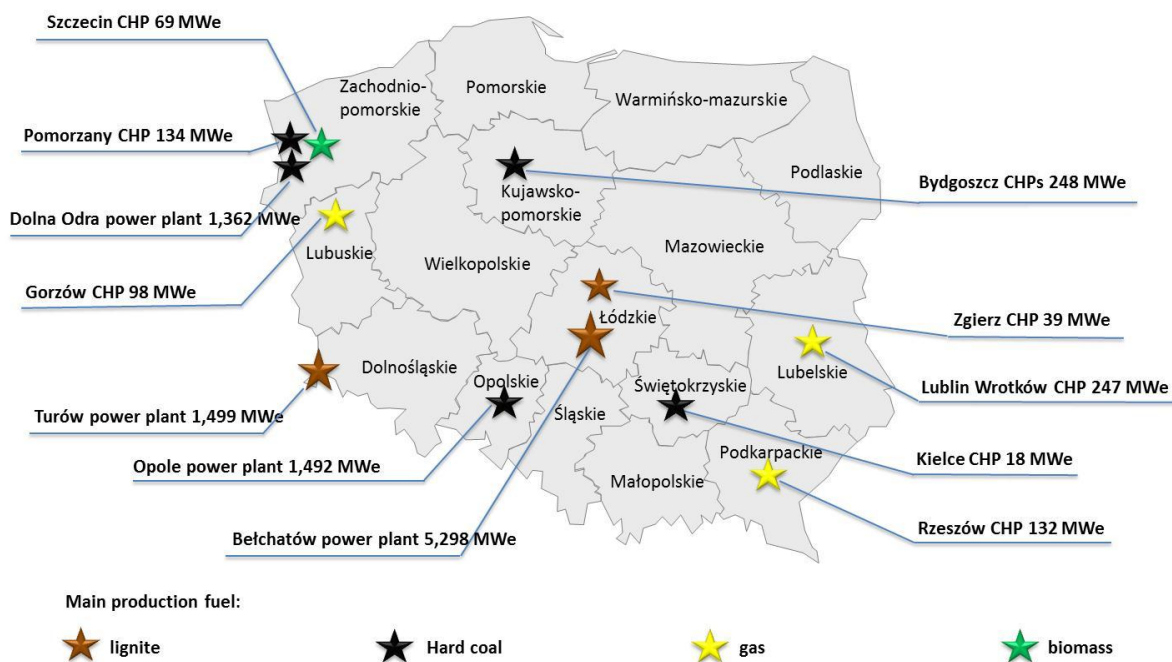
In the foregoing report presentation of capital expenditures in generating capacities in Conventional Generation segment has changed. Part of expenditures previously shown as development expenditures has been reclassified to capital expenditures for modernization and replacement.

In 2014 the highest capital expenditures were incurred for the following projects:

- complex reconstruction and modernization of units 7 - 12 in Bełchatów power plant PLN 1,369 million;
- construction of units 5 and 6 in Opole power plant PLN 708 million;
- change of technology of furnace waste storage in Bełchatów power plant PLN 168 million;
- construction of SO<sub>x</sub> emission reduction installations on units 4-6 in Turów power plant PLN 179 million;
- construction of piston engine-based power and heat gas cogeneration unit at Rzeszów CHP PLN 84 million;
- construction of new CCGT unit in Gorzów CHP PLN 80 million;
- NO<sub>x</sub> emissions reduction on boilers BP-1.150 below 200 mg/Nm<sup>3</sup> in units 1,2 and 4 in Opole power plant PLN 58 million.

Key investments of the Conventional Generation segment are described in p. 2 of the foregoing report.

Diagram: Main assets of the Conventional Generation segment

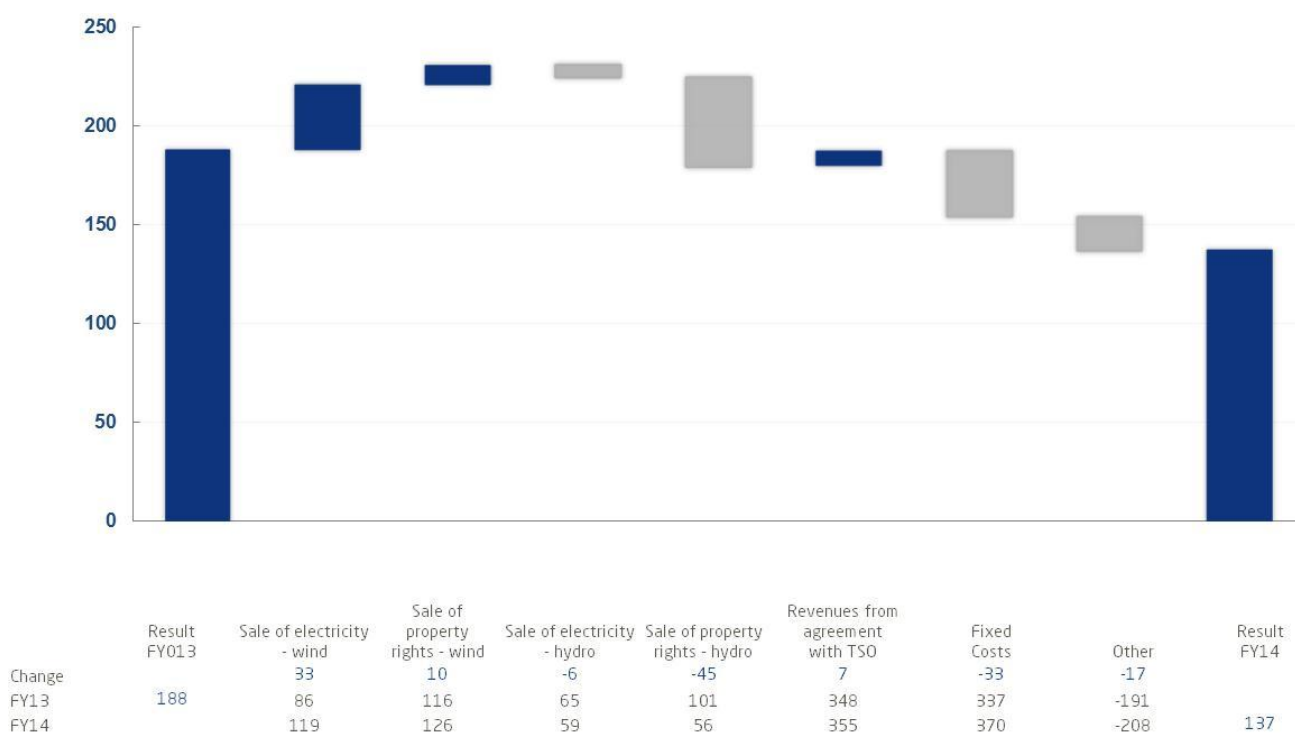


### 3.4.2 Renewable Energy

Table: Key figures for Renewable Energy

| PLN million                                           | 2014 | 2013 | % change |
|-------------------------------------------------------|------|------|----------|
| Sales revenues                                        | 722  | 734  | -2%      |
| EBIT                                                  | 137  | 188  | -27%     |
| EBITDA                                                | 349  | 386  | -10%     |
| Capital expenditures                                  | 374  | 196  | 91%      |
| Purchase of PPE net, within purchase of new companies | 0    | 847  | -        |

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



Key factors affecting the results of Renewable Energy in 2014 compared to the results of the previous year included:

- Recognition of full year operations of the wind farms acquired in 2013 (total installed capacity of 131 MW) and commissioning of Wojciechowo wind farm (28 MW) in March 2014 resulted in higher sales of electricity from wind farms, while relatively unfavourable hydrogeological conditions caused a decline in sales of electricity from hydro power plants.
- Lower prices of green certificates, sold by the companies from the segment (inter alia to other companies of the Group) caused a decline in total revenues from green certificates.
- Despite lower volume of sales on the balancing market and lower use of interventional reserve, the average realized prices were higher, what allowed maintaining revenues from the balancing market and from sales to PSE S.A. at relatively constant level.
- Increased number of the wind farms and recognition of full year operations of the acquired farms was also reflected in the growth of the fixed costs.

## Capital expenditures

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

| PLN million                                           | Capital expenditures |              |             |
|-------------------------------------------------------|----------------------|--------------|-------------|
|                                                       | 2014                 | 2013         | % change    |
| Investments in generating capacities, including:      | 353                  | 188          | 88%         |
| ▪ Development                                         | 301                  | 133          | 126%        |
| ▪ Modernization and replacement                       | 52                   | 55           | -5%         |
| Other                                                 | 21                   | 8            | 163%        |
| <b>TOTAL</b>                                          | <b>374</b>           | <b>196</b>   | <b>91%</b>  |
| Purchase of PPE net, within purchase of new companies | 0                    | 847          | -           |
| <b>TOTAL</b>                                          | <b>374</b>           | <b>1,043</b> | <b>-59%</b> |

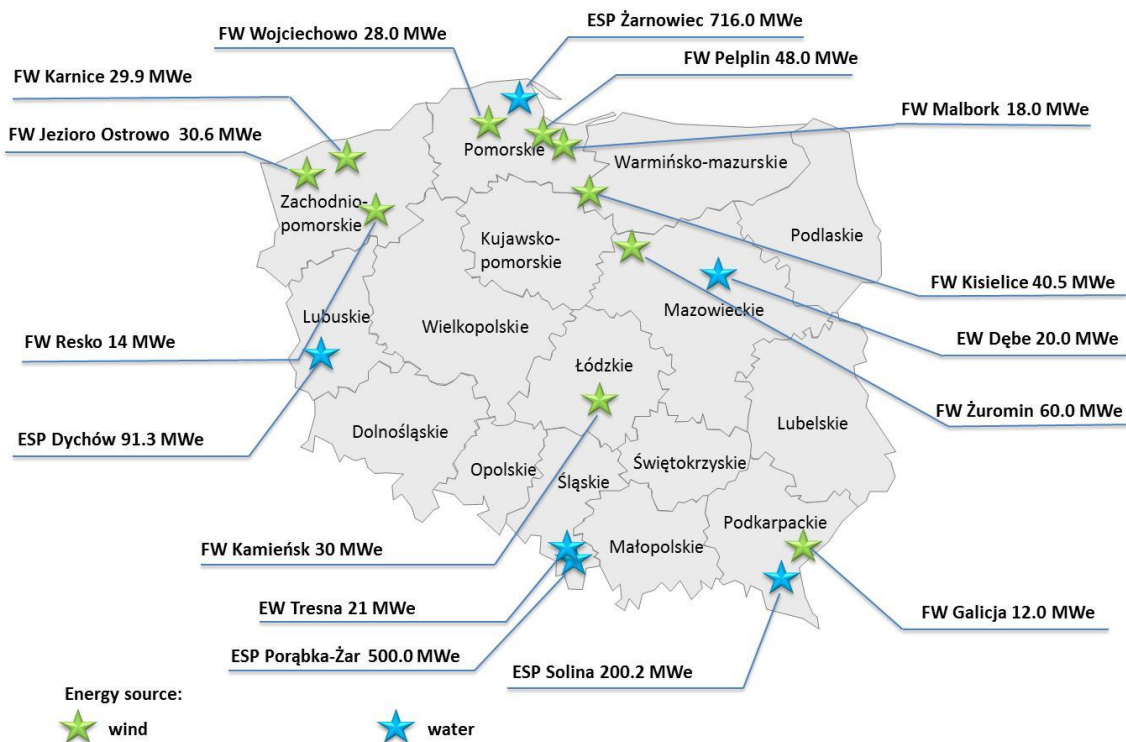
In 2014 highest capital expenditures were incurred for the following projects:

- Construction of wind farm Karwice with a capacity of 40 MW PLN 138 million;
- Construction of wind farm Wojciechowo with a capacity of 28 MW PLN 115 million;
- Construction of wind farm Lotnisko with a capacity of 90 MW PLN 25 million.

Key investments of the Renewable Energy segment are described in p. 2 of the foregoing report.

Expenses incurred in 2013 for purchase of tangible and intangible assets in amount of PLN 847 million constitute value of property, plant and equipment purchases within acquisition of wind farm companies, including mainly transactions with DONG Energy Wind Power A/S and Iberdrola Renovables Energía S.A.U. and EBRD. Additionally, a data presentation regarding the purchase of property, plant and equipment, was adjusted in 2013 – namely value of companies: Eolica Wojciechowo Sp. z o.o., PGE Energia Natury and EPW Energia Sp. z o.o. was assigned to the Renewable Energy segment, what decreased consolidation adjustments in PGE Capital Group by a total of PLN 125 million.

Diagram: Main assets of Renewable Energy segment.

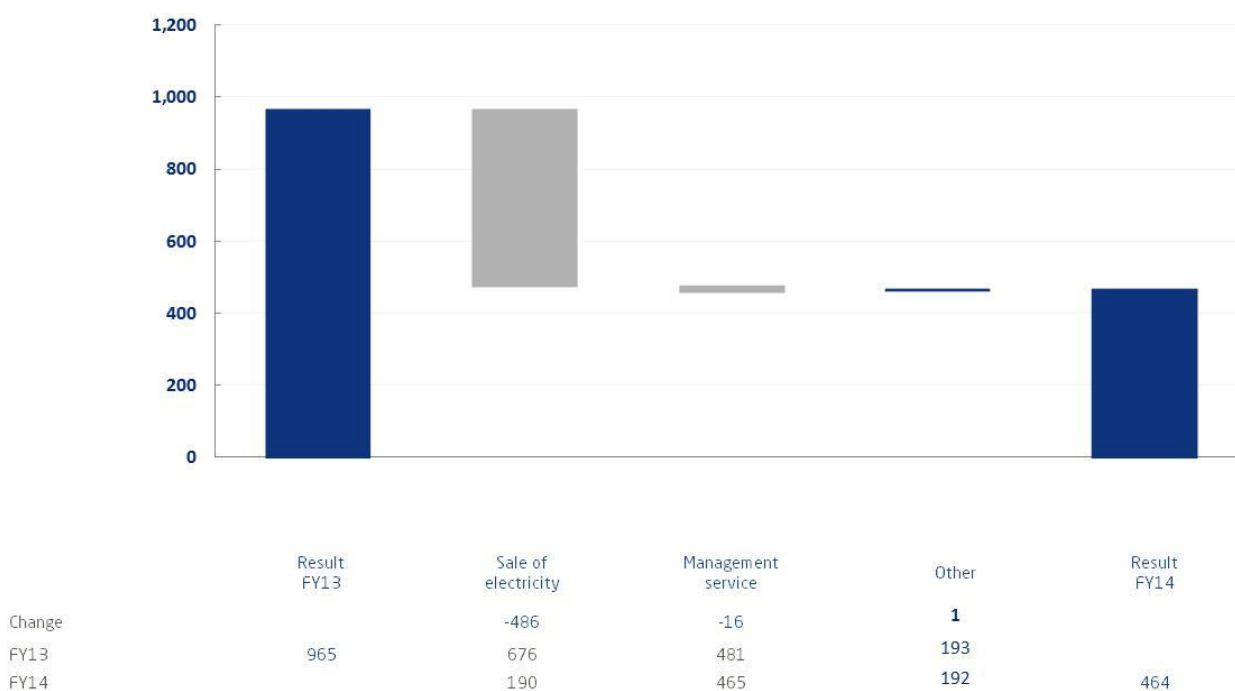


### 3.4.3 Wholesale Trading

Table: Key figures for Wholesale Trading.

| PLN million          | 2014  | 2013   | % change |
|----------------------|-------|--------|----------|
| Sales revenues       | 9,722 | 12,489 | -22%     |
| EBIT                 | 464   | 965    | -52%     |
| EBITDA               | 478   | 983    | -51%     |
| Capital expenditures | 12    | 13     | -8%      |

Chart: Key changes of EBIT in Wholesale Trading [in PLN million].



Key factors affecting the results of Wholesale Trading in 2014 compared to the results of the previous year included:

- Decreased margin on the supply market resulting from, among others, growing competition, retail prices catching up on declining wholesale prices in the previous year and increased difference between baseload electricity price and peak price attributed to the lower result on the sales of electricity. In addition, decreased volume by approx. 12 TWh (mainly termination of bilateral contract with Energa- Obrót S.A) also had negative impact on that result;
- Lower volume of electricity generated in Conventional Energy segment, what caused a decline in revenues from the Agreement on Commercial Management of Generation Capacities.

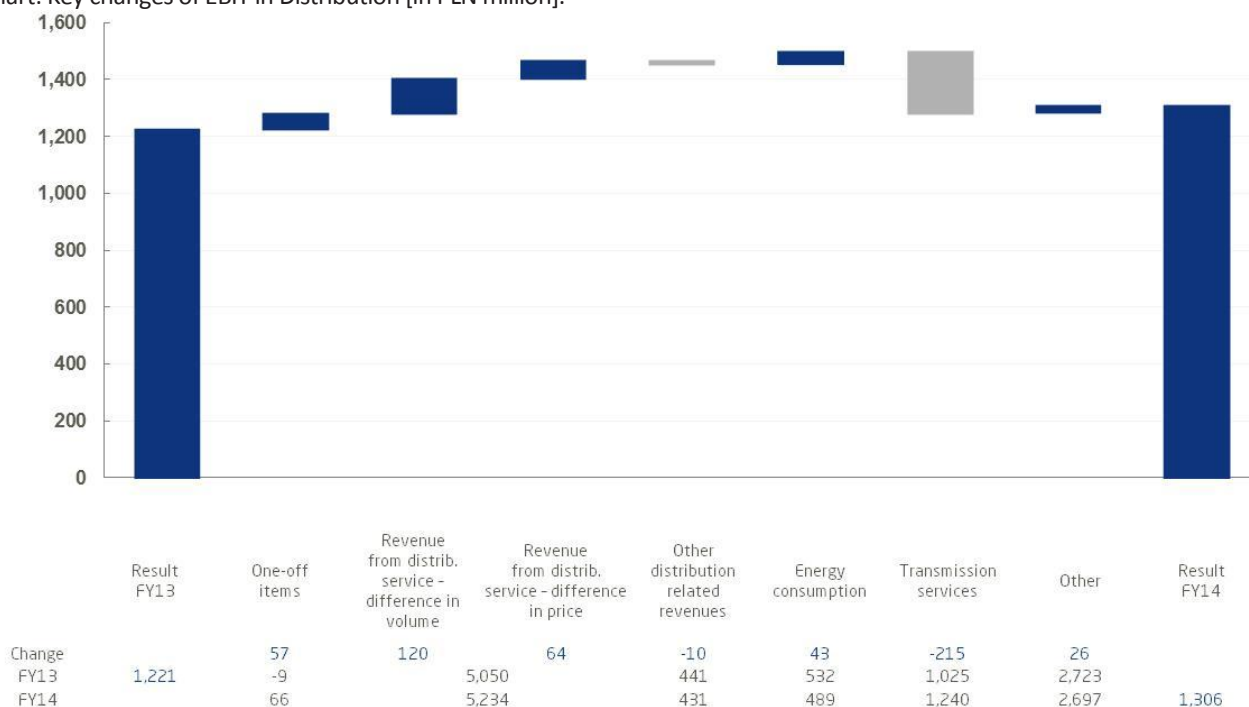


### 3.4.4 Distribution

Table: Key figures for Distribution

| PLN million          | 2014  | 2013  | % change |
|----------------------|-------|-------|----------|
| Sales revenues       | 5,775 | 5,616 | 3%       |
| EBIT                 | 1,306 | 1,221 | 7%       |
| EBITDA               | 2,311 | 2,209 | 5%       |
| Capital expenditures | 1,508 | 1,335 | 13%      |

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



Key factors affecting the results of Distribution in 2014 compared to the results of the previous year included:

- Increase of the average tariffs, mainly due to fees paid to the TSO, what resulted in **increased revenues from sales, with the simultaneous rise of the cost of TSO services.**
- **Increased volume of distributes energy** – by 758 GWh, partly resulting from growing average domestic consumption, but also from connection of 32 thousand new off-takers to the grid.
- **Lower connection fees**, which caused a decline in other sales from distribution service.
- **Lower network losses**, attributing to the lower cost of electricity used to cover balancing difference.

Results of the Distribution segment were also affected by the following one-off events such as:

- Provision raised for the Voluntary Leave Program in amount of PLN 38 million and other actuarial provision in amount of PLN 28 million.

## Capital expenditures

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

| PLN million                                  | Capital expenditures |              |            |
|----------------------------------------------|----------------------|--------------|------------|
|                                              | 2014                 | 2013         | % change   |
| MV and LV power networks                     | 414                  | 263          | 57%        |
| 110/ MV and MV/MV power stations             | 132                  | 175          | -25%       |
| 110 kV power lines                           | 49                   | 35           | 40%        |
| Connection of new off-takers                 | 499                  | 542          | -8%        |
| Purchase of transformers and energy counters | 172                  | 153          | 12%        |
| IT, telemechanics and communication          | 135                  | 84           | 61%        |
| Other                                        | 107                  | 83           | 29%        |
| <b>TOTAL</b>                                 | <b>1,508</b>         | <b>1,335</b> | <b>13%</b> |

Investments pursued in the Distribution segment are of key importance for actions taken by the PGE Group in order to achieve strategic aspirations, such as:

- most reliable energy supplier;
- leader in efficiency and innovation fields.

Incurred expenditures have an impact on the program implemented with regard to permanent reduction of electricity supply breaks measured by, among other, SAIDI ratio, and with regard to ongoing process of shortening of new off-takers connection time.

Connection of new off-takers was the most capex consuming area. Capital expenditures included among others:

- grid expansion (construction of devices enabling connection of the entities and increasing grid capacities);
- junction for new off-takers (construction of direct electrical junctions for off-takers).

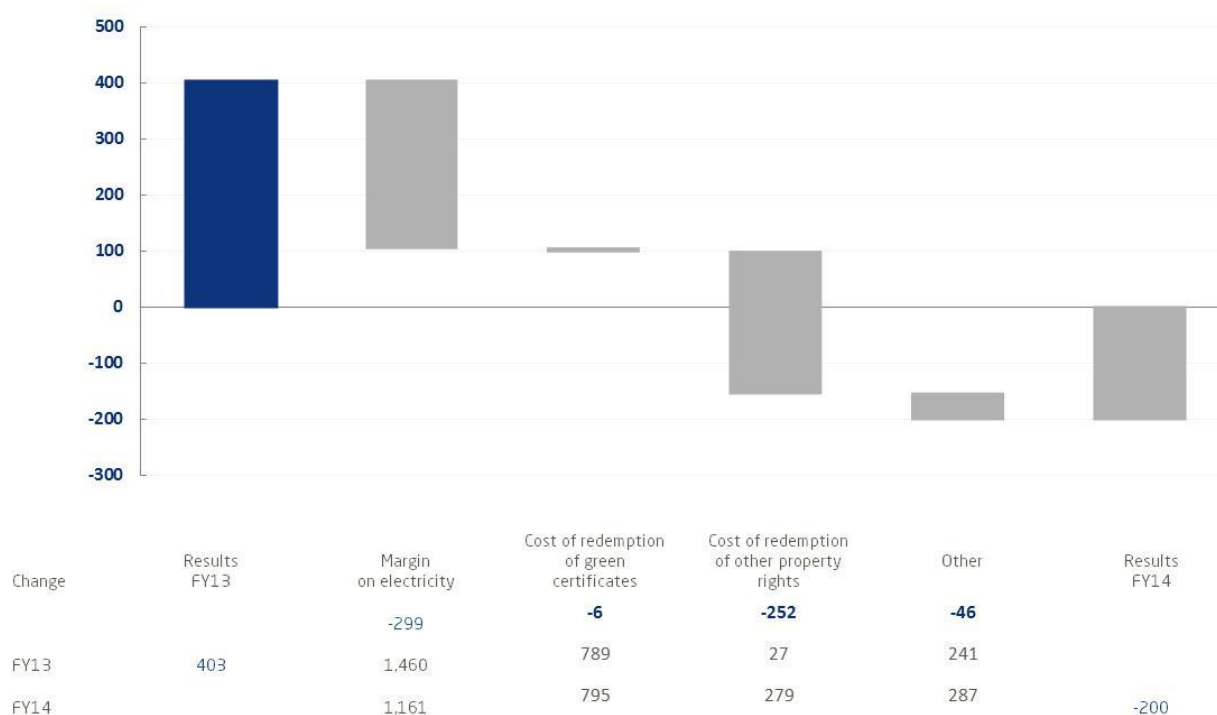
The total expenditures incurred for the MV and LV and automation of the grid operations result from assumptions applied for the „Growth plan of PGE Dystrybucja S.A. for 2014-2019 with regard to meeting current and future demand for electricity” connected with the striving for limitation of duration of outages in electricity supply.

### 3.4.5 Supply

Table: Key figures for Supply

| PLN million          | 2014   | 2013   | % change |
|----------------------|--------|--------|----------|
| Sales revenues       | 12,371 | 13,028 | -5%      |
| EBIT                 | -200   | 403    | -150%    |
| EBITDA               | -193   | 411    | -147%    |
| Capital expenditures | 5      | 6      | -17%     |

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



Key factors affecting the results of Supply in 2014 compared to the results of the previous year included:

- Retail prices catching up on declining wholesale prices from 2013 and further growing competition, particularly in the corporate customers segment, caused a **decline in result on electricity**.
- **Increased redemption cos of yellow and red certificates**, that was caused by the reinstatement of the support system for highly efficient cogeneration.

### 3.4.6 Other Operations

| PLN million          | 2014  | 2013  | % change |
|----------------------|-------|-------|----------|
| Sales revenues       | 1,854 | 1,838 | 1%       |
| EBIT                 | 31    | 29    | 7%       |
| EBITDA               | 161   | 145   | 11%      |
| Capital expenditures | 158   | 178   | -11%     |

EBIT higher by PLN 2 million was mainly related to:

- higher result by PGE EJ1 sp. z o.o., due to inter alia call on the guarantee in connection with termination of the agreement with the performer of the environmental and site characterisation PLN 16 million.

Increase of the results was partly offset by:

- lower result of Exatel S.A. PLN (-) 9 million;
- lower result of companies rendering ancillary services (construction works, repairs, modernisations) to companies from other segments of PGE Capital Group and to external contractors

#### CAPITAL EXPENDITURES

Capital expenditures in Other Operations in 2014 amounted to PLN 158 million as compared to PLN 178 million in 2013. Within the above amount, the main capital expenditures in 2014 were incurred by:

- PGE Systemy S.A. – for IT infrastructure and software development PLN 48 million;
- Exatel S.A. – for telecommunication infrastructure development PLN 41 million;
- PGE EJ1 sp. z o.o. – for nuclear project development PLN 23 million.

Other capital expenditures were mostly related to ancillary services.

### 3.5 Transactions with related entities

Information about transactions with related entities is presented in Note B.27 to the consolidated financial statements.

### 3.6 Publication of financial forecasts

PGE S.A. did not publish forecasts of the financial results.

On January 29, PGE S.A. published a current report no 1/2015, in which disclosed estimated EBITDA and net profit attributable to equity holders of the parent company for the year 2014. Consolidated EBITDA and net profit attributable to equity holders of the parent company for the year 2014 of the PGE Capital Group in 2014 were achieved at the estimated level and amounted respectively to PLN 8.1 billion and PLN 3.6 billion.

### 3.7 Entity authorised to audit of financial statements

An entity authorised to audit stand-alone financial statements of PGE S.A. and consolidated financial statements of PGE Capital Group for 2014 is KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.

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

An entity authorised to of financial statements, which was responsible for review of stand-alone financial statements of PGE S.A. and consolidated financial statements of the PGE Capital Group for the first half-year 2014 is KPMG Audyt Sp. z o.o. The company was also responsible for audit and half-year review of stand-alone financial statements of PGE S.A. and consolidated financial statements of the PGE Capital Group in 2013.

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

| Auditor's fee                                 | 2014  | 2013  |
|-----------------------------------------------|-------|-------|
| Audit and reviews of the financial statements | 554.7 | 279.6 |
| Other                                         | 709.0 | 17.0  |

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

In 2013 Spółka KPMG Audyt Sp. z o.o. audited also financial statements of the following companies from the PGE Capital Group: PGE GiEK S.A., PGE Energia Jądrowa S.A. (before merger with PGE S.A.), PGE EJ 1 sp. z o.o., Exatel S.A., PGE Systemy S.A., Elbis sp. z o.o.

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

| Auditor's fee                                 | 2014  | 2013  |
|-----------------------------------------------|-------|-------|
| Audit and reviews of the financial statements | 770.7 | 622.2 |
| Other                                         | 117.3 | 0.0   |



### 3.8 Management of financial resources and financial liquidity

#### 3.8.1 Rating

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

|                                        | Moody's           | Fitch Ratings     |
|----------------------------------------|-------------------|-------------------|
| Long-term company rating               | Baa1              | BBB+              |
| Rating outlook                         | stable            | stable            |
| Date of rating assignment              | September 2, 2009 | September 2, 2009 |
| Date of the latest rating confirmation | -                 | May 23, 2014      |
| Date of the latest rating change       | May 26, 2014      |                   |
| Poland long-term rating                | A2                | A-                |

Fitch in 2014 affirmed PGE's long-term foreign and local currency Issuer Default Ratings. In its Credit Update of May 23, 2014 Fitch underlined strong market position in the Polish electricity sector and conservative financial profile characterized by lack of indebtedness. On May 26, 2014 Moody's downgraded PGE's long-term rating from A3 with stable outlook to Baa1 with stable outlook. As a rationale of the rating action Moody's indicated the execution risk associated with PGE's investment plans and the related funding requirements in the context of the weak levels of wholesale power prices and uncertainty around development of energy markets in Poland.

### 3.8.2 Net debt of the Group and main financial ratios

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

| in PLN million                                                                  | December 31,<br>2014 | December 31,<br>2013 |
|---------------------------------------------------------------------------------|----------------------|----------------------|
| A. Cash <sup>(1)</sup>                                                          | 1,327                | 578                  |
| B. Cash equivalents                                                             | 4,587                | 4,971                |
| C. Securities held for trading and available for sale <sup>(2)</sup>            | 3                    | 4                    |
| <b>D. Liquidity (A) + (B) + (C)</b>                                             | <b>5,917</b>         | <b>5,553</b>         |
| E. Investments held to maturity and loans and receivables <sup>(3)</sup>        | 27                   | 100                  |
| F. Short-term debt with banks and current part of long-term debt <sup>(4)</sup> | 356                  | 526                  |
| G. Other short-term financial debt <sup>(5)</sup>                               | 1                    | 2                    |
| H. Short-term financial debt (F) + (G) <sup>(6)</sup>                           | 357                  | 528                  |
| <b>I. Short-term financial debt, net (H) - (D) - (E)</b>                        | <b>-5,587</b>        | <b>-5,125</b>        |
| J. Long-term bank loans and advances                                            | 1,008                | 992                  |
| K. Bonds issued                                                                 | 3,679                | 1,000                |
| L. Other long-term loans and advances or other commitments <sup>(5)</sup>       | 1                    | 2                    |
| <b>M. Long-term financial debt (J) + (K) + (L) <sup>(6)</sup></b>               | <b>4,688</b>         | <b>1,994</b>         |
| <b>N. Net financial debt (I) + (M)</b>                                          | <b>-899</b>          | <b>-3,131</b>        |

#### Comments:

|    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1) | Excluding restricted cash, attributable primarily to: <ul style="list-style-type: none"> <li>• funds received as guarantee for due performance of the funds received by particular branches of PGE GiEK S.A. as tender guarantees;</li> <li>• Mine Liquidation Fund and Mine Reclamation Fund in lignite mines;</li> <li>• funds as collaterals for settlements of PGE Group entities with Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House)</li> </ul> |
| 2) | Including stocks listed in active markets, participation units in investment funds classified as financial assets available for sale and acquired bonds, bills of exchange, bills and participation units in investment funds classified as assets held for trading                                                                                                                                                                                                              |
| 3) | Including short-term acquired bonds, bills of exchange, bills classified as investments held to maturity, acquired bonds, bills of exchange and bills, loans granted and deposits classified as loans and receivables                                                                                                                                                                                                                                                            |
| 4) | Including loans and bonds                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 5) | Including payables under lease and lease repo agreements                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 6) | Excluding other financial commitments measured at depreciated cost                                                                                                                                                                                                                                                                                                                                                                                                               |

Table: Key financial ratios.

| Ratios                                                      | Year ended<br>December 31,<br>2014 | Year ended<br>December 31,<br>2013<br><i>data restated</i> |
|-------------------------------------------------------------|------------------------------------|------------------------------------------------------------|
| <b>Return on sales ROS [in %]</b>                           |                                    |                                                            |
| Net profit x 100% / Net revenues                            | 13.00%                             | 13.17%                                                     |
| <b>Return on equity ROE [in %]</b>                          |                                    |                                                            |
| Net profit x 100% / (equity – net profit)                   | 8.87%                              | 9.97%                                                      |
| <b>Debtor's days</b>                                        |                                    |                                                            |
| Average trade receivables (gross) x 365 days / net revenues | 29                                 | 28                                                         |
| <b>Debt ratio [in %]</b>                                    |                                    |                                                            |
| Liabilities x 100% / total equity and liabilities           | 32.20%                             | 28.48%                                                     |
| <b>Current ratio</b>                                        |                                    |                                                            |
| Current assets / short-term liabilities                     | 1.9                                | 1.7                                                        |

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

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

### 3.8.3 Bonds issued

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

As at December 31, 2014 **PGE GIEK S.A.** had bonds issued for a total nominal value of **PLN 2,670 million** that were purchased by PGE S.A. under the following bond programs:

- Bond issue program with ING Bank Śląski S.A. of September 13, 2010 allowing for issue of bonds of up to PLN 4,091 million. On November 29, 2013 the company signed an annex to the agency agreement that prolonged the program until December 31, 2017. As at December 31, 2014 the nominal value of the bonds acquired by PGE S.A. under this agreement amounted to **PLN 1,350 million**.
- Bond issue program with Powszechna Kasa Oszczędności Bank Polski S.A. of November 30, 2009 allowing for issue of bonds of up to PLN 3,700 million. The maturity date is on December 1, 2017. As at December 31, 2014 the nominal value of the bonds issued acquired by PGE S.A. under this agreement amounted to **PLN 550 million**.
- Bond Issue program signed with ING Bank Śląski S.A. on June 20, 2011 allowing for issue of bonds directed to PGE S.A. The maturity date falls on December 31, 2025. As at December 31, 2014 the nominal value of the bonds issued acquired by PGE S.A. under this agreement amounted to **PLN 770 million**.

As at December 31, 2014 **PGE EO S.A.** had bonds issued and purchased by PGE S.A. under the bond program:

- Bond Issue program signed with ING Bank Śląski S.A. on June 20, 2011 allowing for issue of bonds directed to PGE S.A. of up to PLN 1,200 million. The maturity date falls on December 31, 2016. As at December 31, 2014 the nominal value of the bonds issued acquired by PGE S.A. under this program amounted to **PLN 735 million**.

As at December 31, 2014 companies from PGE Energia Natury S.A. group had bonds issued and purchased by PGE S.A. under the bond program:

- Bond Issue program signed with ING Bank Śląski S.A. on September 20, 2013 allowing for issue of bonds of up to PLN 400 million. The agreement was signed for an indefinite period. On January 24, 2014 annex no 1 was signed, that increased the value of the program to PLN 700 million. On January 27, 2014 PGE Energia Natury PEW sp. z

o.o. and PGE Energia Naturity sp. z o.o. entered into the agreement. As at December 31, 2014 the nominal value of the bonds issued acquired by PGE S.A. amounted to:

- bonds issued by PGE Energia Naturity PEW Sp. z o.o. – **PLN 270 million**;
- bonds issued by PGE Energia Naturity Omikron sp. z o.o. – **PLN 145 million**;
- bonds issued by PGE Energia Naturity Kappa sp. z o.o. – **PLN 50 million**;
- bonds issued by PGE Energia Naturity S.A. – **PLN 3 million**.

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

During 2014, PGE S.A. had a binding Agency Agreement with ING Bank Śląski S.A. regarding the establishment of the bond issue made to companies of the PGE Group PGE S.A. concluded on May 11, 2009. The maximum amount of the programme for the Group is PLN 5 billion. Under the Program for the Group, PGE S.A. may issue coupon or zero coupon bonds.

As at December 31, 2014 the Company did not have any bonds issued under the programme.

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

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

The maximum indebtedness amount from the bonds issued (representing a maximum aggregate nominal value of bonds issued and outstanding) under the program cannot exceed PLN 5,000 million.

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

As at December 31, 2014 the indebtedness of the Company resulting from the bonds issued under the Program I amounted to **PLN 1,000 million**.

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

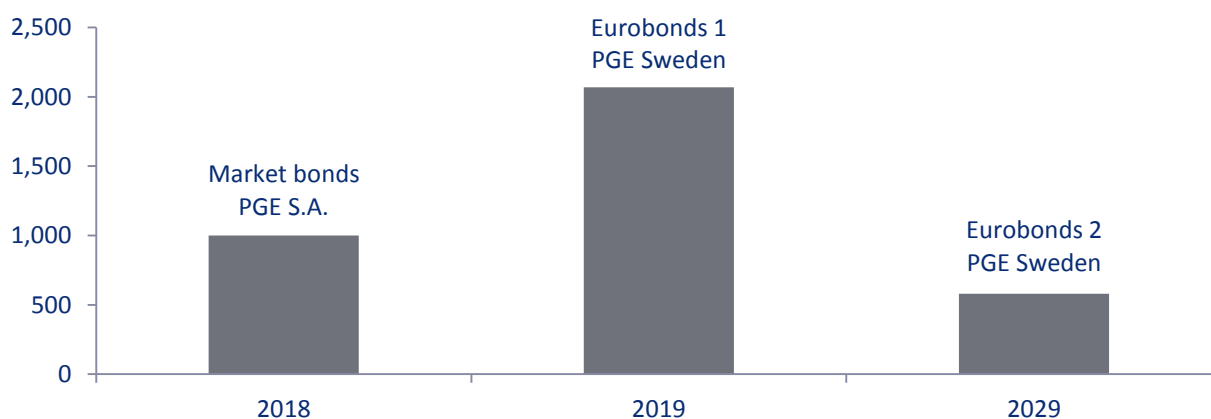
On May 22, 2014 PGE Sweden AB signed an agreement for an indefinite period with BNP Paribas, CITIGROUP Global Markets Ltd., ING Bank N.V., London Branch, Nordea Bank Danmark A/S, Powszechna Kasa Oszczędności Bank Polski S.A. and Societe Generale and on the ground of the agreement established a bond issue program ("Program II").

The maximum indebtedness amount from the bonds issued (representing a maximum aggregate nominal value of bonds issued and outstanding) under the Program II cannot exceed EUR 2,000 million.

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

As at December 31, 2014 the indebtedness of the company resulting from the bonds issued under the Program II amounted to **EUR 638 million**. PGE Sweden AB granted loans to PGE S.A. from the proceeds received under the financing.

Chart: Maturity of bonds (external) of the PGE Group with the estimated repayment amount [in PLN million].



### 3.8.4 Bank loans and advances

Table: Information about bank loans and advances agreements signed in 2014

| Company        | Party of an agreement           | Type of financing         | Signing date<br>(yyyy-mm-dd) | Maturity date<br>(yyyy-mm-dd) | Amount<br>( million ) | Currency | Fixed/ floating<br>rate |
|----------------|---------------------------------|---------------------------|------------------------------|-------------------------------|-----------------------|----------|-------------------------|
| PGE S.A.       | Bank Gospodarstwa Krajowego     | Bank loan                 | 2014-12-17                   | 2027-12-31                    | 1,000.0               | PLN      | Floating                |
| PGE GiEK S.A.  | NFOŚiGW<br>in Warsaw            | Loan                      | 2014-06-26                   | 2028-12-31                    | 242.6                 | PLN      | Fixed                   |
| PGE GiEK S.A.  | Bank Polska Kasa<br>Opieki S.A. | Current account<br>credit | 2014-11-27                   | 2017-11-26                    | 200.0                 | PLN      | Floating                |
| PGE GiEK S.A.  | Bank Millennium                 | Current account<br>credit | 2014-11-27                   | 2017-11-26                    | 150.0                 | PLN      | Floating                |
| PGE<br>EO S.A. | mBank S.A.                      | Current account<br>credit | 2014-12-24                   | 2017-10-30                    | 50.0                  | PLN      | Floating                |
| PGE GiEK S.A.  | WFOŚiGW<br>in Zielona Góra      | Loan                      | 2014-06-30                   | 2021-09-30                    | 19.8                  | PLN      | Floating                |
| PGE GiEK S.A.  | WFOŚiGW<br>in Torun             | Loan                      | 2014-06-30                   | 2020-12-31                    | 15.0                  | PLN      | Floating                |

In 2014 PGE S.A. and the Group companies concluded agreements relating to bank loans and advances, for a total value of PLN 1,677 million.

Table: Information about annexes signed in 2014 to the bank loans and advances agreements

| Company<br>(Borrower)           | Party of an agree-<br>ment | Type of financ-<br>ing | Signing date<br>(yyyy-mm-dd) | Maturity date<br>(yyyy-mm-dd) | Annex signing<br>date<br>(yyyy-mm-dd)                              | Amount<br>( million ) | Currency | Fixed/ floating<br>rate |
|---------------------------------|----------------------------|------------------------|------------------------------|-------------------------------|--------------------------------------------------------------------|-----------------------|----------|-------------------------|
| PGE GiEK S.A.                   | WFOŚiGW<br>in Wrocław      | Loan                   | 2013-12-13                   | 2019-12-30                    | 2014-03-17<br>2014-07-02                                           | 104.3                 | PLN      | Fixed                   |
| PGE GiEK S.A.                   | WFOŚiGW<br>in Łódź         | Loan                   | 2012-12-20                   | 2019-09-30                    | 2014-04-04<br>2014-10-15                                           | 49.0                  | PLN      | Fixed                   |
| PGE GiEK S.A.                   | WFOŚiGW<br>in Opole        | Loan                   | 2013-06-20                   | 2018-09-15                    | 2014-06-25<br>2014-11-13                                           | 17.5                  | PLN      | Floating                |
| PGE GiEK S.A.                   | WFOŚiGW<br>in Toruń        | Loan                   | 2014-06-30                   | 2020-12-31                    | 2014-11-17                                                         | 15.0                  | PLN      | Floating                |
| PGE GiEK S.A.                   | WFOŚiGW<br>in Opole        | Loan                   | 2013-06-20                   | 2019-06-15                    | 2014-06-25                                                         | 13.8                  | PLN      | Floating                |
| PGE GiEK S.A.                   | WFOŚiGW<br>in Opole        | Loan                   | 2013-06-20                   | 2020-06-15                    | 2014-06-25                                                         | 13.8                  | PLN      | Floating                |
| PGE EO S.A.                     | WFOŚiGW<br>in Wrocław      | Loan                   | 2012-05-31                   | 2020-09-16                    | 2014-01-27<br>2014-03-14<br>2014-04-16<br>2014-09-15<br>2014-12-19 | 12.8                  | PLN      | Fixed                   |
| EPW Energia<br>Olecko Sp. zo.o. | PGE S.A.                   | Loan                   | 2013-06-28                   | 2015-06-30                    | 2014-06-30                                                         | 1.9                   | PLN      | Fixed                   |

In 2014 companies from PGE Group signed annexes to the bank loans and advances for a total value of PLN 228 million.



Table: Loans repaid ahead of schedule by the PGE Group companies in 2014

| Company<br>(Borrower) | Party of an agree-<br>ment | Type of financ-<br>ing | Signing date<br>(yyyy-mm-dd) | Maturity date<br>(yyyy-mm-dd) | Repayment<br>date<br>(yyyy-mm-dd) | Amount<br>( million ) | Currency | Fixed/ floating<br>rate |
|-----------------------|----------------------------|------------------------|------------------------------|-------------------------------|-----------------------------------|-----------------------|----------|-------------------------|
| PGE EJ1 sp. z o.o.    | PGE S.A.                   | Loan                   | 2013-07-24                   | 2014-07-28                    | 2014-07-09                        | 12.0                  | PLN      | Fixed                   |

In 2014 PGE S.A. or PGE Group companies did not terminate or amortise any bank loans and advances.

### 3.8.5 Loans granted

In 2014, PGE S.A. and Group companies granted following advances.

Table: Main advances granted in 2014

| Company              | Party of an agreement | Type of financing | Signing date<br>(yyyy-mm-dd) | Maturity date<br>(yyyy-mm-dd) | Amount<br>(million ) | Currency | Fixed/ floating<br>rate |
|----------------------|-----------------------|-------------------|------------------------------|-------------------------------|----------------------|----------|-------------------------|
| PGE Sweden AB (publ) | PGE S.A.              | Loan              | 2014-06-10                   | 2019-06-05                    | 300.0                | EUR      | Fixed                   |
| PGE Sweden AB (publ) | PGE S.A.              | Loan              | 2014-06-10                   | 2019-06-05                    | 210.0                | EUR      | Fixed                   |
| PGE Sweden AB (publ) | PGE S.A.              | Loan              | 2014-08-27                   | 2029-07-31                    | 100.0                | EUR      | Fixed                   |
| PGE Sweden AB (publ) | PGE S.A.              | Loan              | 2014-08-27                   | 2029-07-31                    | 43.5                 | EUR      | Fixed                   |
| PGE Sweden AB (publ) | PGE S.A.              | Loan              | 2014-06-10                   | 2019-06-05                    | 4.0                  | EUR      | Fixed                   |
| Exatel S.A.          | Energo-Tel S.A.       | Loan              | 2014-09-09                   | 2014-09-23                    | 5.0                  | PLN      | Fixed                   |

In 2014 PGE Capital Group companies granted advances for a total value of EUR 657.5 million and PLN 6 million.

### 3.8.6 Guarantees

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

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

The total amount of guarantees granted by the companies of the PGE Capital Group and mandatory on December 31, 2014 amounted to EUR 2,512.1 million, PLN 1,978.0 million.

Table: Main guarantees granted as at December 31, 2014

| Company  | Entity entitled to guarantee<br>(Beneficiary) | Entity whose liabilities<br>are subject to guarantee<br>(Debtor) | Form of security                  | Validity of guarantee<br>yyyy-mm-dd |            | Value of guarantee<br>( million ) | Currency |
|----------|-----------------------------------------------|------------------------------------------------------------------|-----------------------------------|-------------------------------------|------------|-----------------------------------|----------|
|          |                                               |                                                                  |                                   | Beginning                           | End        |                                   |          |
| PGE S.A. | Bondholders                                   | PGE Sweden AB (publ)                                             | Guarantee of financial instrument | 2014-05-22                          | 2041-12-31 | 2,500.0                           | EUR      |
| PGE S.A. | Powszechna Kasa Oszczędności Bank Polski S.A. | PGE GiEK S.A.                                                    | Guarantee of financial instrument | 2014-01-29                          | 2020-03-31 | 1,478.5                           | PLN      |
| PGE S.A. | Bank Polska Kasa Opieki S.A.                  | PGE GiEK S.A.                                                    | Guarantee of financial instrument | 2014-01-29                          | 2020-03-31 | 246.4                             | PLN      |
| PGE S.A. | BNP Paribas Bank Polska S.A.                  | PGE GiEK S.A.                                                    | Guarantee of financial instrument | 2014-01-29                          | 2020-03-31 | 246.4                             | PLN      |

The total amount of guarantees received by the companies of the PGE Capital Group and mandatory on December 31, 2014 amounted to more than PLN 3,767.7 million and EUR 58.7 million. Guarantees were received in connection with investments being pursued and day-to-day operations and include mainly: advance payments guarantees, guarantees for reimbursement of unsettled advances, performance bonds and corporate guarantees.

Table: Main guarantees in PLN received and valid as at December 31, 2014

| Company       | Guarantee issuer                                    | Entity for whose liabilities a<br>guarantee was issued<br>(Debtor)                                                | Form of security                                       | Validity of guarantee<br>yyyy-mm-dd |            | Value of guaran-<br>tee<br>( million ) | Currency |
|---------------|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------|------------|----------------------------------------|----------|
|               |                                                     |                                                                                                                   |                                                        | Beginning                           | End        |                                        |          |
| PGE GiEK S.A. | Societe Generale<br>S.A. Poland<br>Branch           | ALSTOM Power Sp. z o.o.                                                                                           | Performance bond                                       | 2014-01-15                          | 2018-08-30 | 317.2                                  | PLN      |
| PGE GiEK S.A. | Societe Generale<br>S.A. Poland<br>Branch           | ALSTOM Power Sp. z o.o.                                                                                           | Advance payments<br>guarantee                          | 2014-01-15                          | 2019-05-15 | 317.2                                  | PLN      |
| PGE GiEK S.A. | Bank of Tokyo-<br>Mitsubishi UFJ<br>S.A.            | Mitsubishi Hitachi Power<br>Systems Europe GmbH                                                                   | Guarantee for<br>reimbursement of<br>unsettled advance | 2014-11-26                          | 2020-09-01 | 221.4                                  | PLN      |
| PGE GiEK S.A. | Mizuho Bank LTD.                                    | Mitsubishi Hitachi Power<br>Systems Europe GmbH,<br>BUDIMEX S.A., TÉCNICAS<br>REUNIDAS S A (S A) POLAND<br>BRANCH | Performance bond                                       | 2014-07-10                          | 2019-09-10 | 221.4                                  | PLN      |
| PGE GiEK S.A. | Powszechna Kasa<br>Oszczędności Bank<br>Polski S.A. | Polimex - Mostostal S.A.                                                                                          | Performance bond                                       | 2014-01-23                          | 2018-08-30 | 199.2                                  | PLN      |
| PGE GiEK S.A. | MILLENIUM-<br>EUROBOND                              | Mostostal Warszawa S.A.                                                                                           | Performance bond                                       | 2013-12-03                          | 2018-08-30 | 192.6                                  | PLN      |
| PGE GiEK S.A. | Powszechna Kasa<br>Oszczędności Bank<br>Polski S.A. | Polimex - Mostostal S.A.                                                                                          | Advance payments<br>guarantee                          | 2014-01-23                          | 2019-05-15 | 190.8                                  | PLN      |
| PGE GiEK S.A. | Lloyds Bank PLC                                     | ALSTOM Power Sp. z o.o.                                                                                           | Advance payments<br>guarantee                          | 2014-01-10                          | 2019-05-15 | 187.0                                  | PLN      |

Table: Main guarantees in EUR received and valid as at December 31, 2014

| Company        | Guarantee issuer                                  | Entity for whose liabilities a<br>guarantee was issued<br>(Debtor) | Form of security                                       | Validity of guarantee   |            | Value of guaran-<br>tee<br>( million ) | Currency |
|----------------|---------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------|-------------------------|------------|----------------------------------------|----------|
|                |                                                   |                                                                    |                                                        | yyyy-mm-dd<br>Beginning | End        |                                        |          |
| PGE<br>EO S.A. | Lloyds Bank PLC                                   | Alstom Renovables Espana<br>SLU<br>Alstom power Sp. z o.o.         | Guarantee for<br>reimbursement of<br>unsettled advance | 2014-08-26              | 2015-12-31 | 17.3                                   | EUR      |
| PGE<br>EO S.A. | Nordea Bank<br>Danmark AS                         | Vestas Poland Sp. z o.o.                                           | Guarantee for<br>reimbursement of<br>unsettled advance | 2014-10-28              | 2016-02-15 | 16.5                                   | EUR      |
| PGE S.A.       | Vattenfall AB                                     | Vattenfall Energy Trading<br>GmbH                                  | Corporate guarantee                                    | 2013-04-22              | 2016-01-31 | 5.0                                    | EUR      |
| PGE<br>EO S.A. | Lloyds Bank PLC                                   | Alstom Renovables Espana<br>SLU<br>Alstom power Sp. z o.o.         | Performance bond                                       | 2014-06-24              | 2018-01-14 | 4.3                                    | EUR      |
| PGE<br>EO S.A. | Tryg<br>Garantiforsikring<br>A/S                  | Vestas Poland Sp. z o.o.                                           | Performance bond                                       | 2014-10-07              | 2018-03-12 | 4.1                                    | EUR      |
| PGE GiEK S.A.  | Credit Agricole<br>Corporate &<br>Investment Bank | Alstom Power Sp. z o.o.,<br>Alstom Power Systems GmbH              | Due performance<br>during the warranty<br>period       | 2011-12-16              | 2015-01-05 | 2.1                                    | EUR      |
| PGE GiEK S.A.  | mBank S.A.                                        | ALSTOM Power Sp. z o.o.<br>ALSTOM Power Systems<br>GmbH            | Due performance<br>during the warranty<br>period       | 2014-12-17              | 2018-01-05 | 1.6                                    | EUR      |

### 3.8.7 Significant off-balance sheet items

Significant off-balance sheet items are described in Note B.23 to the consolidated financial statements.

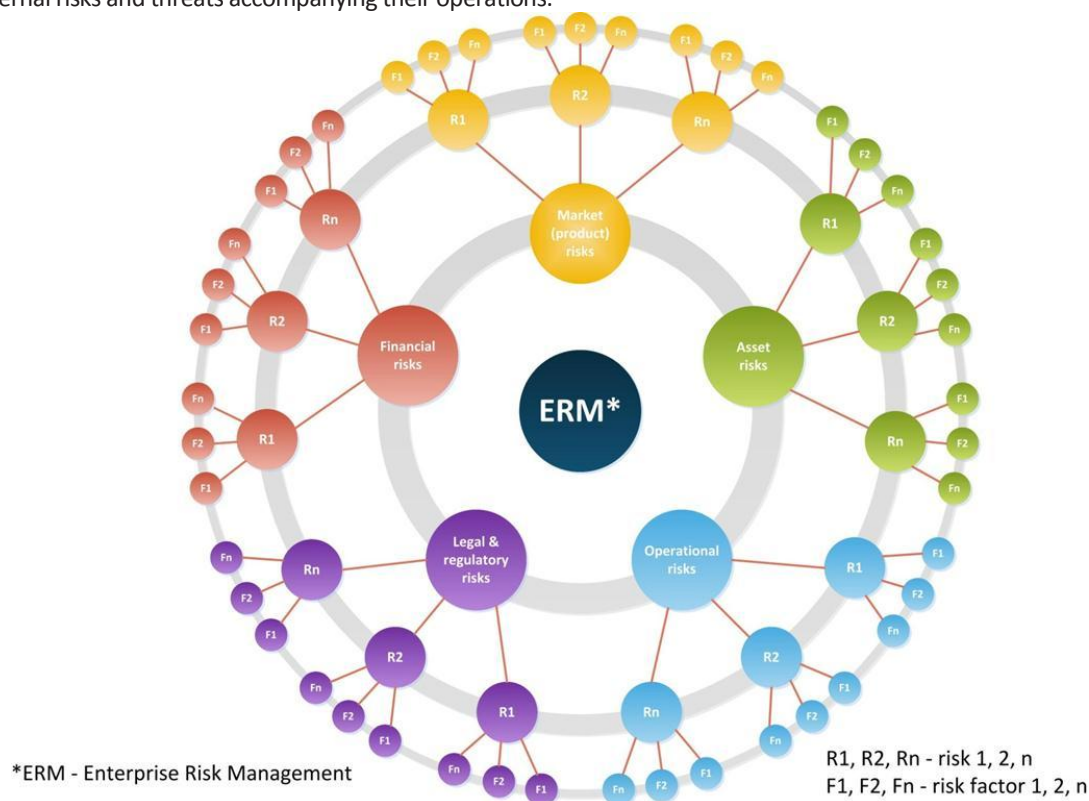
### 3.8.8 Evaluation of investment capacities

On-going and future investments are and will be financed from funds generated by the core activity of the PGE Group, funds obtained from the issue of bonds and from external financing. Financial results achieved by the PGE Group and debt level in 2014 confirm that the Group owns sufficient resources to achieve its investment goals, including capital investments.

## 4 Risks and threats of the PGE Capital Group

### Risk management

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



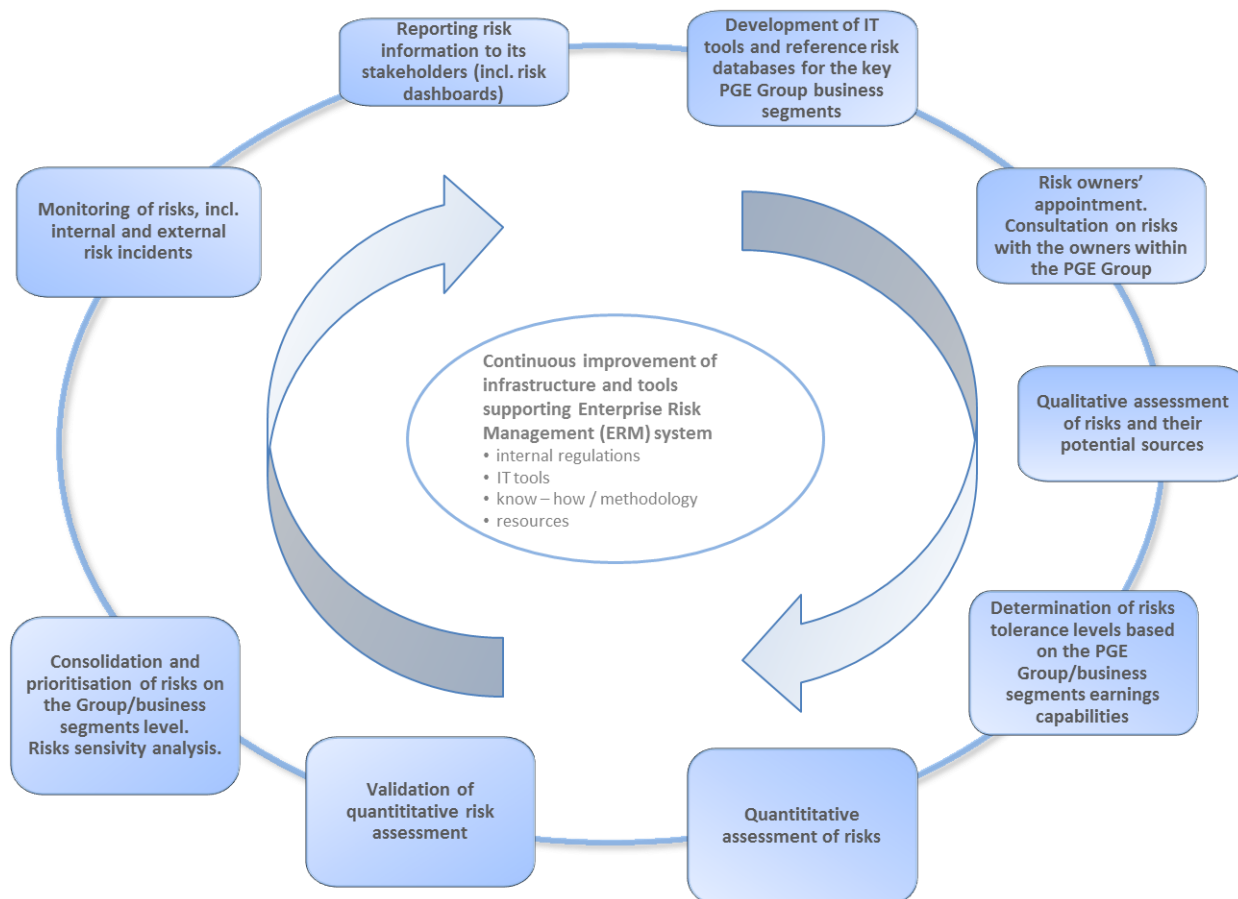
PGE Group's risk management process is based on the GRC (Governance - Risk - Compliance) model, which makes it possible to adapt and integrate each of the Group's operational areas at all levels of management. Having established a top-level Risk Committee, which reports directly to the Management Board, supervision over the effectiveness of risk management processes is ensured across the entire Group. Function definition within corporate risk management guarantees an independent assessment of specific risks and their impact on PGE Group as well as facilitates the process of limiting and controlling major risks using the economic capital concept. Regulatory compliance is ensured through the monitoring of the Group's legal surroundings, identifying potential loopholes and initiating adaptive changes.



Source: own work

The PGE Capital Group has continued to develop a comprehensive risk management system so that risks involved in its operations and having a significant impact on the value of the Company are maintained at sustainable levels in relation to assumed business objectives.

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



The main risks and threats, to which activity of the PGE Group is exposed, are presented below along with their assessment and perspective.



| Risk level                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                     |      | Risk perspective |        |        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|------------------|--------|--------|
| low                                                                                                                                                                                                                                                                                                                                                                              | medium                                                                                                                                                              | high | decrease         | growth | stable |
| low level                                                                                                                                                                                                                                                                                                                                                                        | Risk does not pose a threat and may be tolerated,                                                                                                                   |      |                  |        |        |
| medium level                                                                                                                                                                                                                                                                                                                                                                     | Risk which needs preparation of the proper reaction based on analysis of costs and benefits,                                                                        |      |                  |        |        |
| high level                                                                                                                                                                                                                                                                                                                                                                       | Intolerable risk, which needs immediate and active reaction, leading simultaneously to limitation of possible consequences and of probability of occurrence thereof |      |                  |        |        |
| Market risks (product)                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                     |      |                  |        |        |
| Related to prices and volumes of offered products and services                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                     |      |                  |        |        |
| Prices of electricity and related products – resulting from a lack of certainty with regard to the future levels and volatility of commodity prices relative to open contract positions - this particularly concerns electricity and associated products (property rights, CO2 emission allowances and fuels).                                                                   |                                                                                                                                                                     |      |                  |        |        |
| Electricity and heat sales volumes – this risk derives from a lack of certainty with regard to the conditions determining the demand and supply of electricity and heat                                                                                                                                                                                                          |                                                                                                                                                                     |      |                  |        |        |
| Tariffs (regulate prices) – resulting from the requirement to approve rates for distribution services and electricity and heat prices for particular groups of entities                                                                                                                                                                                                          |                                                                                                                                                                     |      |                  |        |        |
| Property risks                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                     |      |                  |        |        |
| Related to development and maintenance of the assets                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                     |      |                  |        |        |
| Failures – connected with the operation and degradation over time of energy equipment and facilities (maintenance and repair work, diagnostics)                                                                                                                                                                                                                                  |                                                                                                                                                                     |      |                  |        |        |
| Damage to property – connected with the physical protection of energy equipment and facilities against destructive external factors (including fire, flood and intentional damage)                                                                                                                                                                                               |                                                                                                                                                                     |      |                  |        |        |
| Investment and development – connected with strategic plans for expanding the generation, distribution and sales potential as well as on-going investments                                                                                                                                                                                                                       |                                                                                                                                                                     |      |                  |        |        |
| Operational risks                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                     |      |                  |        |        |
| Related to pursuing of ongoing economic processes                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                     |      |                  |        |        |
| Production costs – connected with the growing costs of fuel procurement, operational works, environmental fees, HR-related factors, etc.                                                                                                                                                                                                                                         |                                                                                                                                                                     |      |                  |        |        |
| Electricity and heat production – connected with production planning and impact of the factors that determine production capacities.                                                                                                                                                                                                                                             |                                                                                                                                                                     |      |                  |        |        |
| Fuel management – connected with uncertainty regarding the quality, timeliness and volumes of fuel supply (mainly coal) and the effectiveness of inventory management processes.                                                                                                                                                                                                 |                                                                                                                                                                     |      |                  |        |        |
| HR – pertaining to provision of employees with the relevant experience and competences, who are capable of performing specific tasks                                                                                                                                                                                                                                             |                                                                                                                                                                     |      |                  |        |        |
| Social dialogue – connected with a failure in achieving agreement between the Group’s management and employees, what could lead to strikes/collective labour disputes                                                                                                                                                                                                            |                                                                                                                                                                     |      |                  |        |        |
| Regulatory and legal risks                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                     |      |                  |        |        |
| Related to compliance with external and internal legal provisions                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                     |      |                  |        |        |
| Legal changes in support systems – connected with uncertainty as to the future shape of the support system (or a lack thereof) for production of certified energy                                                                                                                                                                                                                |                                                                                                                                                                     |      |                  |        |        |
| Purchase volume of certificates and CO2 allowances - resulting from the possible changes to the statutory requirement for electricity sellers to purchase a specified quantity of property rights and to uncertainty with regard to volume of CO2 emission rights granted free of charge in future                                                                               |                                                                                                                                                                     |      |                  |        |        |
| Compensation for the termination of long-term contracts (LTCs) – there is a possibility that the level of adjustments to advances collected for stranded costs, as calculated by the company, will be questioned by the President of the Energy Regulatory Office (URE), as a result of which the company will be obligated to return advances received for terminating the LTCs |                                                                                                                                                                     |      |                  |        |        |
| Environmental protection – resulting from industry regulations specifying which "environmental" requirements energy installations should meet and what the principles for using the natural environment are                                                                                                                                                                      |                                                                                                                                                                     |      |                  |        |        |

|  |                                                                                                                                                                                                                                                                                                                                     |                                                                                     |                                                                                     |
|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
|  | <b>Unresolved legal status</b> – connected with difficulties in respect of land acquisition or access to land in the course of new investments (particularly in the Distribution segment)                                                                                                                                           |  |  |
|  | <b>Concessions</b> – resulting from the statutory requirement to hold concessions for coal mining as well as for the production and distribution of electricity and heat                                                                                                                                                            |  |  |
|  | <b>Discriminatory activities</b> – connected with application by the company of practices that limit or eliminate competition and infringe on legal regulations or consumer interests                                                                                                                                               |  |  |
|  | <b>Financial risks</b>                                                                                                                                                                                                                                                                                                              |                                                                                     |                                                                                     |
|  | Related to finance management                                                                                                                                                                                                                                                                                                       |                                                                                     |                                                                                     |
|  | <b>Credit risk</b> – connected with the potential occurrence of a credit event (e.g. counterparty default, partial and/or late payment of receivables or a different type of breach of contractual conditions, for example failure to deliver/collect goods or failure to pay for any associated damages or contractual penalties). |  |  |
|  | <b>Liquidity risk</b> – connected with the possibility of losing the ability to meet current liabilities as well as with the loss of potential economic benefits in the case of over-liquidity                                                                                                                                      |  |  |
|  | <b>Interest rate risk</b> – resulting in particular from the negative impact of changes in market interest rates on PGE Group's cash flows generated by floating-rate financial assets and liabilities.                                                                                                                             |  |  |
|  | <b>Foreign exchange risk</b> – understood in particular as risk that PGE Group's cash flows denominated in currencies other than the functional currency are exposed to due to negative exchange rate movements.                                                                                                                    |  |  |

## Risk mitigation measures

### Market (product) risks

In general, market risks impact the revenue side and affect product and service offerings

**Measures:** PGE Group has drafted, and is implementing, internal procedures for managing foreign exchange risk (price- and volume-related), which include a global risk appetite measure, VaR-based position limits, as well as management of consolidated exposure to commodity pricing risk and mechanisms for protecting against risk exceeding acceptable levels. Currency risk management procedures provide consistent guidance for significant PGE Group companies in respect of process organisation in the context of commercial strategy and mid-term planning. PGE Group has devised rules pertaining to a strategy for hedging key exposures in the area of electricity and related product trading that correspond to the adopted risk appetite in the mid-term (up to five years, assuming that the necessary market liquidity is available). Position hedging levels are established with consideration given to the results of analysing pricing risk in respect of electricity and related products. When specifying the target hedging levels, PGE Group takes into consideration its financial standing, including in particular its strategic objectives.

PGE Group researches and analyses the electricity and heat markets in order to optimally use its generation capacity. It introduces new products for the retail market and actively promotes them through nationwide marketing campaigns as well as at local-community level. PGE Group maintains a diverse product portfolio, while focusing its efforts on tailoring its offering to the market (historic, domestic), sales channel (own sales channel, agency sales channel) and target group (client's potential volume). PGE Group continues its client retention efforts, basing them on a model consisting of a diversified portfolio of customer loyalty schemes and client-acquisition activities. Also introduced were special offers dedicated to former clients who moved over to the competitors, as well as industry offerings dedicated to specific types of economic activity. PGE Group also introduces bundled offers. Particular attention is paid to ensuring a high level of customer service by developing PGE Group employees' competences and building relations with business and retail clients. Having implemented tools to support these processes, PGE Group effectively manages information flows, which directly translates into comfortable client relations as well as better sales planning and organisation.

### Property risks

In general, property risks affect assets

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

## Operational risks

Operational risks mainly impact the cost side

**Measures:** PGE Group's results are to a large extent dependent on the costs incurred in the course of operations. Company tries to lower these risks particularly through:

1. Monitoring fuel reserves (quality and quantity) in connection with the tracking fuel prices. Securing supply through long-term contracts with suppliers and through price fixing formulas.
2. Inspections, repairs, operational works and modernisations of the existing assets are carried out in order to maximise equipment lifecycles and ensure the required availability of key assets, at the same time minimising the costs.
3. Group's power plants and CHPs receive CO<sub>2</sub> emission allowances partly free of charge. Additional allowances needed are purchased at favourable prices.
4. Optimisation of the employment with regard to the HMC Strategy implemented by the Group. As a consequence of employment optimisation operations Voluntary Leave Programs were introduced in the companies of the Group.

## Regulatory and legal risks

Regulatory and legal risks mainly impact the compliance area

**Measures:** PGE Group's operations are subject to a host of Polish, European and international laws and regulations. The Group actively monitors the changes being proposed in order to minimise their negative impact on our operations in key business segments, i.e. production of electricity and heat, lignite mining and distribution and sale of electricity and heat. We are one of the members of the Polish Electricity Committee that opened its office in Brussels. Through the Committee's operations, we actively influence proceeding and shaping of EU law and we engage a dialogue with the EU institutions. We adapt our internal regulations and practices to make sure that the Group's activities are in compliance with the power sector regulations, environmental protection regulations and other binding legislation.

## Financial risks

Financial risks mainly have an impact on finances

**Measures:** PGE Group manages credit risk stemming from commercial transactions that can generate losses if a counterparty were to default. Prior to executing a transaction, a counterparty assessment is carried out, which involves, among other factors, financial analysis, internal ratings and limits that are regularly monitored. PGE Group applies a central financing model, which is generally used by PGE S.A. when raising external capital. PGE Group subsidiaries use a variety of intra-group financing sources such as: loans, bonds, bank account consolidation agreements (cash pooling). Liquidity risk is monitored using periodic liquidity planning, i.e. cash flow forecasts for operating, investing and financing activities. As regards currency risk and interest rate risk, PGE Group has developed internal management procedures, which are being implemented in stages. PGE Group companies execute derivative transactions involving interest rate- and/or currency-based instruments (IRS, CCIRS) only in order to hedge identified risk exposures.

## 5 PGE Capital Group on the capital market

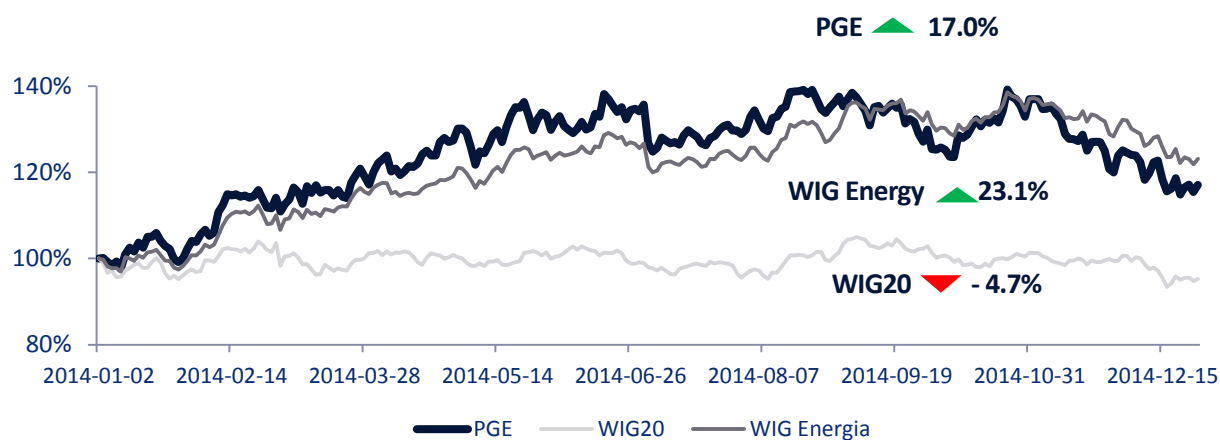
The first listing of rights to shares of PGE S.A. on the Warsaw Stock Exchange (WSE) regulated market took place on November 6, 2009. PGE S.A. shares started to be listed on December 15, 2009.

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

### 5.1 PGE share quotations

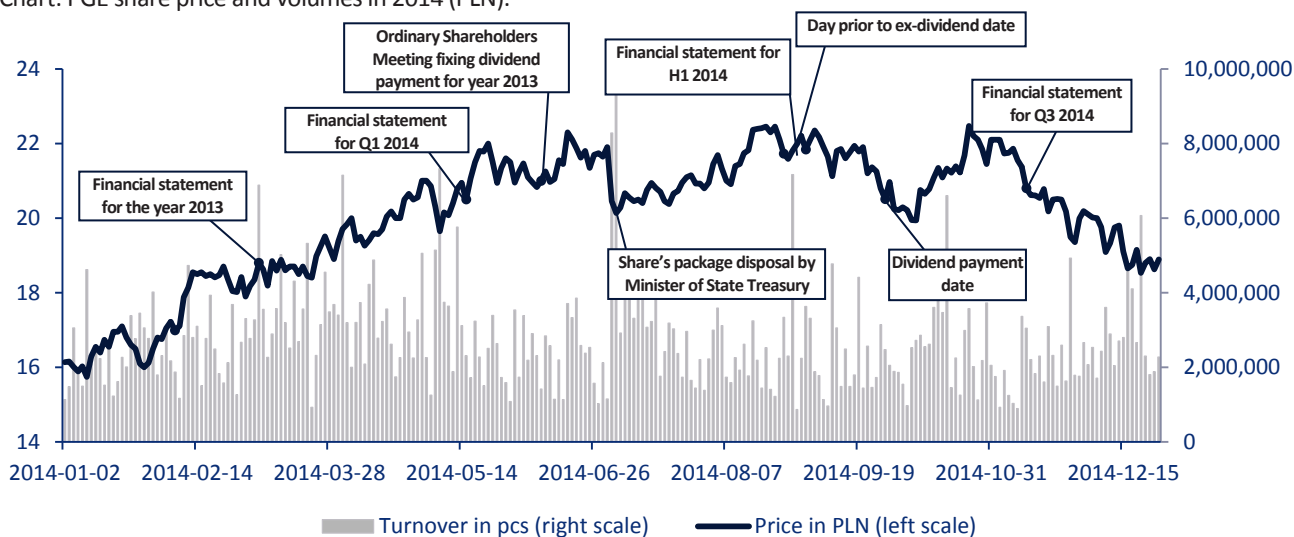
The quotations of PGE shares and the values of the WIG20, WIG Energia and RESPECT indexes on WSE from January 2 to December, 30 2014 (own calculations based on WSE's data).

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



During the course of 2014 the value of PGE shares increased by 17.0%, while at the same time the WIG20 index lost 4.7%. At the end of the year PGE shares were quoted at PLN 18.90, which determined the PGE Group's market capitalization at PLN 35.3 billion. The highest price during the year was PLN 22.85, and the lowest – PLN 15.60.

Chart: PGE share price and volumes in 2014 (PLN).



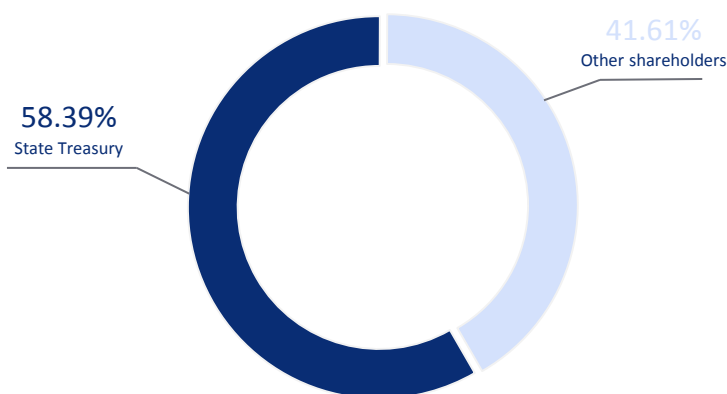
## 5.2 PGE S.A. shares

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

| Specification                                    | 2014           |
|--------------------------------------------------|----------------|
| Turnover (PLN)                                   | 13,695,334,430 |
| Average number of transactions per session (pcs) | 2,784          |
| Maximum price in year (PLN)                      | 22.85          |
| Minimum price in year (PLN)                      | 15.60          |

Source: GPWinfostrefa.pl

According to the notification from the Minister of State Treasury of July 8, 2014, about which PGE informed in current report no 35/2014 dated July 9, 2014, State Treasury holds 1,091,681,706 Company's ordinary shares with nominal value of PLN 10 each, representing 58.39% of Company's share capital and entitling to perform 1,091,681,706 votes at the general meeting of the Company, representing 58.39% of the total number of votes.



| Shareholder        | No of shares<br>(pcs) | No of votes<br>(pcs) | % of shares and votes<br>(%) |
|--------------------|-----------------------|----------------------|------------------------------|
| State Treasury     | 1,091,681,706         | 1,091,681,706        | 58.39%                       |
| Other shareholders | 778,079,123           | 778,079,123          | 41.61%                       |
| <b>Total</b>       | <b>1,869,760,829</b>  | <b>1,869,760,829</b> | <b>100.00%</b>               |



### 5.3 PGE Investor Relations

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

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

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

### 5.4 PGE S.A. reporting calendar.

|                   |                                                                 |
|-------------------|-----------------------------------------------------------------|
| February 17, 2015 | - Stand-alone Annual Report of PGE S.A. for year 2014           |
| February 17, 2015 | - Consolidated Annual Report of PGE Capital Group for year 2014 |
| May 6, 2015       | - Quarterly report for the first quarter of 2015                |
| August 11, 2015   | - Consolidated half-year report for the first half of 2015      |
| November 9, 2015  | - Quarterly report for the third quarter of 2015                |

## 5.5 Dividend policy of PGE Polska Grupa Energetyczna S.A.

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

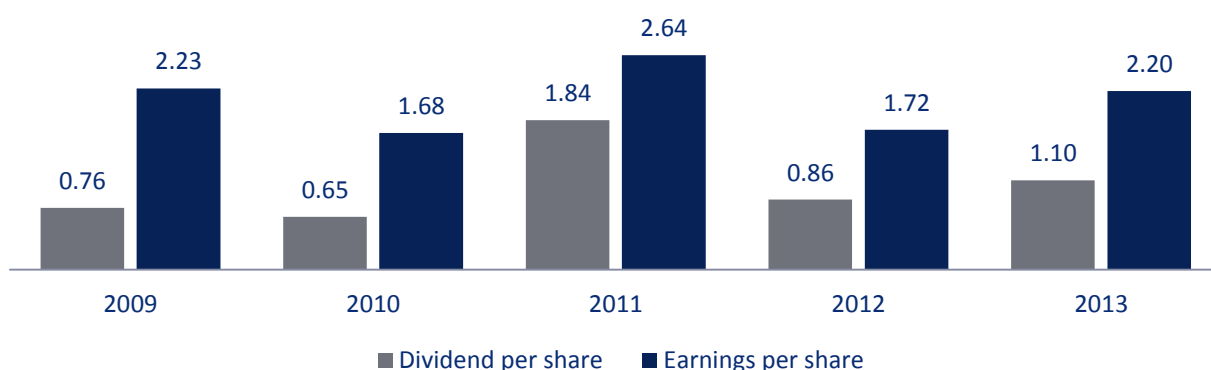
In the medium term, the Management Board intends to make a recommendation to the Shareholders' Meeting on dividends to be paid in accordance with power industry standards. The Management Board currently believes that a distribution of nearly 40-50 per cent of the consolidated net profit will be attributable to equity holders of the parent company.

For each annual dividend distribution, the amount of the dividend will depend, in particular, on the Company's overall indebtedness, expected capital expenditures and potential acquisitions.

The Ordinary General Meeting of the Company of June 6, 2014 adopted the resolution to allocate a part of Company's net profit for the financial year 2013 in amount of PLN 2,337,559,286.34 for dividend payment. The dividend for shareholders amounted to PLN 1.10 per share.

As at the date of the OGM, the dividend applied to 1,869,760,829 shares and the total value of the dividend amounted to PLN 2,056,736,911.90.

The OGM determined September 5, 2014 as the dividend date. Dividend was paid on September 26, 2014.



## 6 Statement on implementation of Corporate Governance

This Statement on implementation of corporate governance in PGE S.A. in 2014 was prepared on the basis of art. 91 section 5 point 4 of the Regulation of the Minister of Finance dated February 19, 2009 on current and periodic information published by issuers of securities and on conditions under which such information may be recognized as being equivalent to information required by the regulations of law of a state which is not a member state (Dziennik Ustaw of 2014, item 133) and the resolution of the Management Board of the Warsaw Stock Exchange no. 718/2009 of December 16, 2009.

### 6.1 Corporate governance principles which the Company was obliged to follow in 2013

In 2014 PGE S.A. was obliged to follow the corporate governance principles described in "Best Practices of WSE Listed Companies" (further: Best Practices), adopted with the Resolution of the Board of the Warsaw Stock Exchange ("WSE") no. 12/1170/2007 on July 4, 2007 and amended on May 19, 2010 by the Resolution of the Board of the WSE no. 17/1249/2010, that came into force on July 1, 2010, and later amended by the Resolution of the Board of the WSE no. 15/1282/2011 of August 31, 2011 and by the Resolution of the Board of the WSE no. 20/1287/2011 of October 19, 2011, which both came into force on January 1, 2012. On November 21, 2012 the Board of the WSE adopted further changes in Resolution no. 19/307/2012, which came into force on January 1, 2013 and should be obliged by the issuer starting from that date.

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

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

### 6.2 Information on exceptions in application of the corporate governance principles

In 2014 the Company applied the Best Practices with the exception of:

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

So far, the Company has not worked out an uniform remuneration policy and rules of defining the policy. The Company and its subsidiaries are bound to apply the provisions of various collective agreements, which significantly restricts the freedom of designing the remuneration policy. With regard to the members of the Supervisory Board, the provisions of the Act on remuneration of managers of certain legal entities are applied, limiting the Supervisory Board members remuneration to one average salary in the enterprises sector, without payments from the profit in the fourth quarter indicated in the above Act. In relation to the Management Board members, the given Act does not apply as they perform the services for the Company on the ground of the agreements for rendering of the management services.

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

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

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

- III. Principle 6 included in the section III „Best Practice for Supervisory Board Members” with regard to meeting the criteria of independency from the company and entities with significant connections with the company by at least two members of the Supervisory Board.

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

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

### **6.3 Description of the basic characteristics of internal control systems and risk management systems used in the Company during preparation of the financial statements and consolidated financial statements**

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

Basic regulations applicable to preparation of financial statements include:

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

IFRS-compliant accounting policy of the PGE Capital Group is binding for the companies using IFRS for preparation of their statutory financial statements and at preparation of the IFRS-compliant reporting packages for the consolidation. Before every reporting period the companies subject to consolidation receive detailed guidelines with regard to method and closing date of the accounting books, preparation and submitting the reporting packages and template updated for a given period.

The Company keeps accounting books in the integrated information system. The system ensures division of competencies, coherent entries in the books and control between the general ledger and subsidiary ledgers. The system can be modified to ensure adequacy of the technical solutions to the changing accounting principles and legal standards.

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

Statutory auditors perform an independent assessment of reliability and correct preparation of the financial statements of PGE S.A. and financial statements of companies subject to consolidation. Two auditing companies were appointed to audit 2014 financial statements of key companies in the PGE Group. Their duties include review of the half-year financial statements and initial and essential audit of the annual statements. The PGE Group has implemented a multi-stage process of approving financial statements with the participation of Supervisory Boards. Stand-alone and consolidated financial statements of PGE S.A. are evaluated by the Supervisory Board. The Audit Committee operates within the Supervisory Board and is responsible, among others, for reviewing annual financial statements of the Company. Stand-alone financial statements of the companies subject to consolidation are evaluated by the Supervisory Boards of such companies. The financial statements are approved by the General Meetings of the companies.

The Company has implemented internal audit to perform an independent and objective evaluation of the risk management and internal control systems. The internal audit operates on the basis of the internal audit regulations based on the international standards of professional internal audit practices. The audit performs scheduled and ad hoc auditing tasks both in the parent companies and companies within the Group. Audit results are reported to the Management Board of PGE S.A.

The PGE Group has implemented the corporate risk management process. Risk management is aimed at providing information about threats of failure to achieve business goals, reducing adverse effects of such threats and undertaking preventive or recovery steps. PGE Group risks relating to various operating segments are identified and evaluated; then preventive steps are undertaken. Risk owners are responsible for managing identified risks.

As part of the controlling activities, periodical management reporting is evaluated for reasonable information, in particular in the context of analysis of deviations from assumptions in the financial plans.

### **6.4 Shareholders with a significant stake**

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

### **6.5 Shareholders with special control powers**

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

Despite the fact that the Company shares are not privileged, the Statutes provides for special powers for the State Treasury as long as it is the shareholder of the Company. In accordance with statutory provisions, the State Treasury may demand in

writing that the Management Board convene the General Meeting, demand that certain matters be placed on the agenda, submit draft resolutions pertaining to matters placed on the agenda of the General Meeting or matters which may be placed on the agenda, and obtain copies of announcements printed in the "Monitor Sądowy i Gospodarczy".

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

On the ground of the Statutes, the State Treasury holds special right with regard to selection of the Supervisory Board members. Selection of half of members of the Supervisory Board, appointed by the General Meeting, shall be elected from among persons indicated by the State Treasury. Pursuant to resolution no. 4 of the Extraordinary General Meeting of the Company adopted on February 6, 2014 and registered in the National Court Register on March 13, 2014, changing the Statutes of PGE S.A., the Supervisory Board selects the Chairperson of the Supervisory Board from among its members wherein the Chairperson of the Supervisory Board shall be elected from among persons indicated by the State Treasury. This State Treasury's right is valid until its stake in the Company falls below 20%.

## **6.6 Limitations regarding exercise of the voting rights from the existing shares**

Until the registration of the changes to the Statutes that were approved by the General Meeting of June 29, 2011, there were no limitations regarding exercise of the voting rights from shares of the Company.

On June 29, 2011 the General Meeting adopted the changes to the Company Statutes, introducing modifications regarding the limitations regarding exercise of the voting rights in shares. The voting right of shareholders shall be limited in such manner that at the General Meeting, none of them may exercise more than 10% of the total number of votes existing in the Company as at the date of holding the General Meeting, subject to the provision that for the purposes of determining the obligations of entities acquiring considerable blocks of shares as provided for in the Act on public offerings, conditions for introducing financial instruments to an organised trading system and public companies of July 29, 2005, such limitation of the voting right shall be regarded as non-existent.

The above limitation does not apply to the State Treasury and shareholders acting with the State Treasury on the basis of agreements concerning the joint exercise of the voting right related to shares.

In addition, for the purposes of limiting the voting right, votes belonging to shareholders between whom there exists a relationship of domination or dependence (Shareholders Group) shall be cumulated; in the event that the cumulated number of votes exceeds 10% (ten per cent) of the total number of votes in the Company, it shall be subject to reduction.

The accumulation of votes shall consist in the summing of the number of votes remaining at the disposal of shareholders belonging to a Shareholders Group.

The reduction of votes shall consist in decreasing the total number of votes in the Company to which shareholders belonging to a Shareholders Group are entitled at the General Meeting to the threshold of 10% (ten per cent) of the total number of votes in the Company.

The accumulation and reduction of votes together with the detailed description of the shareholders between whom there exists a relationship of domination or dependence are governed by the principles included in the Company's Statutes.

Moreover, each shareholder who intends to participate in the General Meeting, directly or by proxy, shall be obliged, without a separate call, to notify the Management Board or the Chairperson of the General Meeting of the fact that he holds, directly or indirectly more than 10% (ten per cent) of the total number of votes in the Company. A person who has failed to comply or has complied improperly with that obligation to provide information may exercise the voting right exclusively from one share until the remedy of such failure to. The exercise of the voting right from the other shares by such person shall be ineffective.

Irrespective of the above provision, in order to establish a basis for the accumulation and reduction of votes, a shareholder, the Management Board, the Supervisory Board and the particular members of these bodies may demand that a shareholder provide information whether he is a person having the status of a dominant or dependent entity with respect to another shareholder. The right referred to in the preceding sentence shall also cover the right to demand that a shareholder disclose the number of votes that such shareholder holds independently or together with other shareholders.

At the time when the share of the Company's share capital held by the State Treasury falls below 5%, the limitation of the above voting right shall expire.

## **6.7 Limitations regarding the transfer of ownership of the Company's securities**

There are no limitations regarding the transfer of ownership of the Company's securities, that the Company is aware of.

## **6.8 Rules for amendments to the Company's Statutes**

In accordance with provisions of the Code of Commercial Companies, any amendments to the Company's Statutes require a resolution to be passed by the General Meeting and an entry to the register of entrepreneurs. A resolution on amendments to the Company's Statutes is made with a majority of three fourth votes. The General Meeting of the Company may authorise the Supervisory Board to agree on the uniform text of the amended Company's Statutes or introduce other editing changes as specified in the resolution of the General Meeting. Amendments to the Company's Statutes shall be valid from the day an entry is made to the register of entrepreneurs.

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

Rules of the General Meeting are determined in the Code of Commercial Companies and the Company's Statutes. The additional issues related to the activities of the General Meeting are regulated by the Rules of the General Meeting approved on March 30, 2010 by the Extraordinary General Meeting.

The Company's Statutes and the Rules of the General Meeting are available on the PGE's website at [www.gkpge.pl](http://www.gkpge.pl).

### **I. Convening and cancelling the General Meeting.**

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

Pursuant to the Statutes of the Company, the Management Board shall convene the General Meeting on its own initiative, at the written demand of the Supervisory Board or demand of the shareholder or shareholders representing at least one twentieth of the share capital or at the written demand of the State Treasury as long as the State Treasury remains a shareholder of the Company.

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

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 [www.gkpge.pl](http://www.gkpge.pl).

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

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

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



## II. Competencies of the General Meeting of the Company.

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

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

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

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

## III. Participation in the General Meeting of the Company

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

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

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

#### IV. Voting at the General Meeting of the Company

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

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

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

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

#### 6.10.1 Management Board

##### I. Members of the Management Board

In 2014, the Management Board of the Company consisted of:

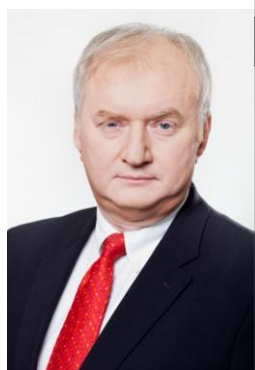
| Name and surname of the Member of the Management Board | Position                                                                                  |
|--------------------------------------------------------|-------------------------------------------------------------------------------------------|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



#### Marek Woszczyk – President of the Management Board

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

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



#### Dariusz Marzec - Vice-President of the Management Board for Development

Appointed to the position of the Vice-President of the Management Board on December 24, 2013.

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



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

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

Graduate of Faculty of Electrical Engineering and School of Business (program of leading European Universities: London Business School, HEC in Paris, Norwegian School of Economics and Business Administration in Bergen) at the Warsaw University of Technology. From the beginning of the professional career associated with the power sector. Participated in the largest modernization projects in the Polish energy sector in the 90 and privatization and restructuring projects in the energy sector in Poland and abroad. Gained wide experience in international environment working for Westinghouse, Apache Corp., New York State Electric&Gas Corp., Arthur Andersen and Vertis Environmental Finance. Traded electricity and CO<sub>2</sub> on markets of California, PJM (Pennsylvania-Jersey-Maryland) and New England. Manager in Elektrim Energy Group, responsible among other for financing arrangements and construction of Pątnów II power plant, acquisitions of energy assets, elaboration and implementation of restructuring processes of the group's companies and management of energy assets portfolio.



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

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

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

**II. Rules of appointing and recalling the management personnel**

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

The Management Board or individual members of the Management Board are appointed and recalled by the Supervisory Board. In addition, each member of the Management Board may be recalled or suspended by the General Meeting or, for major reasons, suspended by the Supervisory Board. A resolution of the Supervisory Board on the suspension of a member of the Management Board must include a justification. The Supervisory Board may delegate members of the Supervisory Board to perform activities of the members of the Management Board on a temporary basis.

A member of the Management Board submits his/her resignation in writing to the Supervisory Board at the address of the registered office of the Company.

**III. Competencies of the Management Board**

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

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

Pursuant to the Statutes of the Company, resolutions of the Management Board are required for all matters that go beyond the scope of ordinary acts of the Company. Furthermore, resolutions of the Management Board are required for any matter referred by the Management Board to the Supervisory Board, and matters not reserved for the Board's competencies.

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

#### IV. Activities and organisation of work of the Management Board

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

The works of the Management Board are headed by the President of the Management Board. Meetings of the Management Board are convened by the President of the Management Board on his/her own initiative or on the motion of a member of the Management Board. The agenda can be changed if all members of the Management Board are present at the meeting and all the members agree to such a change.

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

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

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

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

##### 6.10.2 Supervisory Board

###### I. Members of the Supervisory Board

From January 1, 2014 until February 28, 2014 the Supervisory Board performed the duties in the following composition:

| Name and surname of the member of the Supervisory Board | Position                                                                                                                                                      |
|---------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Małgorzata Dec</b>                                   | Chairman of the Supervisory Board. On February 28, 2014, Ms. Małgorzata Dec resigned from her position of the Chairperson and member of the Supervisory Board |
| <b>Jacek Barylski</b>                                   | Supervisory Board Member                                                                                                                                      |
| <b>Małgorzata Mika – Bryska</b>                         | Supervisory Board Member                                                                                                                                      |
| <b>Czesław Grzesiak</b>                                 | Supervisory Board Member                                                                                                                                      |
| <b>Anna Kowalik</b>                                     | Secretary of the Supervisory Board since July 17, 2013                                                                                                        |

On February 28, 2014, before the commencement of the proceedings of the Extraordinary General Meeting, Ms. Małgorzata Dec resigned from her position of the Chairperson and member of the Supervisory Board.

On February 28, 2014, the General Meeting determined the number of Supervisory Board members at 9 and appointed the following persons to the Supervisory Board of the 9<sup>th</sup> term:

| Name and surname of the member of the Supervisory Board | Position                                                           |
|---------------------------------------------------------|--------------------------------------------------------------------|
| <b>Barbara Dybek</b>                                    | Chairman of the Supervisory Board, appointed on February 28, 2014. |
| <b>Jarosław Gołębiowski</b>                             | Supervisory Board Member, appointed on February 28, 2014.          |
| <b>Małgorzata Molas</b>                                 | Supervisory Board Member, appointed on February 28, 2014.          |
| <b>Krzysztof Trochimiuk</b>                             | Supervisory Board Member, appointed on February 28, 2014.          |
| <b>Piotr Machnikowski</b>                               | Supervisory Board Member, appointed on February 28, 2014.          |

Since February 28, 2014 the Supervisory Board has functioned in the following composition:

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

#### **Barbara Dybek - Chairman of the Supervisory Board**

A graduate of the Faculty of Law and Administration of Adam Mickiewicz University in Poznań. After the court training period in the Regional Court in Poznań, she passed judge and legal counsel examinations. She was entered in the list of legal counsels. In the years 2009-2010 she completed Negotiations and Mediations Post-Graduate Studies at the Higher School of Humanities and Journalism in Poznań. She is a certified mediator at Economic Mediation Centre of the National Chamber of Legal Counsels, a Super Arbitrator of the Economic Court of Arbitration of the Wielkopolska Chamber of Construction in Poznań. In the years 1994-1996 she worked in the Poznań Branch of the Ministry of Ownership Transformation and in the years 1996-2012 she was employed in the Poznań Branch of the State Treasury Ministry. At present she holds the position of the Deputy Director in the Department of Post-Privatisation Activities of the Ministry of State Treasury. She has acquired her experience connected with the supervision of the companies with the shares held by the Ministry of State Treasury working as the Member of the Supervisory Boards of such companies as Huta Szkła Ujście S.A. with the registered office in Ujście, Towarzystwo Finansowe Silesia sp. z o.o. with the registered office in Katowice, Chemia Polska spółka z o.o. with the registered office in Warsaw, Fabryka Szlifierek Fas-Głowno with the registered office in Głowno, Lubuskie Zakłady Termotechniczne Elterma S.A. with the registered office in Świebodzin. According to the submitted statement, Mrs. Barbara Dybek is affiliated with a shareholder holding shares representing not less than 5% of all voting rights at General Meeting i.e. with State Treasury through employment at the Ministry of State Treasury.

#### **Piotr Machnikowski - Vice-Chairman of the Supervisory Board**

A graduate from the Faculty of Law and Administration of the University of Wrocław. A legal counsel since 2004. From 2011 holds an academic title of professor of legal sciences. From 2013 a Member of the Civil Law Codification Commission at the Minister of Justice of the Republic of Poland, from 2011 Arbitrator at the Court of Arbitration at the Polish Chamber of Commerce in Warsaw. He is an author of a number of publications on civil law. He is a member in the following organizations: European Law Institute, European Research Group on Existing EC Private Law (Acquis Group). He seats in Editorial boards of national and foreign scholarly journals (Studia Prawa Prywatnego, Przegląd Prawa i Administracji, Opinio Iuris in Comparatione).

#### **Jacek Barylski - Supervisory Board Member**

A graduate of the Faculty of Law and Administration at the University of Łódź and Postgraduate Studies in Finance at the Warsaw School of Economics. He is a legal counsel. Currently he holds the position of Director of the Guarantees and Sureties Department in the Ministry of Finance. He is also Chairman of the Steering Committee on the Implementation of the Government's Entrepreneurship Support Programme, which is based on sureties and guarantees granted by Bank Gospodarstwa Krajowego. He was a member of the Supervisory Boards of Polski Monopol Loteryjny Sp. z o.o., PKP Cargo S.A. and Warszawski Rolno-Spożywczy Rynek Hurtowy S.A. Since 2003 he has been a member of the Supervisory Board of PKP S.A.



#### **Małgorzata Mika - Bryska - Supervisory Board Member**

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

#### **Anna Kowalik - Secretary of the Supervisory Board**

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

#### **Jarosław Gołębiowski - Supervisory Board Member**

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

#### **Czesław Grzesiak - Supervisory Board Member**

A graduate of the Faculty of Law and Administration at the University of Poznań. He completed a course for administrative receivers. He is a member of the Lewiatan Polish Confederation of Private Employers and a member of the Polish Organization of Commerce and Distribution. Since 1995 a member of the Management Board, and since 2004 Vice President of the Management Board of TESCO (Polska) Sp. z o.o. (currently this is his primary employment). He also holds the position of President of the Management Board in the following companies: SAVIA – Karpaty Sp. z o.o., Genesis Sp. z o.o., Promesa Sp. z o.o., Vice President of the Management Board of KABATY Investments TESCO (Polska) Sp. z o.o. Sp.k., and member of the Management Board in TESCO Dystrybucja Sp. z o.o. and Jasper Sp. z o.o.

#### **Małgorzata Molas - Supervisory Board Member**

A graduate of the Faculty of Economics at Maria Curie-Skłodowska University. She also graduated from the Academy of Companies Post-Graduate Studies at Warsaw School of Economics. Since 2001 a member of supervisory boards of companies with the shares held by the State Treasury, e.g. Wielkopolska Spółka Gazownictwa Sp. z o.o., Przedsiębiorstwo Uzdrowisko Ciechocinek S.A., Zakłady Azotowe w Tarnowie-Mościcach S.A., Towarowa Giełda Energii S.A. Currently a member of the Supervisory Board of Elektromontaż Poznań S.A. At present she is a Section Manager at the Department of Ownership Transformation and Privatisation of the Polish Ministry of State Treasury. According to the submitted statement, Ms. Małgorzata Molas is affiliated with a shareholder holding shares representing not less than 5% of all voting rights at General Meeting i.e. with State Treasury through employment at the Ministry of State Treasury.

#### **Krzysztof Trochimiuk - Supervisory Board Member**

A graduate of the Faculty of Economic and Social Sciences of the Main School of Planning and Statistics (currently Warsaw School of Economics). He worked as head of the Section of Analysis and Publications of the Regional Methodology Group for Health Care and Social Assistance. From 1986 to 1991 he was a head of Department of Public Utilities, Housing and the Environment in the City Office in Biała Podlaska. He has run his own business activity since 1991. He was a member and Vice-President of the Supervisory Board of Miejski Zakład Komunikacyjny w Białej Podlaskiej Sp. z o.o. He has run his own business activity since 1991. He was a Chairman of the Civic Council of the Regional Specialist Hospital in Biała Podlaska and a treasurer of the Civic Council of Podlaska Foundation for Supporting Talents in Biała Podlaska.



## II. Rules of appointing and recalling of the supervisory personnel

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

On February 6, 2014 the Extraordinary General Meeting adopted resolution no. 4 which changes the Statutes of PGE S.A. and changes were registered in the National Court Register on March 13, 2014. Changes relate to inter alia determination of number of Supervisory Board members and manner of selection of the Chairman of the Supervisory Board.

According to the provisions of the Statutes, the Supervisory Board shall include at least one person appointed by the General Meeting from among persons meeting the criteria of independence specified in the principles of corporate governance adopted by the Board of the WSE. Proposing a candidate for this position a shareholder nominating such candidate shall be obliged to submit to the minutes of the General Meeting such candidate's written declaration confirming his/her independency.

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

## III. Activities and organisation of the Supervisory Board

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

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

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

## IV. Competencies of the Supervisory Board

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

The Statutes of the Company and the Rules of the Supervisory Board are available on the corporate website at [www.gkpge.pl](http://www.gkpge.pl).

## V. Committees

In accordance with the Company's Statutes, the Rules of the Supervisory Board or a resolution of the General Meeting may provide for establishment of committees within the Supervisory Board, in particular the audit committee and the appointment and remuneration committee. The current Rules of the Supervisory Board provide that the Supervisory Board may appoint standing or ad hoc committees, acting as collective advisory and opinion-making bodies of the Supervisory Board. The particular goal of the committees is to provide the Supervisory Board with opinions and recommendations on matters within the competencies of the committees. The committees are established by the Supervisory Board out of its members. The committee consists of 2 to 5 persons. The committee appoints a chairman out of its members. The chairman

convenes meetings of the committee, manages works of the committee and represents the committee in relations with the authorities and employees of the Company. The mandate of a committee member expires with the expiry of the mandate of the member of the Supervisory Board, resignation from membership in the committee or recalling from the committee by the Supervisory Board. Each Member of the Supervisory Board may participate in committee meetings. The committee chairman may invite to the meetings members of the Management Board, Company employees and other persons whose participation is advisable. Decisions of the committee are made on a consensus basis.

The following standing committees are currently part of the Supervisory Board: the Audit Committee, the Strategy and Development Committee, the Appointment and Remuneration Committee, and the Corporate Governance Committee.

Table: Composition of the committees in 2014.

| <b>Name and surname of the member of the Supervisory Board</b> | <b>Audit Committee</b>             | <b>Corporate Governance Committee</b>                                                 | <b>Strategy and Development Committee</b>                                               | <b>Appointment and Remuneration Committee</b> |
|----------------------------------------------------------------|------------------------------------|---------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------|
| <b>Jacek Barylski</b>                                          |                                    | Member<br>since July 17, 2013                                                         |                                                                                         | Chairman<br>since July 17, 2013               |
| <b>Barbara Dybek</b>                                           | Member<br>since March 12, 2014     |                                                                                       |                                                                                         |                                               |
| <b>Jarosław Gołębiewski</b>                                    | Chairman<br>since March 12, 2014   |                                                                                       | Member<br>since July 17, 2013                                                           |                                               |
| <b>Czesław Grzesiak</b>                                        |                                    | Member<br>since July 17, 2013                                                         | Member<br>since July 17, 2013                                                           | Member<br>since July 17, 2013                 |
| <b>Anna Kowalik</b>                                            | Member<br>since July 17, 2013      |                                                                                       |                                                                                         | Member<br>since July 17, 2013                 |
| <b>Piotr Machnikowski</b>                                      |                                    | Member<br>since March 12, 2014<br>Chairman<br>since 11.06.2014 r.                     |                                                                                         |                                               |
| <b>Małgorzata Mika-Bryska</b>                                  |                                    | Chairman<br>from July 17, 2013<br>till 11.06.2014 r.<br>Member<br>since 11.06.2014 r. | Member<br>from July 17, 2013<br>till April 16, 2014<br>Chairman<br>since April 16, 2014 |                                               |
| <b>Małgorzata Molas</b>                                        |                                    |                                                                                       | Member<br>since March 12, 2014                                                          |                                               |
| <b>Krzysztof Trochimiuk</b>                                    | Member<br>since March 12, 2014     |                                                                                       |                                                                                         | Member<br>since March 12, 2014                |
| <b>Małgorzata Dec*</b>                                         | Chairman<br>till February 28, 2014 |                                                                                       | Member<br>till February 28, 2014                                                        | Member<br>till February 28, 2014              |

\*Member of the Supervisory Board till February 28, 2014

Range of competencies of particular Committees of the Supervisory Board is presented in details in the Rules of the Supervisory Board that is available on the corporate website at [www.gkpg.pl](http://www.gkpg.pl).

**a. The Audit Committee**

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

**b. The Corporate Governance Committee**

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

**c. Strategy and Development Committee**

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

d. Appointment and Remuneration Committee

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

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

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

In 2014 the members of the Management Board of PGE S.A. were remunerated based on Management Services Contracts signed with the Company.

The contracts were concluded pursuant to the provisions defined in art. 3 section 2 of the Act on Remuneration for Managers of Certain Legal Entities (the "Public Sector Salary Cap Act"). Contractual provisions regarding remuneration are based on the remuneration rules set out by the Supervisory Board.

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

Management Services Contracts contain non-competition clauses which are binding during the term of the contract and following termination thereof. The Management Board Members purchased, at their own expense, a liability insurance with regard to their managing duties for the Company.

Table: Remuneration and benefits received in 2014 by the Members of the Management Board of PGE S.A. from PGE S.A., in cost perspective.

| Name and surname of the member<br>of the Management Board | Remuneration and benefits achieved<br>by the Management Board members<br>in PGE S.A. in 2014<br>(in PLN) |
|-----------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Marek Woszczyk                                            | 1,140,000.00 <sup>1</sup>                                                                                |
| Jacek Drozd                                               | 1,044,000.00 <sup>1</sup>                                                                                |
| Grzegorz Krystek                                          | 1,008,000.00 <sup>1</sup>                                                                                |
| Dariusz Marzec                                            | 1,008,000.00 <sup>1</sup>                                                                                |
| Krzysztof Kilian                                          | 1,399,047.70 <sup>2,3</sup>                                                                              |
| Piotr Szymanek                                            | 1,080,000.00 <sup>3</sup>                                                                                |
| Bogusława Matuszewska                                     | 1,080,000.00 <sup>3</sup>                                                                                |
| Wojciech Ostrowski                                        | 1,087,000.00 <sup>2,3</sup>                                                                              |
| Paweł Smoleń                                              | 867,000.00 <sup>3</sup>                                                                                  |

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

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

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

Members of the Management Board of PGE S.A. in 2014 did not receive remuneration or benefits from companies of the Capital Group other than PGE S.A.

The remuneration and benefits paid by the Company in 2014 to the Management Board members amounted to **PLN 9.71 million**. In cost perspective (including provisions), in 2014 the remuneration of all persons who acted as Management Board members, jointly with the post-employment benefits, amounted to **PLN 7.32 million**.

### 6.11.2 Rules with respect to the determination of remuneration for the Supervisory Board Members of PGE S.A.

The amounts of remuneration of the Supervisory Board Members of PGE S.A. are determined based the Public Sector Salary Cap Act, pursuant to which the remuneration may not exceed the amount of one average monthly salary in the enterprise sector without payments of profit bonuses in the 4th quarter of the year, as specified in the Public Sector Salary Cap Act.

Table: Amounts of remuneration received by the Supervisory Board Members of PGE S.A. who in 2014 performed their functions in PGE S.A. and in companies of the PGE Capital Group other than PGE S.A.

| Name and surname of a Supervisory Board member | Position                               | Remuneration and benefits achieved by the Supervisory Board members in PGE S.A. in 2014 (in PLN) | Remuneration achieved by the Supervisory Board members in Group entities other than PGE S.A. in 2014 (in EUR) |
|------------------------------------------------|----------------------------------------|--------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| Barbara Dybek                                  | Chairman of the Supervisory Board      | 34,669.18 <sup>1</sup>                                                                           | 12,950                                                                                                        |
| Jacek Barylski                                 | Supervisory Board Member               | 41,454.96 <sup>1</sup>                                                                           | -                                                                                                             |
| Czesław Grzesiak                               | Supervisory Board Member               | 41,454.96 <sup>1</sup>                                                                           | -                                                                                                             |
| Małgorzata Mika - Bryska                       | Supervisory Board Member               | 41,454.96 <sup>1</sup>                                                                           | -                                                                                                             |
| Anna Kowalik                                   | Secretary of the Supervisory Board     | 41,454.96 <sup>1</sup>                                                                           | -                                                                                                             |
| Jarosław Gołębiewski                           | Supervisory Board Member               | 34,669.18 <sup>1</sup>                                                                           | -                                                                                                             |
| Piotr Machnikowski                             | Vice-Chairman of the Supervisory Board | 34,669.18 <sup>1</sup>                                                                           | -                                                                                                             |
| Małgorzata Molas                               | Supervisory Board Member               | 34,669.18 <sup>1</sup>                                                                           | -                                                                                                             |
| Krzysztof Trochimiuk                           | Supervisory Board Member               | 34,669.18 <sup>1</sup>                                                                           | -                                                                                                             |
| Małgorzata Dec                                 | -                                      | 6,909.16 <sup>1</sup>                                                                            | -                                                                                                             |

<sup>1</sup> includes remuneration for the period of performing duties in the Supervisory Board

Total remuneration and benefits paid out by the Company to the members of the Supervisory Board of PGE S.A. in 2014 amounted to **PLN 346 thousand**.

## 6.12 Information about shares and other securities

### 6.12.1 Share capital and ownership structure

As at December 31, 2014 the share capital of PGE S.A. amounts to **PLN 18,697,608,290** and splits into **1,869,760,829** shares with a nominal value of PLN 10 each

Table: Share capital of the Company.

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

Table: Ownership structure of the Company's share capital as at December 31, 2014\*.

|                                   | State Treasury                      |                                              | Other shareholders *                |                                              | Total                               |                                              |
|-----------------------------------|-------------------------------------|----------------------------------------------|-------------------------------------|----------------------------------------------|-------------------------------------|----------------------------------------------|
|                                   | nominal value<br>of shares<br>(PLN) | % share in the<br>share capital<br>and votes | nominal value<br>of shares<br>(PLN) | % share in the<br>share capital<br>and votes | nominal value<br>of shares<br>(PLN) | % share in the<br>share capital<br>and votes |
| <b>Shares at<br/>Dec 31, 2014</b> | 10,916,817,060                      | 58.39                                        | 7,780,791,230                       | 41.61                                        | 18,697,608,290                      | 100.00                                       |

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

All of the Company shares have been paid.

Although the Company's shares are not privileged, the Statutes of the Company provide for special rights of the State Treasury until it remains a shareholder of the Company.

#### 6.12.2 Shareholders with a significant stake

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

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

| Shareholder    | Number of shares     | Number of votes      | % in total votes on<br>General Meeting |
|----------------|----------------------|----------------------|----------------------------------------|
| State Treasury | 1,091,681,706        | 1,091,681,706        | 58.39%                                 |
| Others         | 778,079,123          | 778,079,123          | 41.61%                                 |
| <b>Total</b>   | <b>1,869,760,829</b> | <b>1,869,760,829</b> | <b>100.00%</b>                         |

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

### 6.12.3 Treasury shares

As at December 31, 2014 PGE S.A. did not hold any their treasury shares.

As at December 31, 2014 PGE GiEK S.A. held their treasury shares in amount of 2,751,654 shares that were purchased through squeeze-out pursuant to art. 418<sup>1</sup> § 4 of the Polish Commercial Companies Code or on the ground of the company's statutes (the shares were purchased for redemption). On September 11 2014, the Extraordinary General Meeting of PGE GiEK S.A. adopted a resolution on the redemption of above mentioned shares.

### 6.12.4 Shares of the parent company owned by the members of management and supervisory authorities

According to the best knowledge of the Management Board of the Company, members of management and supervisory authorities of the Company as of the date of submission of this report and as of the date of publishing of the consolidated report for the third quarter of 2014 held following number of shares:

Table: PGE S.A. shares held and managed directly by the members of management and supervisory authorities of the Company

| Shareholder                  | Number of shares as of date of publishing of the consolidated report for Q3 2013 (i.e. November 13, 2014) | Change in number of owned shares | Number of shares as of submission date of the annual report | Nominal value of shares as of submission date of the annual report (PLN) |
|------------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------------|
| <b>The Management Board</b>  | <b>350</b>                                                                                                | <b>no change</b>                 | <b>350</b>                                                  | <b>3,500</b>                                                             |
| Grzegorz Krystek             | 350                                                                                                       | no change                        | 350                                                         | 3,500                                                                    |
| <b>The Supervisory Board</b> | <b>873</b>                                                                                                | <b>no change</b>                 | <b>873</b>                                                  | <b>8,730</b>                                                             |
| Krzysztof Trochimiuk         | 873                                                                                                       | no change                        | 873                                                         | 8,730                                                                    |

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

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

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

| Shareholder                              | Position                               | Number of shares as of submission date of the annual report | Nominal value of shares as of submission date of the annual report [PLN] |
|------------------------------------------|----------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------------|
| <b>Management Board of PGE GiEK S.A.</b> |                                        | <b>8,301</b>                                                | <b>83,010</b>                                                            |
| Waldemar Szulc                           | Vice-President of the Management Board | 5,090                                                       | 50,900                                                                   |
| Jacek Kaczorowski                        | President of the Management Board      | 1,390                                                       | 13,900                                                                   |
| Stanisław Żuk                            | Vice-President of the Management Board | 688                                                         | 6,880                                                                    |
| Roman Forma                              | Vice-President of the Management Board | 662                                                         | 6,620                                                                    |
| Robert Imbor                             | Vice-President of the Management Board | 471                                                         | 4,710                                                                    |

### 6.12.5 Control system of employees share scheme

In 2014, PGE S.A. did not maintain any employees share schemes.





#### 6.12.6 Use of proceeds from issues

In 2014 PGE S.A. did not issue any shares.

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

## 7 Description of the organisation of the PGE Capital Group

Companies comprising the main business segments of PGE Group as at December 31, 2014.

| Segment                        | Company                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>CONVENTIONAL GENERATION</b> | 1. PGE Górnictwo i Energetyka Konwencjonalna S.A.<br>2. Przedsiębiorstwo Energetyki Ciepłej sp. z o.o.                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>RENEWABLE ENERGY</b>        | 3. PGE Energia Odnawialna S.A.<br>4. Pelplin sp. z o.o.<br>5. Elektrownia Wiatrowa Baltica-1 sp. z o.o.<br>6. Elektrownia Wiatrowa Baltica-2 sp. z o.o.<br>7. Elektrownia Wiatrowa Baltica-3 sp. z o.o.<br>8. Eolica Wojciechowo sp. z o.o.<br>9. PGE Energia Natury S.A.<br>10. PGE Energia Natury sp. z o.o.<br>11. PGE Karnice sp. z o.o.<br>12. PGE Energia Natury Bukowo sp. z o.o.<br>13. PGE Energia Natury Omikron sp. z o.o.<br>14. PGE Energia Natury Kappa sp. z o.o.<br>15. PGE Energia Natury PEW sp. z o.o.<br>16. PGE Energia Natury Olecko sp. z o.o. |
| <b>WHOLESALE TRADING</b>       | 17. PGE Polska Grupa Energetyczna S.A.<br>18. PGE Dom Maklerski S.A.<br>19. PGE Trading GmbH                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>DISTRIBUTION</b>            | 20. PGE Dystrybucja S.A.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>SUPPLY</b>                  | 21. PGE Obrót S.A.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

### 7.1 Changes in organisation of the Capital Group

#### 7.1.1 Changes in organisation of the Capital Group in 2014

The changes, which occurred in the PGE Capital Group's structure year 2014 are presented in Note A.1.5 to consolidated financial statements and described below.

#### Shares in subsidiaries and associates

In 2014 **PGE S.A.** changed its equity interest in the following entities:

- On February 14, 2014, the Extraordinary General Meeting of PGE Dom Maklerski S.A. adopted a resolution on an increase of the company's share capital from PLN 16,500,000 to PLN 36,500,000, i.e. by PLN 20,000,000, through the issue of 20,000 new registered shares with a nominal value and issue price of PLN 1,000 each. All of the shares in the increased capital were acquired by PGE S.A. in exchange for a cash contribution. On April 16, 2014 the share capital increase was registered with the National Court Register.
- On March 19, 2014, an agreement was executed in Sundsvall, Sweden, between Bolagsrätt Sundsvall AB and PGE S.A. concerning the sale of shares in Stockholm-based Goldcup 5812 AB (publ.). Pursuant to the share sale agreement, PGE S.A. purchased 500,000 shares in Goldcup 5812 AB (publ.), constituting 100% of its share capital. PGE S.A. paid for the shares on April 8, 2014. Currently, Goldcup 5812 AB (publ.) is operating as PGE Sweden AB (publ.).
- On April 10, 2014, the Extraordinary General Meeting of PGE EJ 1 Sp. z o.o. adopted a resolution concerning a mandatory cash contribution by the sole shareholder, PGE S.A., in the amount of PLN 15,000,000, which constitutes 20.55% of the nominal value of the shares held by PGE S.A. The contribution was made on April 11, 2014.

- On May 16, 2014 the Extraordinary General Meeting of PGE Sweden AB (publ) adopted a resolution on an increase of the company's share capital from SEK 500,000 to SEK 191,000,000, i.e. by SEK 190,500,000, through the issue of 190,500,000 new shares with a nominal value and issue price of SEK 1 each. All of the shares in the increased capital were acquired by PGE S.A. in exchange for a cash contribution. On June 10, 2014, the share capital increase was registered with the Swedish Companies Register.
- On June 23, 2014, the Extraordinary General Meeting of PGE Dom Maklerski S.A. adopted a resolution on an increase of the company's share capital from PLN 36,500,000 to PLN 37,000,000 i.e. by PLN 500,000 through the issue of 500 new registered shares with a nominal value of PLN 1,000 each and issue price of PLN 120,000 each. All of the shares in the increased capital were acquired by PGE S.A. in exchange for a cash contribution. On September 2, 2014 the share capital increase was registered with the National Court Register.
- On August 18, 2014 the Extraordinary General Meeting of PGE Sweden AB (publ) adopted a resolution on an increase of the company's share capital from SEK 191,000,000 to SEK 245,000,000 SEK, i.e. by SEK 54,000,000, through the issue of 54,000,000 new shares with a nominal value and issue price of SEK 1 each. All of the shares in the increased capital were acquired by PGE S.A. in exchange for a cash contribution. On August 26, 2014, the share capital increase was registered with the Swedish Companies Register.
- On August 29, 2014, PGE S.A. executed share sale agreements pursuant to which it purchased 100% of shares in the following subsidiaries:
  - ELBEST sp. z o.o.,
  - PTS Betrans sp. z o.o.,
  - ELBIS sp. z o.o.,
  - BESTGUM POLSKA sp. z o.o.,
  - MegaSerwis sp. z o.o.,
  - TOP SERWIS sp. z o.o.,
  - ELTUR-SERWIS sp. z o.o.,
  - MEGAZEC sp. z o.o.,
  - ELMEN sp. z o.o.

As of August 31, 2014 ownership of shares of above mentioned companies was transferred to PGE S.A., in accordance with the share sale agreements.

- On September 10, 2014 PGE S.A. concluded donation agreements with PGE Obrót S.A. with its seat in Rzeszów. Subject matter of the donation agreements was 874,905,583 ordinary bearer shares of PGE Dystrybucja S.A. with its seat in Lublin, with a nominal value of PLN 10 each (aggregate nominal value of the shares acquired by PGE S.A. amounts to PLN 8,749,055,830) and 34,473,704 registered shares of PGE GiEK S.A. with its seat in Bełchatów, with a nominal value of PLN 10 each (aggregate nominal value of the shares acquired by PGE S.A. amounts to PLN 344,737,040). Above shares represent respectively 89.91% of the share capital of PGE Dystrybucja S.A. and 4.95% of the share capital of PGE GiEK S.A. As a consequence of the donations PGE S.A. became the sole shareholder of PGE Dystrybucja S.A. Moreover, PGE S.A. currently holds 99.21% in the share capital of PGE GiEK S.A. As a result of donations PGE Obrót S.A. lost its status of shareholder of PGE Dystrybucja S.A. and PGE GiEK S.A.
- On July 15, 2014 PGE S.A. set up 14 special purpose companies in form of limited companies with the following names (date of the registration of the company is presented in brackets) i.e.: PGE Inwest 2 sp. z o.o. (August 19, 2014); PGE Inwest 3 sp. z o.o. (August 25, 2014); PGE Inwest 4 sp. z o.o. (August 25, 2014); PGE Inwest 5 sp. z o.o. (August 19, 2014); PGE Inwest 6 sp. z o.o. (August 27, 2014); PGE Inwest 7 sp. z o.o. (September 5, 2014); PGE Inwest 8 sp. z o.o. (September 12, 2014); PGE Inwest 9 sp. z o.o. (August 26, 2014); PGE Inwest 10 sp. z o.o. (August 26, 2014); PGE Inwest 11 sp. z o.o. (September 12, 2014); PGE Inwest 12 sp. z o.o. (August 19, 2014); PGE Inwest 13 sp. z o.o. (August 25, 2014); PGE Inwest 14 sp. z o.o. (September 12, 2014); PGE Inwest 15 sp. z o.o. (August 21, 2014) with a share capital of PLN 10,000 each.
- On September 12, 2014 the Extraordinary General Meeting of PGE Energia Naturity S.A. adopted a resolution on an increase of the share capital from PLN 6,000,000 to PLN 51,300,000 i.e. by PLN 45,300,000, through the issue of 45,300 new registered shares with a nominal value and issue price of PLN 1,000 each. All shares in the company's increased share capital were acquired by PGE S.A. in exchange for a non-cash contribution in the form of 100% of shares in the following companies: PGE Energia Naturity Bukowo sp. z o.o., PGE Energia Naturity Karnice sp. z o.o. and PGE Energia Naturity Olecko sp. z o.o. On October 8, 2014 the increase of the share capital was registered in the National Court Register.
- On October 8, 2014 PGE S.A. set up a limited company with the following name: PGE Inwest 16 sp. z o.o. On October 29, 2014 the company was registered in the National Court Register.
- On November 6, 2014 PGE S.A. and Polskie Towarzystwo Przesyłu i Rozdziału Energii Elektrycznej with its seat in Poznań concluded an agreement for sale of 1,300 shares of Exatel S.A. held by Polskie Towarzystwo Przesyłu i Rozdziału Energii Elektrycznej, representing 0.02% of the company's share capital. The ownership of shares was

transferred to PGE S.A. on November 6, 2014. As a result of the transaction PGE S.A. became the sole shareholder of the company.

In 2014 PGE S.A. purchased from minority shareholders – on ground of share sale agreements - a total of 4,414,276 shares of PGE GiEK S.A. (constituting 0.6338% in the share capital of PGE GiEK S.A.). Currently PGE S.A. holds 99.21% of shares in the share capital of PGE GiEK S.A. (share including treasury shares held by PGE GiEK S.A.)

In 2014 **PGE Group companies** changed their capital exposure in the following entities:

#### **Transformation of companies in Renewable Energy segment**

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

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

On February 11, 2014 the court registered the increase of the share capital of EPW 1 sp. z o.o., the company which acquires part of the assets of EPW Energia Olecko sp. z o.o., thus completing the process of division of EPW Energia Olecko sp. z o.o. As a result of above separation, PGE S.A. became the sole partner in EPW Energia Olecko Sp. z o.o.

On March 25, 2014 the name of company EPW Energia Olecko sp. z o.o. was changed to PGE Energia Natury Olecko sp. z o.o.

On January 10, 2014 the Extraordinary Assembly of Partners of EPW Energia sp. z o.o. (PGE held 32.7% of shares and ENERGIA Wytwarzanie sp. z o.o. held 67.3% of shares in the share capital) adopted a resolution on the division of the EPW Energia sp. z o.o. (division by separation) by transferring two parts of its assets constituting the organized part of the enterprise as:

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

In connection with the division, the company's share capital was reduced by the amount of PLN 337,174,000, i.e. from PLN 894,376,000 to PLN 557,202,000 and the number of shares has been reduced by 337,174 shares with a nominal value of PLN 1,000 per share, attributable in amount of 44,713 shares to partner ENERGIA Wytwarzanie sp. z o.o., which can be exchanged for 18,000 shares of EPW Parsówek sp. z o.o. and in the number of 292,461 shares for PGE S.A., that are subject to conversion for 331,921 shares of PGE Energia Natury sp. z o.o.

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

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

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

On February 28, 2014 the court registered the increase of the share capital of the company that acquired second part of assets of EPW Energia sp. z o.o., i.e. of PGE Energia Natury sp. z o.o. Entry of the increase of the share capital into the National Court Register completed the division process of EPW Energia sp. z o.o. As a result of the above division, ENERGIA Wytwarzanie sp. z o.o. became the sole partner in EPW Energia sp. z o.o.

#### **Other changes**

- On October 14, 2013, the Extraordinary Assembly of Partners of Niezależny Operator Międzystrefowy Sp. z o.o. adopted a resolution on a share capital decrease through a voluntary redemption in exchange for remuneration paid to the sole partner, i.e. EXATEL S.A. The share capital was decreased from PLN 30,000,000 to PLN

22,500,000, i.e. by PLN 7,500,000, through the redemption of 7,500 shares with a nominal value of PLN 100 each. On March 6, 2014, the share capital decrease was registered with the National Court Register.

- On March 5, 2014, the Extraordinary General Meeting of ELBIS Sp. z o.o. adopted a resolution on a share capital decrease through a voluntary redemption for a fee, issued to the sole shareholder, i.e. PGE GiEK S.A. The share capital will be decreased from PLN 46,070,000 to PLN 6,449,800, i.e. by PLN 39,620,200. The change in share capital will be carried out via a reduction in the nominal value from PLN 1,000 to PLN 140, i.e. by PLN 860 per share. The reduction of nominal value covers all 46,070 shares held by PGE GiEK S.A. On August 21, 2014 the decrease of the share capital was registered with the National Court Register.
- On April 15, 2014, an agreement was executed between PGE Obrót S.A. and Przedsiębiorstwo Energetyczne "ESV" S.A., based in Siechnice, concerning the sale of 600 shares in Energetyka Wiśłosan Sp. z o.o., held by PGE Obrót S.A., which constituted 19.65% of the company's share capital. On April 25, 2014, Przedsiębiorstwo Energetyczne "ESV" S.A. made payment for the shares, and ownership of the shares was transferred.
- On July 9, 2014 Exatel S.A. and Telestrada S.A. seated in Warsaw concluded a conditional agreement for sale of 100% of shares of Niezależny Operator Międzysztrefowy sp. z o.o. with its seat in Warsaw. On September 26, 2014 General Meeting of Exatel S.A. gave its approval for sale of 100% of the company. On September 29, 2014 Telestrada S.A. paid for the shares and ownership of shares was transferred on this date.
- On August 21, 2014 PGE Dystrybucja S.A. and TECHNITEL POLSKA S.A. seated in Łódź concluded an agreement for sale of 2,639 shares of Zakład Obsługi Energetyki sp. z o.o. with its seat in Zgierz, held by PGE Dystrybucja S.A., representing 100% of the company's share capital. On August 22, 2014, TECHNITEL POLSKA S.A. paid for the shares and ownership of shares was transferred on this date.
- On September 5, 2014 the Extraordinary General Meeting of PGE Dystrybucja S.A. adopted resolution on redemption of all treasury shares i.e. 131,873 shares of the company. In connection with the redemption of treasury shares the Extraordinary General Meeting adopted resolution on decrease of the share capital by PLN 1,318,730 million, i.e. from PLN 9,730,742,890 to PLN 9,729,424,160. The decrease of the share capital was registered with the National Court Register on December 30, 2014.
- On September 11, 2014 the Extraordinary General Meeting of PGE EO S.A. adopted a resolution on merger of PGE EO S.A. (the acquiring company) with Żuromin sp. z o.o. (the acquired company), through transfer of all assets of the acquired company to the acquiring company without the exchange of acquired company's shares for the shares of the acquiring company, by course of art. 514 of Code of Commercial Companies. PGE EO S.A. held 100% in the share capital of Żuromin sp. z o.o. On September 30, 2014 the merger of the companies was registered in the National Court Register.
- On October 24, 2014 the Extraordinary Assembly of Partners of Eolica Wojciechowo sp. z o.o. (PGE EO holds 100% of shares) adopted resolution on increase of the share capital from PLN 9,550,000 to PLN 35,100,000, i.e. by PLN 25,550,000, through issue of 51,100 new shares with a nominal value of PLN 500.00 each. All newly issued shares in the increased share capital were acquired by PGE EO S.A. in exchange for a cash contribution. On November 21, 2014 the increase of the share capital was registered with the National Court Register.
- On November 7, 2014 PGE EO S.A. (the Acquiring Company) and PELPLIN sp. z o.o. (the Acquired Company) signed a Merged Plan. Merger of PELPLIN Sp. z o.o. with PGE EO S.A. will be carried out by course of art. 492 § 1 p. 1 of Code of Commercial Companies., i.e. through transfer of all assets of the Acquired company to PGE EO S.A. as the Acquiring Company without issue of shares of the Acquired Company in exchange for the shares of the Acquired Company, in accordance with the provisions of art. 514 of Code of Commercial Companies.
- On December 2, 2014 PGE Obrót S.A. concluded 2 agreements with PGE Dystrybucja S.A. and PGE GiEK S.A. for sale of 44,014 shares of ENESTA sp. z o.o. representing 87.33% in the share capital of ENESTA sp. z o.o. PGE Obrót S.A. acquired all shares owned by PGE Dystrybucja S.A. and by PGE GiEK S.A. in ENESTA sp. z o.o., i.e. 42,764 and 1,250 shares, respectively. Ownership of shares was transferred to PGE Obrót S.A. on the agreements' signing date.
- On December 23, 2014 PGE GiEK S.A. concluded an agreement with Grupa Azoty Zakłady Azotowe „Puławy” S.A. for sale of shares. Subject matter of the agreement was 11,074 shares of Elektrownia Puławy sp. z o.o. constituting 50% in the share capital of that company. On the ground of the sale agreement PGE GiEK S.A. sold all its shares of Elektrownia Puławy sp. z o.o. Ownership of shares was transferred to Grupa Azoty Zakłady Azotowe „Puławy” S.A. on the agreement signing date.

On October 15, 2014 the Extraordinary General Meeting of PGE GiEK S.A. adopted a resolution on squeeze-out of shares held by minority shareholders PGE S.A., pursuant to art. 418 of Code of Commercial Companies. The squeeze-out included 2,772,703 shares held by minority shareholders, representing 0.3981% in the share capital of PGE GiEK S.A.

In 2014, PGE GiEK S.A., through a squeeze-out of shares pursuant to art. 418<sup>1</sup> § 4 of Code of Commercial Companies, purchased a total of 637,561 treasury shares from minority shareholders, constituting 0.0915% of PGE GiEK S.A.'s share capital.

In 2014 PGE Capital Group did not discontinue any of its substantial operations.

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

Changes which occurred in the Capital Group after the end of the reporting period are described below:

- As of January 1, 2015 following branches were created in PGE Energia Niaty sp. z o.o.:
  - Branch „Galicja” seated in Orzechowce,
  - Branch „Kisielice/Malbork” seated in Malbork.
- On January 13, 2015 the Management Board of PGE GiEK S.A. took decision on merger of PGE GiEK S.A. (the Acquiring Company) with PGE Gubin sp. z o.o. (the Acquired Company). Extraordinary Assembly of Partners of PGE Gubin sp. z o.o. adopted a resolution on merger with PGE GiEK S.A. on January 14, 2015. Merger will be carried out by course of art. 492 § 1 p. 1 in connection with art. 515 § 1 of Code of Commercial Companies, i.e. through transfer of all assets of the Acquired Company to the Acquiring Company without raising the share capital of the acquired company and without the exchange of acquired company's shares for the shares of the Acquiring Company. The merger does not give rise to new circumstances requiring disclosure in the Statutes of the Acquiring Company, the Statutes of PGE GiEK S.A. will not be changes with regard to the merger of the companies. Request to the National Court Register for merger registration was submitted on January 16, 2015. The merger will occur as of the registration date at the entrepreneurs' register of the National Court Register.

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

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

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

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

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

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

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



### 7.3 Branches of the companies of the PGE Capital Group

As at December 31, 2014 the following PGE Group companies had their branches:

|                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>PGE Górnictwo i Energetyka Konwencjonalna S.A.</b><br>with its registered office in Bełchatów               | <ul style="list-style-type: none"> <li>Branch Bełchatów power plant</li> <li>Branch Opole power plant</li> <li>Branch Turów power plant</li> <li>Branch ZEDO</li> <li>Branch Bełchatów lignite mine</li> <li>Branch Turów lignite mine</li> <li>Branch Gorzów CHP</li> <li>Branch Bydgoszcz CHPs</li> <li>Branch Rzeszów CHP</li> <li>Branch Kielce CHP</li> <li>Branch Lublin Wrotków CHP</li> <li>Branch Zgierz CHP</li> </ul> |
| <b>PGE Energia Odnawialna S.A.</b><br>with its registered office in Warsaw                                     | <ul style="list-style-type: none"> <li>Branch ZEW Solina - Myczkowce in Solina</li> <li>Branch ZEW Porąbka - Żar in Międzybrodzie Bialskie</li> <li>Branch ZEW Dychów in Dychów</li> <li>Branch EW Żarnowiec in Czymanów</li> <li>Branch ZEW Dębe in Dębe</li> </ul>                                                                                                                                                             |
| <b>PGE Energia Natury sp. z o.o.</b><br>with its registered office in Warsaw                                   | <ul style="list-style-type: none"> <li>Branch „Galicja” with its seat in Orzechowce*</li> <li>Branch „Kisielice/Malbork” with its seat in Malbork*</li> </ul>                                                                                                                                                                                                                                                                    |
| <b>PGE Energia Natury Olecko sp. z o.o.</b><br>with its registered office in Warsaw                            | <ul style="list-style-type: none"> <li>Branch „Olecko” Szczecin</li> </ul>                                                                                                                                                                                                                                                                                                                                                       |
| <b>PGE Trading GmbH</b><br>with its registered office in Berlin                                                | <ul style="list-style-type: none"> <li>Branch in Prague</li> <li>Branch in Bratislava</li> </ul>                                                                                                                                                                                                                                                                                                                                 |
| <b>PGE Dystrybucja S.A.</b><br>with its registered office in Lublin                                            | <ul style="list-style-type: none"> <li>Branch Lublin</li> <li>Branch Łódź-Miasto</li> <li>Branch Łódź-Teren</li> <li>Branch Warszawa</li> <li>Branch Rzeszów</li> <li>Branch Białystok</li> <li>Branch Zamość</li> <li>Branch Skarżysko-Kamienna</li> </ul>                                                                                                                                                                      |
| <b>PGE Obrót S.A.</b><br>with its registered office in Rzeszów                                                 | <ul style="list-style-type: none"> <li>Branch with seat in Lublin</li> <li>Branch with seat in Łódź</li> <li>Branch with seat in Warsaw</li> <li>Branch with seat in Białystok</li> <li>Branch with seat in Zamość</li> <li>Branch with seat in Skarżysko-Kamienna</li> </ul>                                                                                                                                                    |
| <b>"ELBEST" sp. z o.o.</b><br>with its registered office in Bełchatów                                          | <ul style="list-style-type: none"> <li>Branch Rogowiec</li> <li>Branch Bogatynia</li> <li>Branch Wawrzkowizna</li> <li>Branch Krasnobród</li> <li>Branch Iwonicz-Zdrój</li> </ul>                                                                                                                                                                                                                                                |
| <b>Przedsiębiorstwo Transportowo - Sprzętowe „Betrans” sp. z o.o.</b> with its registered office in Bełchatów  | <ul style="list-style-type: none"> <li>Branch ELTUR-TRANS with seat in Bogatynia</li> <li>Branch Rogowiec with seat in Rogowiec</li> </ul>                                                                                                                                                                                                                                                                                       |
| <b>Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS” sp. z o.o.</b> with its registered office in Bogatynia | <ul style="list-style-type: none"> <li>Branch in Brzezine near Opole</li> </ul>                                                                                                                                                                                                                                                                                                                                                  |
| <b>EPORE sp. z o.o.</b><br>with its registered office in Bogatynia                                             | <ul style="list-style-type: none"> <li>Branch Bogatynia</li> <li>Branch Bełchatów</li> <li>Branch Rogowiec</li> <li>Branch Opole</li> <li>Branch Żarska Wieś</li> </ul>                                                                                                                                                                                                                                                          |

\*Branches established as of January 1, 2015



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

## 8 Commitment



### 8.1 PGE Foundation "Energy from Heart"

The PGE Foundation "Energy from Heart" was established in 2011 at the initiative of PGE S.A. The Foundation is a common communication platform for pro-community activities designed for all the companies belonging to the PGE Capital Group. Since 2013, the members of the Management Board of PGE Foundation "Energy from Heart" have participated in the project: "Enhancing the quality of public tasks implemented by corporate foundations in Poland", carried out by the Forum of Donors.

In 2014, the foundation pursued "SOS Filipiny – Podaruję dom" campaign (SOS Philippines – I will give a home) in co-operation with the Polish Humanitarian Action. The foundation donated funds for the rebuilding of 20 homes for Philippine families affected by the typhoon, while the employees of the PGE Capital Group raised funds for the construction of 22 successive homes. The cost of building one home in the Philippine conditions is PLN 850.

The PGE Foundation – Energy from the Heart – together with PGE S.A.'s Corporate Communications Department and with the participation of key companies within PGE Group, organised the first edition of PGE's employee volunteer programme "We Help." Programme will be continued in 2015.

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

### RESPECT Index

Since 2011, PGE S.A. has belonged to the group of socially responsible companies which are listed on the Warsaw Stock Exchange and form the RESPECT Index portfolio. Only the companies with the highest standards of management with respect to corporate governance, information governance and investor relations, as well as with a consideration for ecology, social and ethics factors, are included in the RESPECT Index. In 2014 PGE S.A. was among 24 companies, which were included in the eighth edition of the RESPECT Index.

### Global Compact

Since 2008, PGE S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. have taken part in the initiative of the Secretary-General of the United Nations called "Global Compact". The involvement in Global Compact obligates PGE to adopt 10 principles of Global Compact, including among others effective combating of employment discrimination, elimination of every case of human rights violation by the company, preventive approach to environmental protection, undertaking initiatives aiming at the promotion of environmental responsibility, the use of environmentally friendly technologies and counteracting corruption in all its forms. At the same time, PGE S.A. committed to prepare annual report on the progress of Global Compact principles compliance. Reports of PGE S.A. are available on the project website.

<https://www.unglobalcompact.org/>

### 8.2 PGE and work environment

#### 8.2.1 Employees

As at December 31, 2014, the employment in the PGE Capital Group amounted to **39,977.33 FTEs** which was less by **1,217.55 FTEs** than as at December 31, 2013. The highest employment was recorded in companies from Conventional Generation and constituted approx. 44% of the Capital Group total headcount.

Table: Employment level \*

| In FTEs                                          | Dec 31, 2014     | Dec 31, 2013     | % change   |
|--------------------------------------------------|------------------|------------------|------------|
| <b>Total employment in PGE Group, including:</b> | <b>39,977.33</b> | <b>41,194.88</b> | <b>-3%</b> |
| Conventional Generation                          | 17,484.59        | 18,870.81        | -7%        |
| Renewable Energy                                 | 576.83           | 583.75           | -1%        |
| Wholesale Trading                                | 493.84           | 423.69           | 17%        |
| Distribution                                     | 10,648.25        | 10,937.71        | -3%        |
| Supply                                           | 1,496.65         | 1,505.12         | -1%        |
| Other consolidated companies                     | 9,277.18         | 8,873.80         | 5%         |

\* without suspended employees

### 8.2.2 Freedom of association

In the PGE Capital Group there are 114 company and intercompany trade union organizations associating over 23 thousand of employees. Numerous non-trade union organizations function in the companies of the PGE Capital Group – they are formed by employees who pursue their passions there.

### 8.2.3 Health and Safety at Work

In accordance with legal regulations, in order to protect the employees' health and lives, PGE Group companies carry out workplace health and safety workshops and the legally-required health check-ups, hire employees with the relevant qualifications and provide them with appropriate personal protection equipment. In line with the existing regulations, employees go through a proprietary training programme for workplace health and safety.

At PGE Group's companies, the number of people injured in work-related accidents during 2014 fell by approx. 24% from the year before.

Awards and recognitions in the area of workplace health and safety received in 2014:

- **"Employer – the organiser of safe work"** – an award in the category "Large sites" was received by Bełchatów power plant. The contest was organised by the National Labour Inspectorate.
- **"Safe Work Leadership Green Card"** for 2015-2016 – received by Turów power plant. The contest was organised by the Central Institute for Labour Protection.
- Individual and team-based (2<sup>nd</sup> place) achievements of employees of Opole power plant in the Contest on Knowledge about Workplace Safety at Power Plants and CHPs.

PGE Dystrybucja S.A. launched a new programme in 2014: "Improving the standards and culture of workplace safety," which promotes safe behaviour amongst employees and aims to raise awareness of the importance of safe behaviours. Based on poll results, an information campaign was launched at the company's branches to promote the desired attitudes amongst employees. A special workplace health and safety bulletin – "Bezpiecznik" – is published once a month. Contact points have been set up at all of the company's sites, where employees can share their experiences and ideas. Numerous grassroots initiatives have later been adopted into the workplace health and safety standards for all locations.

### 8.2.4 Managing human capital

PGE Group is diligent about the development of its employees and fosters a culture of continuous learning and knowledge sharing. In 2014, the Group's employees raised their qualifications for business-related purposes by participating in specialist workshops, managerial competence development programmes, postgraduate studies and foreign language courses. At the same time, PGE Group is actively collaborating with universities by hosting internships and apprenticeships for students as well as scientific seminars and conferences aimed at exchanging know-how with the academia.

In 2014, a functional strategy was developed for PGE Group's Human Capital Management (HCM) area for years 2015-2020. The main objective of the HCM strategy is supporting the business strategy goals through:

- Enhancing the effectiveness of human resources management:
  - HCM strategy's key initiatives,
  - new HR tools and solutions.
- Reinforcing strategic HR management:
  - separating transactional functions from strategic management
- Optimisation and standardisation of HR processes in terms of:
  - maximising the benefits through operational scale and specialisation (integration of IT tools and systems for HR)
  - employment cost control across PGE Group
  - harmonised operating standards
  - optimal use of resources

Table: Educational structure of employees (as at December 31, 2014, number of individuals)

| Level of education                                                                                                                    | Employees     | (%) share   |
|---------------------------------------------------------------------------------------------------------------------------------------|---------------|-------------|
| <b>University education</b><br>(bachelor's degree, master's degree, postgraduate studies, PhD, professors)                            | 11,305        | 28%         |
| <b>Secondary education</b><br>(general upper secondary school, technical upper secondary school, post-secondary non-tertiary schools) | 16,660        | 41%         |
| <b>Vocational education</b><br>(basic vocational, vocational training)                                                                | 10,356        | 26%         |
| <b>Elementary education</b><br>(primary school, lower secondary school)                                                               | 2,023         | 5%          |
| <b>TOTAL</b>                                                                                                                          | <b>40,344</b> | <b>100%</b> |

Table: Employee age and gender structure (as at December 31, 2014, number of individuals)

| Gender/Age            | Female       | Male          | Total         |
|-----------------------|--------------|---------------|---------------|
| under 30 years of age | 549          | 2,682         | 3,231         |
| 31-40 years of age    | 1,927        | 6,133         | 8,060         |
| 41-45 years of age    | 1,069        | 4,937         | 6,006         |
| 46-50 years of age    | 1,211        | 5,675         | 6,886         |
| 51-55 years of age    | 1,757        | 6,101         | 7,858         |
| 56-60 years of age    | 1,424        | 4,984         | 6,408         |
| over 60 years         | 128          | 1,767         | 1,895         |
| <b>TOTAL</b>          | <b>8,065</b> | <b>32,279</b> | <b>40,344</b> |

### 8.3 PGE and the natural environment

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

The PGE Capital Group takes the following efforts aimed at the protection of environment:

- regular performance of all obligations imposed on the Group's companies under environmental regulations and administrative decisions, including proper reporting, measurements and monitoring of the environment as required by law;
- settlement and balancing of CO<sub>2</sub> emissions and allocated allowances for 2013; purchase of emission rights in order to balance the rights in 2013 and partly in 2014;
- use of the best available technological solutions and specialized equipment in order to limit pollution emissions to the atmosphere;
- modernisations, replacement or deployment of safety equipment (electrostatic precipitators, flue-gas desulphurisation and denitrogenation installations);
- modernisation of generating equipment and replacement of older, worn-down boilers with new high-efficiency units;
- power generation performance improvements and optimisation of combustion processes;
- activities aimed at limiting the volume of waste produced and maximisation of the economic use of post-combustion waste;
- further implementation of the programme for the reduction of noise emission to the environment – covering branches KWB Turów and Turów Power Plant which made investments to modernise coal conveyers and noise damping technological systems in their installations in order to improve acoustics conditions and reduce noise emissions below the stipulated levels. At the Branch Turów Power Plant, an initiative entitled "Noise reduction at the six-flue chimney" was carried out".

### 8.3.1 Conventional Generation

Conventional power plants and CHP plants in the PGE Group generate heat and electricity from conventional sources and hold Integrated Permits that specify: the installation type and parameters, conditions for releasing chemical substances and energy to the environment, specification of permitted types and quantities of gases and dusts. In addition, the permits contain guidelines relating to water management, waste management, methods enabling to determine permitted levels of noise emission and improvements of environmental protection standards. They also define ways of preventing failures and mitigating their negative effects and define the obligation to report failures and requirements with respect to water, sewage and air monitoring. Companies dealing with electricity and heat generation also hold relevant sectoral permits. PGE GiKE S.A. is properly regulated in terms of environmental protection. The company holds all mandatory environment-related permits, licences and authorisations across all of its locations.

Operators adapt in advance to legal regulations regarding the protection of environment. They are open to innovative solutions and technologies which may additionally improve the environmental safety. Therefore, they have cooperated with research institutions and centres for many years. Steps taken by power plants and CHPs in view of meeting the required environmental protection standards consist mainly in:

- upgrading of generating equipment;
- increasing the share of cogenerated heat and electricity generation;
- optimization of the combustion process;
- activities aimed at limiting the volume of waste produced and maximisation of the economic use of post-combustion waste;
- modernization, replacement or construction of protective devices (precipitators, dust filters, desulphurisation and denitrification plants, silencers).

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

### Emissions reduction

Power plants and CHPs of the PGE Capital Group use state-of-the-art technological processes and highly advanced equipment. Limits applying to polluting substances from emissions in power plants and CHPs belonging to PGE GiEK S.A. in 2014 were not exceeded. At one of the locations, the expected annual emission level for NO<sub>x</sub> was exceeded. This breach occurred due to the actual volume of the stream of flue gas being greater than expected at the time when the integrated permit application was filed. This breach will not be subject to any administrative monetary penalties.

Presented in the table below are the volumes of SO<sub>2</sub>, NO<sub>x</sub> and dust emissions generated at each PGE GiEK S.A. location.

The volume of CO<sub>2</sub> emissions and allocations of emission allowances in the year 2014 for individual branches of PGE GiEK S.A. in the third settlement period (2013-2020) are presented in the section 1.2.8 of this report.



Table: Emissions of SO<sub>2</sub>, NO<sub>x</sub> and dusts in PGE GiEK S.A. in 2014

| Branch                 | SO <sub>2</sub> emission<br>[Mg] | NO <sub>x</sub> emission<br>[Mg] | Dust emissions<br>[Mg] |
|------------------------|----------------------------------|----------------------------------|------------------------|
| Bełchatów Power Plant  | 72,735                           | 35,990                           | 968                    |
| Opole Power Plant      | 4,829                            | 7,607                            | 241                    |
| Bydgoszcz II CHP       | 3,751                            | 1,763                            | 116                    |
| Pomorzany CHP          | 2,135                            | 1,255                            | 130                    |
| Dolna Odra Power Plant | 1,803                            | 6,397                            | 107                    |
| Turów Power Plant      | 1,199                            | 7,712                            | 951                    |
| Lublin Wrotków CHP     | 842                              | 527                              | 151                    |
| Gorzów CHP             | 727                              | 512                              | 20                     |
| Kielce CHP             | 632                              | 311                              | 116                    |
| Rzeszów CHP            | 539                              | 220                              | 93                     |
| Zgierz CHP             | 237                              | 92                               | 13                     |
| Bydgoszcz I CHP        | 188                              | 37                               | 50                     |
| Szczecin CHP           | 84                               | 573                              | 17                     |
| <b>TOTAL</b>           | <b>99,701</b>                    | <b>62,996</b>                    | <b>2,973</b>           |

#### Rehabilitation of post-mining areas

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

#### Noise emissions

Measurements of noise emitted to the environment are performed as scheduled every two years or ad hoc when requested by external entities or in response to complaints. If the permissible levels are exceeded, mitigation measures are immediately taken. In 2014, scheduled noise emission measurements were carried out at most of PGE GiEK S.A.'s locations. Measurements at power plants and heat and power plants did not show any breaches of the permissible levels specified in integrated permits.

Ad hoc inspections showed one instance where the level of noise emission was exceeded – around the conveyor systems and engine room at the Bełchatów lignite mine, as well as in two towns where the permissible levels were exceeded by the Turów lignite mine. Comprehensive solutions will allow to eliminate the breaches at the Bełchatów site by 2016 and at Turów by 2017. Issues connected with noise excesses are also solved through purchasing properties that might be exposed to noise emissions.

### Energy from biomass

Generation of green energy from renewable sources has a positive impact on the environment by contributing to the reduction of CO<sub>2</sub> and SO<sub>2</sub>, it allows to reduce combustion waste (ash, slag, etc.), also stimulates local biomass producers (including farmers). It also enables to reuse fallow land and dry residues from forest production. The forerunners in that field were Opole power plant and ZEDO which started to generate power from biomass in the years 2004-2005. Other CHPs followed their steps: in 2008 Zgierz CHP, and in 2009 Bełchatów power plant and Turów power plant. Also in 2009, a 100% biomass-fired boiler was commissioned in Kielce CHP. Bydgoszcz CHPs began generation of heat and electricity from biomass in 2011. Also in 2011, Szczecin CHP, which is part of ZEDO, launched a unit with a biomass based fluidised boiler with stationary bed of a capacity of 68.5MWe; it can use up to 708,000 tons of this ecological organic fuel yearly. Furthermore, in 2012 a new installation of biomass co-combusting for units 1-4 was commissioned in the Turów power plant. In 2013, a new installation for directly feeding biomass was commissioned at unit no. 2 of the Opole power plant. In 2014, the existing generation installation at the Kielce CHP was expanded by an extraction-condensing turboset. As a result of the investment, a 6.71MWe biomass-fired power unit was created, among other things. Currently, biomass is not being used at the following locations: Bydgoszcz CHP and Bełchatów power plant.

Biomass constituted app. 2.2% in the structure of production fuels of the PGE GiEK S.A.

### Waste management

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

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

In 2014, the installations of PGE generated more than 8,100 thousand Mg of waste from the combustion of fuels, including more than 6,800 thousand Mg of waste from lignite combustion. Due to its properties, waste obtained from hard coal combustion is widely used in the construction and cement industries. All waste produced in installations belonging to the company is reused in recovery operations. As ashes obtained from lignite combustion have inferior and very volatile properties, their economic applications are not significant, and they are mainly deposited or used for filling lands that have been adversely transformed

Synthetic gypsum is widely used in the construction and cement industry, and its management is based on long-term cooperation and contracts with regular buyers. In 2014, more than 1,477 thousand Mg of gypsum was produced, including 1,295 thousand Mg in the installations of Bełchatów power plant.

## Protection of waters

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

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

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

## Environmental Management System – ISO 14001

The primary goal of the ISO 14001 is to support environmental protection and to prevent pollution using methods that take into consideration the socio-economic needs. Environmental management systems were functioning in Bełchatów lignite mine, Bełchatów power plant, Turów power plant, Opole power plant, ZEDO, Bydgoszcz CHPs, Lublin Wrotków CHP and Gorzów CHP.

In 2014, PGE Group adopted the Environmental Protection Policy. At PGE GiEK S.A., an Integrated Management System Model was introduced, covering, among other things, the company's Environment Management System, which is in compliance with the requirements of PE-EN ISO 14001.

The concept of unified Environmental Management System is to standardize the documentation and improve the efficiency of the area of environmental protection. Central management of environmental aspects is being performed across all of the company's locations. This documentation is updated during annual reviews. In addition, the EMAS PI:2999 system at the ZEDO location was once again audited, with a positive result.

### 8.3.2 Renewable Energy

#### Hydroelectric power plants

At present, hydroelectric power plants are operating in the PGE Capital Group within PGE EO S.A. and PGE Obrót S.A. (see p. 3.3.3 of this report). This group comprises:

- pumped-storage power plants (including the largest plant of that type in Poland – Elektrownia Wodna Żarnowiec and Elektrownia Porąbka-Żar);
- pumped storage power plants with natural water supply (EW Solina and EW Dychów);
- run-of-river power plants.

Energy generated in EW Żarnowiec and EW Porąbka-Żar is not renewable, however as a result of energy accumulation in the upper reservoirs in off-peak periods and its utilisation in periods of high electrical demand, the plants ensure more flexibility to the National Power Grid and thus improve the performance of the energy generation system. Consequently, better performance translates into lower environmental footprint.

PGE EO S.A. takes part in water management development programmes. It collaborates with the Ministry of Environment, National and Regional Water Management Offices, the National Fund for Environmental Protection and other institutes involved in water management, environmental protection and renewable energy generation. In line with the requirements applying to environmental protection, passes enabling fish migration will be used in the newly built facilities (e.g. EW Oława on Odra river) and in the existing facilities. In order to avoid negative impacts on the environment, the plants widely use biodegradable oils and lubricants.

PGE Obrót S.A. runs operations in the field electricity generation from renewable energy sources. PGE Obrót S.A. Branch based in Zamość obtained a permit required by the Water Law Act in connection with activities involving electricity generation; the permit covers the use of surface water for energy purposes in MEW Nielisz. For the purposes related to electricity generation, PGE Obrót S.A. Branch II based in Łódź was granted a permit required by the Water Law Act for the use of the Pilica river waters for energy purposes for MEW Smardzewice and for the discharge of industrial sewage from Elektrownia Wodna Smardzewice to the Pilica river. For the purposes of activities involving electricity generation, PGE Obrót S.A. Branch based in Warsaw obtained a permit allowing to produce hazardous waste in Elektrownia Wodna Dębe (Dębe hydro power plant) and the permit required by the Water Law Act allowing for the use of Narew river water by the

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

### Wind power plants

PGE Group is currently one of the leaders in the wind energy market. In 2014, the Group had wind farms with a total capacity of 311 MW, representing approximately 8% of the installed wind power in Poland (see p. 3.3.3 and 3.4.2 of this report).

Ten wind farms were operating within the PGE Capital Group in 2014, including five in structure of PGE EO S.A., with a total capacity of 180 MW, i.e.:

- Kamieńsk Wind farm with a capacity of 30 MW, in Łódź voivodship;
- Pelplin Wind farm with a capacity of 48 MW; in Pomeranian voivodship;
- Żuromin Wind farm with a capacity of 60 MW; in Mazovia voivodship;
- Resko I Wind farm with a capacity of 14 MW, in West Pomerania voivodship;
- Wojciechowo Wind farm with a capacity of 28 MW, in Pomeranian voivodship.

The Kamieńsk wind power plant is situated on the rehabilitated external dump of the Bełchatów mine; it started generating energy in December 2007. Farms in Pelplin and in Żuromin were commissioned in 2012 and Resko I in 2013. Wojciechowo wind farm commenced production at the break of 2013 and 2014 and obtained concession for electricity generation on March 7, 2014.

In 2014 PGE EO S.A. commenced construction of subsequent wind farms:

- Resko Wind farm with a capacity of 76 MW;
- Lotnisko Wind farm with a capacity of 90 MW.

They will be commissioned in 2015.

In PGE Energia Natury S.A. five consecutive wind farms have been operating since 2014 with a total capacity of 131 MW:

- Jagniątkowo (Lake Ostrowo) wind farms and Karnice wind farms with a total capacity of 60.5 MW, in West Pomerania voivodship;
- Kisielice-Łodygowo Wind farm with a capacity of 40,5 MW, in Warmian-Masurian voivodship;
- Koniecwałd (Malbork) Wind farm with a capacity of 18 MW, in Pomeranian voivodship;
- Hnatkowice-Orzechowce (Galicja) Wind farm with a capacity of 12 MW, in Subcarpathian voivodship.

In 2014 PGE Energia Natury commenced construction of subsequent wind farms:

- Karwice Wind farm with a capacity of 40 MW;
- Kisielice II Wind farm with a capacity of 12 MW.

They will be commissioned in 2015.

### 8.3.3 Distribution

PGE spares no effort at making sure that maintenance and operation of power equipment have as little impact on the natural environment as possible.

To minimise the impact of overhead power lines on animals – particularly birds – pro-environment solutions are taken into consideration when planning new investments and modernising the existing ones.

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

PGE successively adapts its existing power stations to the requirements concerning protection of the natural environment against oil leaks.

Airtight oil containers (oil pans) are built under the 110kV transformers at power stations.

During 2011-2014, under the Operational Programme: Infrastructure and Environment, the company raised funds to exchange its MV and LV transformers. In total, investments co-financed by the EU will cover the replacement of approx. 6,000 highly inefficient transformers, which are more than 23 years old. Another end-result of this project will be a reduction

of CO<sub>2</sub> emissions. The modern design of the transformers also means very good durability and superior lightning resistance. This enhances the reliability of electricity supplies to users.

PGE undertakes other activities connected with bird protection, as well. The lines being built are insulated – eco-friendly, with marker balls installed on power lines for birds landing on lakes, and special structures on the 110kV line towers or covers on 15/0.4kV transformer stations and insulators of overhead MV lines.

More than 21,000 platforms for white storks have been installed throughout the company's land. In November 2014, PGE Dystrybucja S.A. began cooperating with the Centre for Rehabilitation of Protected Animals in Przemyśl. The Centre currently has in its care about 70 white storks that could not fly away to Africa due to health reasons. At the company's recommendation, PGE's Foundation "Energy from the Heart" financed rehabilitation and around-the-clock veterinary care for the storks.

In cooperation with local State Forest Directorates, our energy personnel together with school-age kids planted 50,000 new trees in 2014 as part of the campaign "Forest Full of Energy." Trees have been planted in the Tomaszów Lubelski forest district, as well as in the following districts: Gidle, Skierniewice, Smardzewice, Kolumna, Kutno and Grotniki. The campaign is aimed at developing eco-friendly attitudes amongst children and youth. It is in line with PGE's corporate social responsibility projects and with Earth Day events.

PGE Dystrybucja S.A. fully observes PGE Group's Environmental Protection Policy. The company's initiatives as well as the manner in which it responds to alerts regarding environmental protection are analysed, and its decisions are guided by the objective to safeguard the sustainable development of the natural environment.

#### **8.3.4 Nuclear Energy**

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

### **8.4 PGE and research and development**

Research and development activities are directly tied to PGE Group's strategy for years 2014-2020. They tackle the biggest challenges facing the Group – both at present and those relating to its planned growth. To this end, Strategic R&D Areas have been identified across each element of PGE Group's value chain, which is where research and development projects are initiated and executed.

Starting from 2015, PGE plans to commit at least 1.5% of its annual consolidated net profit to research and development activities, at the same time relying on public assistance – both Polish and EU. To improve the effects of its R&D projects, PGE Group collaborates with external partners from Poland and abroad, whose know-how and experience are complementary to PGE's competences.

Moreover, in order to use the synergies between the main entities of Poland's power sector, competences of R&D centres and state financing, PGE Group together with Enea, Energa and Tauron worked out an arrangement in the area of R&D projects under the auspices of the Polish Electricity Association (PKEE). A joint plan (Feasibility Study) for the Power Sector Programme has been developed.

To effectively manage R&D activities at group-level, PGE has developed the principles for a harmonised approach to identifying, selecting and carrying out projects, and the relevant structures responsible for R&D have been appointed at PGE S.A. and across specific business lines.

#### **8.4.1 Conventional Generation**

In 2014, a total of 32 R&D initiatives were being implemented in the mining and conventional generation area, with the participation of technical universities such as the Warsaw University of Technology, Wrocław University of Technology, Łódź University of Technology, Kraków University of Technology and the AGH University of Science and Technology, together with Polish and foreign research institutions. Listed below are the research and development works carried out in the Conventional Generation segment:

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

The Mercury Programme, launched in 2011, is aimed at appropriately preparing the company to meet future requirements such as will be introduced under legal regulations limiting mercury (Hg) emissions from fuel combustion processes at power boilers, including development of technology for reducing mercury emissions.

The project "Development and implementation of technology for the reduction of mercury emissions to the atmosphere from coal combustion processes," constituting a part of the Mercury Programme under Package 3, is currently underway.

This project is being carried out in cooperation with the Łódź University of Technology under the Innovative Economy Operational Programme.

In 2014, the Łódź University of Technology continued research on development of a sorbent, which is a key material for capturing mercury from flue gas. Also, practical tests were carried out to assess how the above material behaves in real-life conditions (in the flue gas stream at block no. 7). As a result of the above research, detailed assumptions for technical documentation concerning a demo installation have been established. Carried out next was project work aiming to prepare a comprehensive design for the demo installation, which is to be built at block no. 7 of the Bełchatów power plant. The project is expected to end on September 30, 2015.

**Bełchatów power plant: application of a process to recover energy from fuels generated on the basis of communal waste, sewage sludge and other highly energetic materials**

This research task aims to determine the feasibility of an end-of-waste process for waste fuel arising from communal waste and sewage sludge into energy, defining the composition and production procedure for fuel and the required financial outlays for implementing this undertaking. Waste selection was carried out in accordance with a pre-designed formula, a fuel sample, in briquette form, was developed. Furthermore, the conditions for fuel production and an environmental nuisance indicator were specified for the substrates, and comparison was carried out with the same parameters for lignite.

Executing this research task made it possible to obtain evidence confirming the feasibility of using this product as an addition to the lignite being currently used in electricity and heat production at Elektrownia Bełchatów. The first and second stages of the task were completed and accounted for, the result of which was confirmation that it is possible to perform the end-of-waste procedure in accordance with the Act on Waste, which does not list any specific end-of-waste procedures. To obtain a decision whether or not to continue the task under the third stage, additional consultations are needed with the Marshal's Office in Łódź and the Ministry of the Environment.

**Material and structural research concerning modification of a shallow-water ash storage technology under alternative design solutions for expansion of the Lubień ash storage site at Bełchatów power plant**

The objective of this task is to research the legal and technical basis for application of a synthetic sealing at the Lubień storage site for post-combustion waste. The designer's initial proposal took into consideration HDPE film, which is an expensive material. Preparing an alternative solution will make it possible to introduce changes to the existing construction documentation and draft a replacement design within the existing building permit, which will generate considerable financial benefits.

Analysis and review of the existing legal regulations as well as the technical and environmental condition of the Lubień storage site carried out in 2014 showed that it is possible to apply a suspension-based synthetic sealing with physical parameters in compliance with legal regulations. Subsequently, an agreement was executed with the Building Research Institute (ITB) concerning development of a replacement design and detailed design plans for a task entitled "Replacement of technology for the permanent storage of post-combustion waste." Joint consultations and discussions were held with the participation of: ITB, Warsaw University of Technology and PGE GiEK S.A.



### **FLOX-COAL II – development of a scale-up methodology and simulation tools which are required for a full-scale demonstration of pulverised coal flameless oxidation (PC-FLOX) burners in utility plants**

The FLOX-COAL II project was underway from 2011 to 2014. It was co-financed from the European Union's Research Fund for Coal and Steel.

The project aimed to develop a scale-up methodology and simulation tools which are required for the implementation of pulverised coal flameless oxidation (PC-FLOX) burners in utility plants. Basic research using PC-FLOX was carried out in pilot experimentation. Further development of the PC-FLOX burner technology was performed using software for modelling liquid flows. Pilot (0.5MWt) experimental investigation was used to develop and validate numeric models of the burner. As an industry partner, PGE GiEK S.A. provided the Institute of Power Engineering with a set of geometric and operating parameters of its existing boilers with burners in a tangential setup in order to develop an appropriate numeric model and supported the Institute in developing technical and economic analysis for modernising utility boilers with use of PC-FLOX burners.

Final project work was carried out in 2014. PGE GiEK S.A. commissioned an audit of financial statements, which confirmed that the project's qualified costs were accounted for correctly. The project's final report, containing among other things the technical solutions for utility boilers and an economic analysis, will be drafted in the first quarter of 2015.

### **CERUBIS (Corrosion and Emission Reduction of Utility Boilers through Intelligent Systems)**

The CERUBIS project is also being co-financed from the European Union's Research Fund for Coal and Steel. The diagnostic system to be developed will be based on O<sub>2</sub> readings at over a dozen points inside the combustion chamber and the application of artificial intelligence software to map out O<sub>2</sub> and CO levels and corrosion risks for entire walls, even where no sensors are installed. Additional elements of the project include sensors that will directly measure the extent of corrosion. This will make it possible to estimate O<sub>2</sub> and CO levels in the near-wall layer of the boiler and specify the pace of corrosion processes in the boiler's screen walls.

Implementation of the CERUBIS project began on July 1, 2014. In November 2014, reference visits took place at the Bełchatów and Opole power plants, during which evaluations were carried out as to the possibility of running a measurement campaign in 2015 for the corrosion phenomena on site and in real time, with collection of ash samples and measurements of the composition and temperature of gasses in the near-wall layer.

### **Research project aiming to determine actual and forecast PM2.5 and PM10 particle pollution emitted from the installations/locations of PGE GiEK S.A.**

The main goal of this research project is to determine the levels of exposure to particle pollution emitted from installations belonging to PGE GiEK S.A. by 2015, 2020 and 2030, together with the impact on air quality, and present recommendations for essential tasks to be performed in the event that the permissible levels described in EU regulations are exceeded.

The project was launched in August 2014. In December, the contractor issued a progress report for Stage I, which took into consideration performance of analysis and expert evaluations of external determinants and EU policy in the area of particle pollution. Preparatory works are currently underway to perform measurements of particle pollution at PGE GiEK S.A. sites.

### **Management and monitoring system for electricity consumed by technological processes (using a data warehouse)**

The aim of this project was to develop a system for the precise balancing and controlling of electricity consumption, alongside an improvement in electricity use during the main processes. Output data will be used to forecast electricity demand for procurement purposes. This will make it possible to more effectively manage the digger-conveyor belt-stacker system („KTZ”).

The project was carried out in the period from January 2012 to December 2014. The power management system was deployed, and employees were trained in its use. Measurement of technological processes will facilitate the proper balancing and controlling of the consumption of electricity needed to extract and transport lignite.

#### 8.4.2 Distribution

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

In 2014, work continued on the implementation of an AMI (Advanced Metering Infrastructure) class system for stage I, i.e. for two locations: Białystok Branch and Łódź-Miasto Branch. The project has the status of a strategic project for the PGE Capital Group. Project work mainly concerned a tender procedure for the development and implementation of an intelligent metering system.

PGE Dystrybucja S.A. plans to install intelligent electricity meters in selected locations within the Łódź-Miasto and Białystok areas in the second half of 2015.

#### 8.5 PGE and customer relations

##### **Ambassador of Quality**

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

##### **"Customer Friendly Company" Emblem**

PGE Obrót S.A. was awarded the "Customer Friendly Company" emblem again. Award ceremony was held on January 21, 2015. A award of an emblem was decided by customers only. An independent survey with the use of a standardised questionnaire is conducted to examine four areas: customer satisfaction, satisfaction with cooperation, quality of service, and likelihood of recommendation.

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

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

##### **Code of Best Practice**

On April 16, 2014, PGE S.A. signed the Code of Best Practice. The document was also signed by the other major electricity sellers in Poland: TAURON Polska Energia, ENEA, Energa and RWE Polska.

The Code of Best Practice marked the starting point for a social campaign to promote fair competition on the electricity market. It is an initiative of the Energy Trading Association (TOE). The campaign is meant as a response to the increasing numbers of client complaints relating to unfair practices of sales representatives at some of the companies selling electricity. The victims of unfair salespeople, who claim to be "representatives of an electricity company" and visit clients at their homes, are most often the elderly and those living by themselves. As part of the campaign, both the TOE and the signatories of the Code of Best Practice encourage clients to ask sales reps which seller they represent, request that they show identification, and carefully analyse any proposals that they receive, as well as remember that in the event they make a decision without due consideration they have 14 days to terminate any such agreement signed outside the seller's headquarters without stating a reason.

As a participant in the programme, PGE Obrót S.A. has received the certificate "Energy Trading Association's Best Practices for Electricity Sellers." The certificate of a fair electricity provider is issued on the basis of audits. It is a guarantee of the high quality of service.

##### **Contact Center**

On March 15, 2014, PGE Obrót S.A. launched an improved, professional Contact Center. This was a response to signals and suggestions received from clients. From that point on, anyone anywhere in the country can get in touch with PGE by calling one common number: +48 422 222 222. Some 140 consultants are available from Monday to Friday between the hours of 8am and 7pm.

Thanks to the Contact Center, clients no longer need to personally visit a Customer Service Office to deal with the most important issues. They now have the option to call and talk to a consultant, for example to request an invoice duplicate, check the account balance, change contact details, receive offers or review terms for executing a comprehensive contract, as well as to find out about additional services and forms of payment. The Contact Center is also available to clients from locations where the company does not have a Customer Service Office.

A modern Contact Center that makes it easier to access information is one of the many examples of PGE's customer-centric approach.

## 8.6 PGE and education

### 8.6.1 Proprietary educational programmes

The companies of the PGE Capital Group pursue proprietary educational programmes aimed at children and youth. PGE Group is involved in the social campaign "Safer with Electricity" – a project aimed at promoting knowledge about the safe use of electricity.

Initiated several years ago by the Warsaw branch of PGE Dystrybucja S.A., the programme "Electricity – My Safe Friend" was continued in 2014, together with a series of lectures and educational meetings under the name "Safe Energy," an initiative that has been on-going since 2000 at PGE Dystrybucja's Łódź-Miasto branch. Both of the projects are addressed to kids and youth from primary and middle schools and promote safe and conscious use of electrical equipment. PGE Dystrybucja's Rzeszów branch is running the "3Z Eksperymentarium" project, which combines the concepts of science centre, technology museum and a presentation and polytechnic venue. In 2014, PGE Dystrybucja S.A. launched a new initiative focused on safe and rational use of electricity – a mobile theatre. An educational cartoon entitled "About Kasper and the Firefly – What Happens in a Socket," was seen by kindergarten pupils and school children throughout the area of PGE Dystrybucja's Skarżysko-Kamienna branch. The project will be continued in 2015 across the areas of the company's other branches.

In August 2014, PGE Obrót S.A. together with the Subcarpathian Foundation for the Development of Culture in Sanok organised "Energetic Vacations," an educational campaign for kids aged 5-11. The "Energy Dude," the "Eco Dude" and the "Experimenting Professor" are three virtual characters who conduct activities in the form of learning games, experiences, experiments and educational movies. During the Innovation Forum, PGE Obrót S.A. showed how to obtain and use electricity. The company opened the Subcarpathian Energy Museum in Rzeszów, where visitors can participate in free educational activities dealing with electromagnetism and can view museum pieces from the beginning of the last century.

PGE GiEK S.A. is a naming rights sponsor of the "PGE - Giants of Power" exhibition prepared in Bełchatów. Its primary aim is to familiarize visitors with the process of electric power generation from lignite. It is a unique undertaking on a national scale, it is state-of-the-art, multimedia, interactive and promotes knowledge of exact sciences for everyone. In 2014, PGE GiEK S.A. also worked with local media from the branch area of ZEDO in the publication of a compendium "Warm house" promoting the knowledge on where heat in the local residents' homes is provided from.

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

PGE Group companies also undertake local educational and informational initiatives. During the summer season, PGE EJ 1 was involved in a series of outdoor and sporting events within the Nuclear Awareness programme. Residents of the potential-site municipalities: Choczewo, Gniewino and Krokowa, as well as tourists visiting the region, were presented not only with knowledge about nuclear energy but also about the nuclear power station investment itself.

For World Water Day 2014, PGE EO S.A. organised a meeting at the Dychów hydroelectric power station with students from local neighbouring schools in Bobrowice. Participants gained knowledge on the operational aspects of hydro stations and the way in which electricity is generated in this pumped-storage unit.

In 2014, PGE also carried out two educational film projects: "Mr Thunder" for kids from classes I-III and "Experiments" for middle-school children. The goal of both of these projects is raising the kids' awareness of the dangers stemming from incorrectly using electrical equipment and the transfer of knowledge about how to easily prevent any potential accidents. The projects are expected to be continued in the 2014/2015 school year.

As part of its educational efforts focused on sustainable growth, PGE executed a project aimed at showcasing beautiful but little-known nature locations in Poland. The "Vacations against the Current" film cycle presented PGE's activities in the area of site reclamation through which the company contributes to the development of attractive tourist destinations.

PGE has also continued to develop cooperation with universities. PGE GiEK S.A. works with: AGH University of Science and Technology in Kraków, University of Łódź and Universities of Technology: Łódź, Warsaw, Wrocław, Gdańsk, Opole, Rzeszów, Silesia and Kielce. Co-operation agreements were signed with West Pomeranian University of Technology and Maritime

University in Szczecin. Examples of jointly executed projects include among others: designing of an innovative method for power unit monitoring in Elektrownia Turów – a project implemented with Wrocław University of Technology, the execution of the third stage of the mercury programme with the Łódź University of Technology aimed at reducing mercury emissions to the atmosphere or the organisation of the Pro – Energia competition in collaboration with Łódź University of Technology as part of which four one-time research grants were awarded. Closely cooperating with Opole University of Technology, the company was involved in a series of meetings under the name of “Akademia Rozwoju Przedsiębiorczości – Wykłady Otwarte prowadzone przez praktyków” (Academy for Enterprise Development – Open Lectures by practitioners).

PGE EJ 1 commenced cooperation with three universities: Warsaw University of Technology, Wrocław University of Technology and AGH University of Science and Technology. Collaboration with the academia is one of the elements of PGE EJ 1's “Atom for Science” programme, which is aimed at generating interest in nuclear power amongst students and academic staff, promoting young scientists and developing a wide expert knowledgebase that is essential for development of nuclear energy.

The Lublin branch of PGE Dystrybucja S.A. initiated cooperation with three Lublin area universities: Lublin University of Technology, University of Life Sciences in Lublin and Maria Curie Skłodowska University. This collaboration is aimed at developing partner relations between the company and university, develop entrepreneurship and exchange experiences. PGE Dystrybucja became a member of the “Poland's Economic Security” consortium, the objective of which is development of a collaboration platform for scientists and enterprises and their business surroundings by initiating and carrying out joint research and the commercialisation of its results.

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

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

##### **Nationwide activities**

The main tool used in campaigns of nationwide communication on the subject of nuclear energy is the [www.swiadomieoatomie.pl](http://www.swiadomieoatomie.pl) website, which in addition to current news on the status of the on-going nuclear project provides both knowledge on physics and news from the international nuclear energy sector. Website visitors have access to the current reports and multimedia, that may be used by individuals or as teaching materials. A cyclical newsletter may be subscribed through the website.

In 2014, the company continued a project in collaboration with universities: “Atom dla nauki” (Atom for science), whose purpose is to disseminate knowledge on nuclear energy among students and academic staff, to promote new researchers and build a broad expert base needed for the development of nuclear energy in our country. The Program is addressed not only to those concerned with exact and technical sciences, but also to those interested in social, medical and natural studies. In 2014, pursuing the program, the company signed co-operation agreement with Warsaw University of Technology, Wrocław University of Technology and University of Science and Technology (AGH).

As in previous years, PGE EJ 1 sp. z o.o. was also a partner of the International School of Nuclear Energy and project named „Atomic Bus - Mobile Laboratory”.

##### **Local activities**

The educational and informational campaigns being carried out by PGE EJ 1 are of a comprehensive and long-term nature. The activities addressed to local communities in the municipalities where the site might eventually be located preceded announcement of a short list of municipalities selected as potential sites for Poland's first nuclear plant. Since the launch in 2013 of location and environmental studies leading to the selection of the final site for the Poland's first nuclear plant, the major part of information and educational activities have been conducted in the Pomorskie Voivodeship, in the area of the communes: Choczewo (location “Choczewo”), Gniewino and Krokowa (location “Żarnowiec”).

The aim of these activities is delivering reliable knowledge to the residents of the relevant regions and upholding favourable relations with the project's stakeholders. Information and educational efforts in this area were mainly carried out by three Local Information Points of the Nuclear Plant Construction Project in Choczew, Krokowa and Gniewno. They were established in response to information needs of local communities. The information points staff, recruited from the communes considered for the project, provide information, take notes and comments from the residents. They also organised workshops and meetings with experts. They are an important communication factor between the investor and residents of the municipalities.

PGE EJ 1 gets deeply involved in local community life. 2014 saw numerous educational and informational activities organised for a variety of social and age groups.

Selected educational and informational activities in 2014:

- Vacation-time informational points located in popular tourist destinations throughout the three municipalities where the site may eventually be located;
- Exhibits for planned site and environmental studies in three municipalities;
- Field excursions for middle-school students in each of the potential site municipalities, dealing with the on-going studies;
- Trips for children and youth to the EXPERYMENT Science Centre in Gdynia and the Pomeranian Science and Technology Park Gdynia;
- Interactive physics and chemistry workshops at local entertainment centres in the three municipalities;
- Educational publications dedicated to various areas of physics, chemistry and nuclear energy for kindergarten pupils, early primary school students and youth;
- Educational booths and multimedia showcases during traditional local events across the region;
- PGE EJ 1 educational zones during sporting events in the region, addressed to the local community and tourists;
- Cyclical communication and collaboration with local authorities;
- Conference entitled "Nuclear power –opportunity or threat for tourism in Pomerania?";
- A study trip to a nuclear power plant in Spain for representatives of the local communities.

## 8.7 PGE and human rights

PGE undertakes activities that go beyond the legislative requirements in force. PGE Capital Group acts in accordance with the applicable standards and recognises them as obvious. The principles applied in the company definitively exclude any form of compulsory work or employment of minors.

## 8.8 PGE and promotion of other social goals

### Sport

Through its commitment in development of the Polish sport, PGE Group tries to share the energy with those who use it properly. PGE supports teams in various sport disciplines which attract the most of the fans: volleyball (PGE Skra Bełchatów and Atom Trefl Sopot), football (PGE GKS Bełchatów), basketball (PGE Turów Zgorzelec), speedway racing (PGE Marma Rzeszów) and handball (PGE Stal Mielec i MKS Lublin). Among teams sponsored by the Group, there are both famous clubs with rich traditions and new teams which have just started building their position in the world of sport. All of them are eager to win and demonstrate vigorous energy which stimulates action and development. The Group actively supports the most talented sportsmen, like bronze medallist of the 2012 Olympics - Zofia Klepacka, and promotes sports by engaging in major sporting events.

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

### Culture

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

In 2014, PGE Group became the Patron of the Music Festival in Łańcut for the successive time. Furthermore, the company supports classical music working with the National Philharmonic in Warsaw.

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

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

In 2014, PGE Group once again supported the Different Sounds Art'n'Music Festival in Lublin, the Independence Concert at the Warsaw Uprising Museum, as well as other local initiatives.

2014 also saw the premiere – and the subsequent enormous success – of Jan Komasa's movie Warsaw '44, sponsored in part by PGE.

PGE Group does not forget about children. On 5 December 2014, the "Perfect St Nicholas Day with PGE" took place at the Brant hotel near Warsaw. This is a charity event for children from orphanages who get to meet numerous celebrities, and all funds raised on that day are given to orphanages.



At the end of the year, PGE Group supported two public New Year's Eve events – in Warsaw and Lublin.

Like every year, PGE Group supported local cultural events, which was recognised when we received the title Patron of Culture in the Lublin Province.

PGE Dystrybucja S.A. was partner of several art festivals: the Pearl of Baroque Music Festival, presenting classical music played by the best artists, the Łódź-based Festival of Christian Culture, the POLÓWKA Summer Film Festival in Łódź and the Autumn with the Blues Festival in Białystok. The company also supported the "Energy of Culture" competition for the most important cultural event of the year in Łódź, as well as the 20<sup>th</sup> edition of the Łódź Person of the Year competition. Thanks to PGE Dystrybucja's support, the residents of Lublin were able to attend the country's largest horseracing event – CAVALIADA Tour, residents of the Subcarpathian region had the very colourful World Festival of Polish Folk Bands in Rzeszów, while residents of Łódź enjoyed the Festival of Kinetic Art of Light – Light. Move. Festival., which constitutes an excellent mix of cultural and art events with promotion of innovativeness and modern, eco-friendly technologies. The company also supported the Solo of a Lifetime Festival, which is an event for talented but unknown instrumental artists.

In 2014, PGE GiEK S.A. sponsored the 22<sup>nd</sup> Great Jazz Gala "Grand Prix Jazz Melomani 2013" in the Grand Theatre in Łódź, the 3<sup>rd</sup> edition of the World Classics International Theatre Festival, the 20<sup>th</sup> Autumn Theatrical Meet with the BAT, the 31<sup>st</sup> Nationwide Small-Time Satirical Performance Competition in Bogatynia, the 17<sup>th</sup> International Festival of Greek Songs in Zgorzelec, the 21<sup>st</sup> Anniversary Opera Festival in Bydgoszcz, the 31<sup>st</sup> Theatrical Meeting in Gorzów and the play Amoroso at the Juliusz Osterwa Theatre in Gorzów Wielkopolski, the 3<sup>rd</sup> edition of the VizuArt Theatrical Meetings in Rzeszów – Festival for Art Directors and Costume Designers, and was involved in various other local initiatives.

PGE Obrót S.A. is the founder and organiser of the Alley of Fame in Zamość. During this event, people connected with Zamość and those who have contributed to this city are honoured with a commemorative plaque in the Alley of Fame, which is located in the city's agora. The seventh edition of this event was held in 2014, with the key guest being Professor Marian Konieczny. PGE Obrót also supported, among other initiatives: the Symphony Orchestra of Karol Namysłowski in Zamość, the A. Malawski Subcarpathian Philharmonic in Rzeszów, the International Festival of Organ and Chamber Music in Leżajsk, the 20<sup>th</sup> Anniversary K. Jamroz International Music Festival in Busko-Zdrój, the World Festival of Polish Folk Bands in Rzeszów and a concert by Jose Carreras at the Łańcut Castle.

#### Social initiatives

PGE Group is involved in supporting important social initiatives. In the ranking Leaders of Philanthropy 2014, organised by the Polish Donors Forum, PGE Group placed 4<sup>th</sup> in the category "Companies that donated the most to social causes." 2014 saw the continuation of the Energetic Schoolbag campaign, which PGE Dystrybucja S.A. has been organising at its locations for a number of years. The company donated a total of nearly 2,000 schoolbags filled with various school items to youngsters from poorer families before the school year started. The kids also attended "energy discussions," where they found out about what electricity is and how to steer clear of the dangers associated with it.

Thanks to the involvement of staff from companies and branches of PGE Group and PGE's Foundation – Energy from the Heart, kids and those less fortunate once again received Christmas gift packs. The company was also involved in nationwide campaigns: the Noble Box and "Help children survive the winter," as well as other local initiatives. As part of its Christmas involvement, PGE provided Christmas trees in more than a dozen cities, with the motto "Discover the magic of Christmas in full light." The trees were located in Bełchatów, Zamość, Lublin, Rzeszów, Łódź, Zakopane, Opole, Kielce, Radom and Białystok. At some locations, Christmas fairs were organised, thanks to which we supported, among others, the Social Assistance Centre in Nowy Czarnów and the Association for People with Intellectual and Developmental Disabilities near Gryfino.

PGE Santa Claus visited orphanages in Falbogi, Pawłówka, Grotniki, Lublin, Krasne near Białystok, Zamość, Gorzów Wielkopolski and Łabunie. Donations for gifts were given to: the Children Friends Association, the Krwinka Foundation for Children with Cancer as well as patients of hospitals for children, including the Maria Konopnicka Hospital in Łódź and hospitals in Szczecin. In Białystok, with the help of PGE Dystrybucja, a Citywide Christmas Eve Dinner was organised during which gift packs with food, sweets and cleaning products were given to nearly 6,000 people. The "Christmas Gift Factory" was continued in Łódź in 2014, which is an educational project dedicated to children from all around the province. The Factory has been preparing gifts for nine years already, and every year a different charitable cause is supported. Employees of company's Łódź locations organised a Christmas decorations fair. The proceeds were used to buy equipment for a new facility of a local entertainment centre in Łódź. The company's staff also participated in various St Nicholas Day events for kids in orphanages and those living to the east of Poland.

Employees of PGE EJ 1 also prepared gift baskets for children in local assistance centres in the following municipalities: Choczewo, Gniewino and Krokowo in the Pomeranian province, where site and environmental work is on-going with the aim of selecting the location for Poland's first nuclear power plant.

Another initiative carried out by PGE Dystrybucja S.A. was a series of meetings with representatives of local authorities – the Energy Forums – organised at several of the company's locations. These gatherings serve as a platform for exchanging



experiences and information concerning development of energy infrastructure, the existing procedures, planned investments and so on.

In 2014, PGE Dystrybucja S.A. together with the local police force in Lublin began the campaign "I am safe with PGE Dystrybucja." The programme concerns safe use of electricity and safe driving, and is addressed to children in grades IV-VI at primary schools in Lublin.

PGE EO S.A. together with the Piaseczno Ecology Foundation organised the 3<sup>rd</sup> Nationwide Competition for Aqua Machines for school-age children in post-primary schools.

One of PGE GiEK S.A.'s activities in the area of social involvement was the support of projects dealing with healthcare. The financial assistance provided made it possible to purchase new medical equipment, which will have an impact on the quality of medical services and will be used for patients in the Łódź province as well as other areas around the country. Financing was given to the PRO-CORDIS Foundation for Development at the University Clinical Hospital - Military Medical Academy at the Medical University in Łódź – Central Veteran Hospital, the Mikołaj Kopernik Provincial Specialist Hospital in Łódź, the Ziemia Bełchatowska Foundation for Development of Surgery and the WAM Association for Otolaryngology – Head and Neck Surgery.

The PGE "We Help" employee volunteering programme was established in 2014 and is being implemented in cooperation with PGE S.A.'s Corporate Communications Department and the PGE Foundation – Energy from the Heart. The programme provides financing, in the form of grants, for projects prepared by employees in order to assist those in need. Its aim is first of all to integrate PGE Group's employees and partners around a common social cause as well as to involve employees in social activities and develop collaboration with local communities. Under the first edition of the programme, 30 projects were selected, which were then carried out by the firm's employees, their families and friends. All in all, 109 volunteers from PGE Group became involved in the programme in 2014. The programme is expected to be continued in the years to come.

## 9 Other significant events of the reporting period and subsequent events

### 9.1 Activities related to nuclear energy

#### Business partnership

On September 3, 2014 PGE S.A., TAURON Polska Energia S.A., ENEA S.A. and KGHM Polska Miedź S.A. concluded a Partners' Agreement. In accordance with the Partners' Agreement TAURON Polska Energia S.A., ENEA S.A. and KGHM Polska Miedź S.A., as Business Partners, will acquire from PGE, under a separate agreement, a total of 30% of shares (each Business Partner will acquire 10% of shares) in special purpose company - PGE EJ 1 sp. z o.o., which is responsible for preparation and execution of investment of construction and operating of the first nuclear power plant in Poland.

On September 25, 2014 parties signed an Appendix no 1 to the Partners' Agreement. The Annex no 1 prolonged the term of agreement validity in order to complete the proceeding for the approval for concentration in front of the President of the Polish Office of Competition and Consumer Protection. On October 7, 2014 the President of the Polish Office of Competition and Consumer Protection issued unconditional concentration approval for creation by the Applicants of a joint enterprise under the name PGE EJ 1 sp. z o.o. Obtaining of concentration approval is the condition precedent for conclusion of agreement for the acquisition of shares in PGE EJ 1 sp. z o.o., that was specified in the Partners' Agreement.

It is assumed that the Business Partners will purchase shares of PGE EJ 1 sp. z o.o. and enter into PGE EJ 1 sp. z o.o. in the first quarter of 2015.

As a result of the planned sale of 30% of shares in PGE EJ 1 sp. z o.o. to Business Partners:

- PGE S.A. will possess 70% of the share capital of PGE EJ 1 sp. z o.o.;
- KGHM Polska Miedź S.A. will possess 10% of the share capital of PGE EJ 1 sp. z o.o.;
- Tauron Polska Energia S.A. will possess 10% of the share capital of PGE EJ 1 sp. z o.o.;
- ENEA S.A. will possess 10% of the share capital of PGE EJ 1 sp. z o.o.

According to assumptions, PGE Group will be the leader of the Project and PGE EJ 1 sp. z o.o. will be a future operator of the power plant.

According to the Partners' Agreement, the Parties jointly undertake to finance operations under the initial phase of the Project (the "Development Stage"), proportionally to their shareholdings. The Development Stage is to determine such elements as potential partners, including strategic partner, technology providers, EPC contractor (Engineering, Procurement, Construction), a provider of nuclear fuel and obtaining financing for the Project, as well as organizational and competence preparation of PGE EJ 1 sp. z o.o. to the future role of nuclear power plant operator, responsible for its safe and efficient operation (the "Integrated Proceeding"). PGE's financial commitment in the Development Stage will not exceed amount of approx. PLN 700 million.

The Parties of the Partners' Agreement anticipate that further decision on the Project, including decision on declaration of further participation of particular Parties in the next stage of the Project, will be made after the completion of the Development Stage, directly before the settlement of the Integrated Proceeding, which is expected in 2018 according to the current assumptions.

#### Site and environmental research

In the fourth quarter of 2014, because of delays on the part of the WorleyParsons consortium (the "Contractor") and the consortium's non-performance of contractual obligations, having proven the lack of grounds for the Contractor's further involvement, PGE EJ 1 sp. z o.o.:

- terminated the Agreement with the Contractor on December 23, 2014;
- prepared an alternative plan for the site and environmental research to be carried out and began preparations for this plan to be executed (see Note B.23.4 to the consolidated financial statements).

In 2015, PGE EJ 1 sp. z o.o. will continue site and environmental research using PGE Group's resources and in collaboration with, among others, those Polish subcontractors already involved in the project.

### **Appointment and cooperation with the Technical Advisor**

On September 11, 2014, PGE EJ 1 sp. z o.o. signed an agreement with AMEC Nuclear UK Ltd. as the Technical Advisor (Owner's Engineer), who was selected in the course of a public tender procedure for provision of technical advisory services for the project to build Poland's first nuclear power station.

The Technical Advisor's main tasks include supporting PGE EJ 1 sp. z o.o. in performing tasks and meeting investor obligations in respect of the reactor vendor and the main EPC (engineering, procurement and construction) contractor as well as other key service providers. The scope of work will cover 13 areas of close cooperation, including: support in preparing and carrying out an Integrated Proceeding, licencing, engineering support, site infrastructure, contractor and supply chain oversight, and culture of safety (including nuclear safety).

In the fourth quarter of 2014, PGE EJ 1 sp. z o.o. issued the first notices to proceed for the Technical Advisor, covering preparation of detailed action plans across all of the project's key areas. In 2015, the commissioned work is expected to be continued.

### **Selection of technology, integrated proceeding**

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

Currently the first phase of the proceeding – Initial Dialogue – is being executed. The completion of this phase of the proceeding will allow for elaboration of a full summary and the management boards of PGE S.A. and PGE EJ 1 sp. o.o. will be able to decide on the final shape, scope, approach and formula of integrated proceeding. In the next stage, the formal part of the Integrated Proceeding will be initiated – i.e. qualification of consortiums declaring intent to participate in the Integrated Proceeding.

Following an additional session of the Preliminary Dialogue in the first quarter of 2015, the following will be developed in cooperation with the Technical Adviser: final concept for the Integrated Procedure, together with boundary conditions for all elements falling within the scope of the proceeding, together with Regulations for the Integrated Proceeding.

### **Participation in legislative work**

Through a resolution of January 28, 2014, Poland's cabinet adopted the Polish Nuclear Power Programme (PPEJ), as drafted by the Minister of the Economy. The PPEJ is a government document specifying the roles and scope of responsibilities of the institutions responsible for developing Poland's nuclear power programme, as well as issues surrounding nuclear safety and protection from radiation. The PPEJ also contains economic justification for the development of nuclear power in Poland, financing options and the means of managing spent nuclear fuel and radioactive waste. As per the document, the entity in charge of the investment to build Poland's first nuclear power plants is PGE S.A. Operational management of the initial nuclear power plants will be assumed by PGE's subsidiary/subsidiaries.

In 2014, PGE S.A. and PGE EJ 1 sp. z o.o. actively participated in legislative work on significant legal acts, including in particular work on the government's draft bill to amend the Nuclear Law and certain other acts, intended to transpose into national regulations Council Directive 2011/70/EURATOM of July 19, 2011, establishing a Community framework for the responsible and safe management of spent fuel and radioactive waste (the "Directive"). The Directive imposes the obligation on Member States to establish national legislative, regulatory and organisational frameworks ensuring a high level of safety in the management of spent nuclear fuel and radioactive waste. The Directive reaffirms the ultimate responsibility of Member States to manage the spent fuel and radioactive waste generated in them. The bill was adopted by the Sejm (lower chamber of parliament) on April 4, 2014. Poland's President signed the bill on May 8, 2014.

In 2014, PGE S.A. and PGE EJ 1 sp. z o.o. actively participated in community consultations led by the President of the National Atomic Energy Agency (PAA) and dealing with draft ordinances from the Council of Ministers (resulting from the Nuclear Law), as well as community consultations conducted by the Ministry of Economy as regards a draft national plan for management of radioactive waste and spent fuel.

## Educational and information activities

The investment process is being supported by a variety of communications efforts both at national and local level, which are being implemented continuously since 2011.

Established in 2013, Local Information Points (LPI) serve as the first point of contact with PGE EJ 1 sp. z o.o. for residents and tourists. LPIs perform, among other things, information activities for residents and tourists and organise educational trips for kids and youth. LPIs also carry out information activities outside of their offices, including at schools and the offices of local institutions.

The main nationwide communications tool is an educational and information website [www.swiadomieoatomie.pl](http://www.swiadomieoatomie.pl), which is continually updated with energy-related information and film footage from events that are significant to the project.

In 2014, communications activities concentrated primarily on dialogue with local communities concerning the presence of the environmental study contractor at potential nuclear power plant sites. To this end, an exhibition of the planned site characterisation and environmental studies was organised in all three municipalities.

Nationwide and local public-opinion polls are performed cyclically, intended to monitor the level of support for the nuclear power plant project and the expectations relating to communications activities. Public opinion polls confirm a high level of support for the construction of a nuclear plant, particularly from local communities at the potential sites.

## Safety

In June 2014, PGE EJ 1 sp. z o.o. commenced a tender procedure for a contractor to implement security architecture, including the Information Security Management System and business continuity procedures (in compliance with ISO 27001). As a result, a contractor for the above architecture was selected. An agreement signed with the contractor assumes the completion of the works within 16 months from the agreement signing date.

## 9.2 Legal aspects

### Information regarding Shanghai Electric Group Company Limited's complaint

PGE GiEK S.A. carried out a public tender procedure for the "Construction of a new power unit at Turów power plant" and selected the most favourable tender from a consortium comprising: Mitsubishi Hitachi Power Systems Europe GmbH (consortium leader), Budimex S.A. and Tecnicas Reunidas SA. Following the appeals of two contractors: Shanghai Electric Group Company Limited and Doosan Heavy Industries & Construction Co. Ltd, the National Appeals Chamber (KIO) on May 23, 2014 issued a ruling that dismissed both of the appeals.

On July 18, 2014, PGE GiEK S.A. received a copy of a complaint concerning KIO's ruling of May 23, 2014, addressed to the District Court in Łódź, 10th Commercial Division, made by the complainant – Shanghai Electric Group Company Limited – with the intermediation of the President of the KIO.

On October 24, 2014, the court issued a ruling that dismissed the complaint made by Shanghai Electric Group Company Limited.

### Claims for annulment of the resolutions of the General Shareholders Meetings

On April 1, 2014 and on September 17, 2014 PGE S.A. received a copies of lawsuits filed to the District Court of Warsaw by one of the shareholders. In the lawsuits, the shareholder is seeking for annulment of the resolutions 1, 2 and 4 of the Extraordinary General Shareholders Meeting of the Company held on February 6, 2014 and for annulment of the resolution 4 of the Ordinary General Shareholders Meeting of the Company held on June 6, 2014. The Company filed responses to the claims.

### The issue of compensation regarding the conversion of shares

Former shareholders of PGE Górnictwo i Energetyka S.A. filed petitions calling PGE S.A. for a pre-trial settlement with respect of the payment of damages for incorrectly set – as they claim – share exchange ratio of PGE Górnictwo i Energetyka S.A. shares for the shares of PGE S.A. in the consolidation process which took place in 2010. The total value of claims resulting from petitions for pre-trial settlements by former shareholders of PGE Górnictwo i Energetyka S.A. is almost PLN 8 million.

Notwithstanding the foregoing, on November 12, 2014 Socrates Investment S.A. (the purchaser of the liabilities from former shareholders of PGE Górnictwo i Energetyka S.A.) filed a lawsuit for compensation in total amount exceeding PLN 493 million (plus interests) for the damage resulting from incorrectly (in opinion of the Socrates Investment S.A.) set share exchange ratio in the consolidation process of PGE Górnictwo i Energetyka S.A. with PGE S.A. Pursuant to the court decision, the Company shall reply to the lawsuit within 4 months.

PGE S.A. does not accept the claims of Socrates Investment S.A. and of the other shareholders filing for a pre-trial settlement. The claims are unsubstantiated. In the opinion of PGE S.A. the whole consolidation process was executed in fair and proper manner. The value of the shares of companies subject to the mergers was assessed by the independent

company - PwC Polska sp. z o.o. Additionally, plan of the companies merger, including the exchange ratio with respect to shares of the acquired company for the shares of the acquiring company were examined for accuracy and reliability by an expert appointed by the registration court; no irregularities were found. Then, an independent court registered the merger of the companies.

### 9.3 Description of material agreements

#### 9.3.1 Conclusion of an agreement for establishment by Bank Powszechna Kasa Oszczędności Bank Polski S.A. of a guarantee limit for PGE GiEK S.A.

On January 20, 2014 PGE S.A. and PGE GiEK S.A. concluded an agreement with Powszechna Kasa Oszczędności Bank Polski S.A. („PKO BP”). Subject matter of the Agreement is the establishment by PKO BP of a guarantee limit for PGE GiEK S.A. to a maximum value of PLN 2,548,607,358. The beneficiary of the guarantee will be the general contractor of works associated with the construction of power units No. 5 and 6 in Opole Power Plant.

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

- guarantee of payment to a maximum value of PLN 1,300,309,875 (PGE GiEK was obliged to submit to the general contractor of units 5 and 6 at the Opole power plant guarantees of payment representing 15% of the total price of the construction of units - a guarantee from PKO BP fulfilled 75% of the obligation, the remaining amount of the payment guarantee has been provided through arrangements with other banks);
- guarantee of payment for construction works up to 100% of the guarantee line.

The agreement is valid for a period of 67 months from the date of its conclusion.

The agreement provides securities in form of:

- a guarantee by PGE to 120% of the current amount of the guarantee;
- a statement of execution by PGE GiEK S.A. (up to 120% of the guarantee limit);
- a statement of execution by PGE S.A., as a guarantor (up to 120% of the current amount of the guarantee).

The agreement does not provide for contractual penalties.

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

#### 9.3.2 Conclusion of agreements for guarantee lines and guarantees for Opole II Project

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

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

The agreements provide three guarantee limits for the aggregate amount of PLN 3,398,143,144, under which PGE GiEK S.A. is entitled to order bank guarantees of payments. The beneficiary of the guarantees will be the general contractor of works associated with the construction of power units No. 5 and 6 in Opole Power Plant.

Table: Guarantee lines for the Opole II Project.

| Bank                                          | Date of the agreement<br>(yyyy-mm-dd) | Agreement maturity date<br>(yyyy-mm-dd) | Available guarantee limit in PLN as at the agreement date | Available guarantee limit in PLN as at December 31, 2014 |
|-----------------------------------------------|---------------------------------------|-----------------------------------------|-----------------------------------------------------------|----------------------------------------------------------|
| Powszechna Kasa Oszczędności Bank Polski S.A. | 2014-01-20                            | 2019-08-20                              | 2,548,607,358                                             | 2,266,960,239.1                                          |
| Bank Polska Kasa Opieki S.A.                  | 2014-01-20                            | 2019-08-20                              | 424,767,893                                               | 377,826,706.5                                            |
| BNP Paribas Bank Polska S.A.                  | 2014-01-20                            | 2019-08-20                              | 424,767,893                                               | 377,826,706.5                                            |
| <b>TOTAL</b>                                  |                                       |                                         | <b>3,398,143,144</b>                                      | <b>3,022,613,652.1</b>                                   |

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

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

Table: Guarantees issued for the Opole II Project.

| Guarant<br>or | Type of<br>security | Security for                 | Beneficiary<br>of the<br>guarantee                        | Guarantee<br>issued for the<br>liability of | Issue date | Guarantee period |            | Total value of<br>the<br>guaranteed<br>instrument as<br>at December<br>31, 2014<br>in PLN | Value of the<br>guarantee as<br>at December<br>31, 2014<br>in PLN |
|---------------|---------------------|------------------------------|-----------------------------------------------------------|---------------------------------------------|------------|------------------|------------|-------------------------------------------------------------------------------------------|-------------------------------------------------------------------|
|               |                     |                              |                                                           |                                             |            | from             | to         |                                                                                           |                                                                   |
| PGE S.A.      | Guarantee           | bank guarantee<br>of payment | Bank Polska<br>Kasa Opieki<br>S.A.                        | PGE GiEK S.A.                               | 2014-01-22 | 2014-01-29       | 2020-03-31 | 205.340.601                                                                               | 246.408.721                                                       |
| PGE S.A.      | Guarantee           | bank guarantee<br>of payment | Powszechna<br>Kasa<br>Oszczędności<br>Bank Polski<br>S.A. | PGE GiEK S.A.                               | 2014-01-22 | 2014-01-29       | 2020-03-31 | 1.232.043.607                                                                             | 1.478.452.328                                                     |
| PGE S.A.      | Guarantee           | bank guarantee<br>of payment | BNP Paribas<br>Bank Polska<br>S.A.                        | PGE GiEK S.A.                               | 2014-01-22 | 2014-01-29       | 2020-03-31 | 205.340.601                                                                               | 246.408.721                                                       |
| <b>Total</b>  |                     |                              |                                                           |                                             |            |                  |            | <b>1.642.724.809</b>                                                                      | <b>1.971.269.770</b>                                              |

### 9.3.3 Conclusion of agreement for designing and construction of a power unit in Turów Power Plant

On July 10, 2014 PGE GiEK S.A. („PGE GiEK S.A.”) concluded an agreement („Agreement”) with syndicate of companies: Mitsubishi Hitachi Power Systems Europe GmbH (leader), Budimex S.A. and Tecnicas Reunidas S.A. (later referred to as the „Contractor”).

Subject matter of the Agreement is designing and turn-key construction of 450 MWe supercritical power unit with steam dust boiler in PGE GiEK S.A. Branch Elektrownia Turów. New unit will be CCS Ready.

The construction of the new unit will be finished within 56 months from the date of the Notice To Proceed (“NTP”) issued by PGE GiEK S.A. The net value of the Agreement amounts to PLN 3,250,000,000 PLN, while gross value of the Agreement as at the Agreement signing date amounts to PLN 3,997,500,000.

The aggregate amount of the contractual penalties to be paid by the Contractor due to delay and due to breach of specific technical parameters amounts to 25% of the Agreement’s net value, wherein the maximum total amount of contractual penalties payable by the Contractor for the delay is 10% of the Agreement’s net value while the maximum total amount of contractual penalties payable by the Contractor for breach of specific technical parameters is 15% of the Agreement’s net value. PGE GiEK S.A. entitlement to receiving the contractual penalty from the Contractor, as a rule precludes PGE GiEK S.A. from seeking compensation exceeding maximum value of contractual penalty. However, the Agreement allows PGE GiEK S.A. to seek compensation claims on general basis, shall certain conditions stipulated in the Agreement be fulfilled.

After signing of the Agreement, parties amended the Agreement with Annex 1 providing for risks limitation for the parties (time for issue of NTP prolonged to December 31, 2014) connected with the potential complaint to the District Court by other bidders participating in the tender. A Notice to Proceed was issued to the Contractor on December 1, 2014.

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

Some generating entities, currently branches of PGE GiEK S.A., became entitled to receive funds to cover stranded costs (so-called "LTC compensation") pursuant to the LTC Act. The LTC Act is ambiguous in many points and raise important questions of interpretation. The calculation of the estimated results of each entity and resulting compensations, annual adjustments of stranded costs and final adjustments as well as resulting revenues recognized in the statement of comprehensive income was performed by the Group with the best of its knowledge in this area and with support of external experts.

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



In 2014:

- Final sentences, favourable for the Group, were made in the proceedings concerning appeals against the President of ERO decisions regarding the annual adjustment of stranded costs for PGE GiEK S.A. Branch Rzeszów CHP for the year 2009, PGE GiEK S.A. Branch Opole Power Plant for the year 2009 and PGE GiEK S.A. for the year 2010. The amount of dispute in these cases was PLN 680 million.
- CCP Court issued a sentence which considered part of the appeal of PGE GiEK S.A. and changed the decision of the President of ERO from July 2011 regarding the amount of the annual adjustment of the stranded costs due to PGE GiEK S.A. Branch Opole Power Plant for the year 2010. Based on the CCP Court sentence, the annual adjustment of the stranded costs due to PGE GiEK S.A. Branch Opole Power Plant for the year 2010 amounted to approximately PLN (-) 50 million including interests.
- On August 11, 2014, PGE GiEK S.A. received an administrative decision from the President of ERO regarding the amount of the annual adjustment of the stranded costs for the year 2013. In accordance with the decision of the President of ERO, the annual adjustment of stranded costs incurred in the manufacturing units: Branch Turów Power Plant and Branch Opole Power Plant for the year 2013 amounted to approximately PLN (+) 438 million. The Group considers this amount as undisputable.
- A favourable verdict of the Court of Appeal was issued in case of annual adjustments costs related to natural gas fired entities for PGE GiEK S.A. Branch Lublin Wrotków CHP for the year 2009. Claim value in the above case is PLN 7 million.
- Unfavourable verdict of the Court of Appeal was issued in case of appeal against the President of ERO decision regarding the annual adjustment of costs related to natural gas fired entities for PGE GiEK S.A. Branch Rzeszów CHP for 2009 and for PGE GiEK S.A. for 2010. Claim value in the above cases is PLN 8 million.
- Unfavourable verdict of the Court of Appeal was issued in case of appeal against the President of ERO decision regarding the annual adjustment of costs related to natural gas fired entities for PGE GiEK S.A. Branch Rzeszów CHP for 2011. Claim value in the above case is PLN 6 million.

On October 8, 2014, the Supreme Court examined a cassation appeal from the President of ERO against a ruling by the Court of Appeal regarding the amount of annual corrections in stranded costs for PGE GiEK S.A. – Branch ZEDO for 2009. The Supreme Court has not yet issued a final decision regarding the appeal and has submitted an inquiry to the Court of Justice of the European Union. Pursuant to a decision of the Supreme Court:

- on October 22, 2014, the Supreme Court deferred the cassation proceedings in case of annual adjustments of the stranded costs due to PGE GiEK S.A. Branch Gorzów CHP for 2009, and
- on October 28, 2014, the Court of Appeal suspended the proceedings in case of annual adjustments of the stranded costs due to PGE GiEK S.A. Branch Lublin Wrotków CHP for 2009,

until conclusion of a case involving PGE GiEK S.A. Branch ZEDO for 2009.

#### **Impact on the financial statements for the period ended December 31, 2014**

In the financial statements for the period ended December 31, 2014, the Group recognized LTC revenue in sales revenue in the amount of PLN 1,539 million.

In addition, the final judgments of the Court of Appeal on PGE GiEK S.A. Branch Opole Power Plant, GiEK S.A. Branch Rzeszów CHP and PGE GiEK S.A. caused an LTC compensation adjustment of approximately PLN 246 million recorded in the financial statements for the period ended December 31, 2014. The adjustment value is recognized in the statement of comprehensive income under other operating income.

The amount of disputes in all matters relating to the years 2008 – 2012 amount to PLN 1,660 million, including the amount of disputes favourably resolved for PGE Group by the Court of Appeal and a favourable final judgment regarding CCP Court in the amount of PLN 1,429 million.

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

As at December 31, 2014 PGE S.A. and its subsidiaries were not a party of any proceedings concerning payables or debts whose total value would constitute at least 10% of the Company's equity.

Significant proceedings pending in front of courts, competent arbitration authority or public administration authority are described in Note B.23 to the consolidated financial statements.

#### **9.6 Information on issue, redemption and repayment of debt securities and other securities**

Information on issue, redemption and repayment of debt securities and other securities were described in Note B.24 to the consolidated financial statements and p. 7.1. of the foregoing report.

## 10 Statements of the Management Board

### 10.1 Statement on the reliable preparation of the financial statements

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

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

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

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

## 11 Approval of the Management Board's Report

The foregoing Management Board's Report on activities of the Capital Group of PGE Polska Grupa Energetyczna S.A. was approved for publication by the Management Board of the parent company on February 17, 2015.

Warsaw, February 17, 2015

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

President of the Management Board

Marek Woszczyk

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Vice-President of the Management Board

Jacek Drozd

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Vice-President of the Management Board

Grzegorz Krystek

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Vice-President of the Management Board

Dariusz Marzec

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## GLOSSARY

|                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ancillary control services (ACS)   | services provided to the transmission system operator, which are indispensable for the proper functioning of the national power system and ensure the keeping of required reliability and quality standards.                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Achievable capacity                | the maximum sustained capacity of a generating unit or generator, maintained continuously by a thermal generator for at least 15 hours or by a hydroelectric generator for at least five hours, at standardized operating conditions, as confirmed by tests.                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Balancing market                   | a technical platform for balancing electricity supply and demand on the market. The differences between the planned (announced supply schedules) and the actually delivered/offtaken volumes of electricity are settled here. The purpose of the balancing market is to balance transactions concluded between individual market participants and actual electricity demand. The participants of the balancing market can be the generators, customers for electricity understood as entities connected to a network located in the balancing market area (including offtakers and network customers), trading companies, electricity exchanges and the TSO as the balancing company. |
| Base, baseload                     | standard product on the electricity market: a constant hourly power supply per day in a given period, for example week, month, quarter or year.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Biomass                            | solid or liquid substances of plant or animal origin, subject to biodegradation, obtained from agricultural or forestry products, waste and remains or industries processing their products as well as certain other biodegradable waste in particular agricultural raw materials.                                                                                                                                                                                                                                                                                                                                                                                                    |
| Black energy                       | popular name for energy generated as a result of combustion of black coal or lignite.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| CCS                                | Carbon Capture and Storage Technology used to capture CO <sub>2</sub> from the emissions of fossil fuel power plants followed by its underground storage.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| CDM                                | Clean Development Mechanisms, one of the flexible mechanisms introduced under Article 12 of the Kyoto Protocol.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| CER                                | Certified Emission Reduction.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Co-combustion                      | the generation of electricity or heat based on a process of combined, simultaneous combustion in one device of biomass or biogas together with other fuels; part of the energy thus generated can be deemed to be energy generated with the use of renewable sources.                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Co-generation                      | the simultaneous generation of heat and electricity or mechanical energy in the course of one and the same technological process.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Constrained generation             | the generation of electricity to ensure the quality and reliability of the national power system; this applies to generating units in which generation must continue due to the technical limitations of the operation of the power system and the necessity of ensuring its adequate reliability.                                                                                                                                                                                                                                                                                                                                                                                    |
| Distribution                       | transport of energy through distribution grid of high (110 kV), medium (15kV) and low (400V) voltage in order to supply the customers.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Distribution System Operator (DSO) | a power company engaging in the distribution of gaseous fuels or electricity, responsible for traffic in the gas or electricity distribution systems, current and long-term security of operation of the system, the operation, maintenance, repairs and indispensable expansion of the distribution network, including connections to other gas or power systems.                                                                                                                                                                                                                                                                                                                    |
| ERO                                | Energy Regulatory Office (pol. URE).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| ERU                                | Emission Reduction Units.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| EUA                                | European Union Allowances: transferable CO <sub>2</sub> emission allowances; one EUA allows an operator to release one tonne of CO <sub>2</sub> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| EU ETS                             | European Union Greenhouse Gas Emission Trading Scheme) EU emission trading scheme. Its operating rules are set out in the ETS Directive, amended by the Directive 2009/29/EC of the European Parliament and of the Council of April 23, 2009 (OJ EU L. of 2009, No. 140, p. 63–87).                                                                                                                                                                                                                                                                                                                                                                                                   |
| Generating unit                    | a technically and commercially defined set of equipment belonging to a power company and used to generate electricity or heat and to transmit power.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| GJ                                 | Gigajoule, a unit of work/heat in the SI system, 1 GJ = 1000/3.6 kWh = approximately 278 kWh.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| GPZ                                | main power supply point, a type of transformer station used for the processing or distribution of electricity or solely for the distribution of electricity.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Green certificate                  | popular name for energy generated from renewable energy sources.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| GW                                 | gigawatt, a unit of capacity in the SI system, 1 GW = 109 W.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Gwe                                | one gigawatt of electric capacity.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| GWt                                | one gigawatt of heat capacity.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| High Voltage Network (HV)          | a network with a nominal voltage of 110 kV.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Highly efficient co-generation     | the generation of electric or mechanical power and useful heat through co-generation, in such a way as to ensure savings of primary energy used in: (i) a co-generation unit in the amount not lower than 10 per cent. as compared to generation of electric power and heat in separated systems with reference efficiency for separated generation; or (ii) co-generation unit with an installed capacity under 1 MW as compared to generation of electric power and heat in separated systems with reference efficiency for separated generation.                                                                                                                                   |

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| IGCC                             | Integrated Gasification Combined Cycle.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Installed capacity               | the formal value of active power recorded in the design documentation of a generating system as being the maximum achievable capacity of that system, confirmed by the acceptance protocols of that system (a historical value, it does not change over time).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| IRIESP                           | the Transmission Network Operation and Maintenance Manual required to be prepared by a transmission system operator pursuant to the Energy Law; instructions prepared for power networks that specify in detail the terms and conditions of using these networks by system users as well as terms and conditions for traffic handling, operation and planning the development of these networks; sections on transmission system balancing and system limitation management, including information on comments received from system users and their consideration, are submitted to the ERO President for approval by way of a decision.                                                                                                                                                      |
| JI                               | Joint Implementation: one of the flexibility mechanisms introduced under Article 6 of the Kyoto Protocol.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Kyoto Protocol                   | the Kyoto Protocol to the United Nations Framework Convention on Climate Change of December 11, 1997 (Dz.U. of 2005, No. 203, Item 1684), in force since February 16, 2005.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| KSE                              | the National Power System, a set of equipment for the distribution, transmission and generation of electricity, forming a system to allow the supply of electricity in the territory of Poland.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| KSP                              | the National Transmission System, a set of equipment for the transmission of electricity in the territory of Poland.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| kV                               | kilo volt, an SI unit of electric potential difference, current and electromotive force; 1kV= 103 V.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| kWh                              | kilowatt-hour, a unit of electric energy in the SI system defined as the volume of electricity used by the 1 kW equipment over one hour. 1 kWh = 3,600,000 J = 3.6 MJ.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Low Voltage Network (LV)         | a network with a nominal voltage not exceeding 1 kV.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| LTC                              | Long-term contracts on the purchase of capacity and electricity entered into between Polskie Sieci Elektroenergetyczne S.A. and electricity generators in the years 1994-2001.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Medium-voltage network (MV)      | an energy network with a nominal voltage higher than 1 kV but lower than 110 kV.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| MEV                              | Minimum Energy Volumes.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| MW                               | a unit of capacity in the SI system, 1 MW = 106 W.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Mwe                              | one megawatt of electric power.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| MWt                              | one megawatt of heat power.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| NAP                              | National emissions Allocation Plan, prepared separately for the national emission trading system and for the EU emission trading system by the National Administrator of the Emission Trading System.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| NAP II                           | National CO2 emissions Allocation Plan for the years 2008-2012 prepared for the EU emission trading system adopted by the Ordinance of the Council of Ministers of July 1, 2008 (Dz. U. of 2008, No. 202, item 1248).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Nm <sup>3</sup>                  | normal cubic meter; a unit of volume from outside the SI system signifying the quantity of dry gas in 1 m3 of space at a pressure of 101.325 Pa and a temperature of 0°C.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| No <sub>x</sub>                  | nitrogen oxides.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Peak, peakload                   | a standard product on the electricity market; a constant power supply from Monday to Friday, each hour between 7:00 a.m. and 10:00 p.m. (15-hour standard for the Polish market) or between 8:00 a.m. and 8:00 p.m. (12-hour standard for the German market) in a given period, for example week, month, quarter or year.                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Peak power pumped storage plants | a special kind of hydroelectric power plants. In addition to river flow and the difference in the water table levels they need two bodies of water connected with a channel or a pipeline. The power station is situated next to the lower lake or at the dam of the upper lake. The pumped storage facilities provide ancillary control services for the national power system. Their functions are to secure stability, provide passive energy, store excessive power in the system and supply power to the system in peak time. The pumped storage plants that have a natural inflow of water to the upper lake also generate electricity from renewable sources. The main offtaker of electricity produced by the peak power pumped storage power stations and their services is the TSO. |
| Property rights                  | negotiable exchange-traded rights under green and co-generation certificates.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| RAB                              | Regulatory Asset Base.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Red certificate                  | a certificate confirming generation of electricity in co-generation with heat.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Red energy                       | popular name for electricity co-generated with heat.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Regulator                        | the President of ERO, fulfilling the tasks assigned to him in the energy law. The regulator is responsible for, among others, giving out licenses for energy companies, approval of energy tariffs, appointing Transmission System Operators and Distribution System Operators.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Renewable Energy Source (RES)    | a source of generation using wind power, solar radiation, geothermal energy, waves, sea currents and tides, flow of rivers and energy obtained from biomass, landfill biogas as well as biogas generated in sewage collection or treatment processes or the disintegration of stored plant or animal remains.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Tariff                           | the list of prices and rates and terms of application of the same, devised by an energy enterprise and introduced as binding on the customers specified therein in the manner defined by an act of parliament.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

|                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
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| Tariff group                       | a group of customers offtaking electricity or heat or using services related to electricity or heat supply to whom a single set of prices or charges and terms are applied.                                                                                                                                                                                                                                                                                                                                                       |
| TFS                                | Tradition Financial Services, an electricity trading platform used for concluding various transactions, purchase and sale of conventional energy, property rights, renewable energy and CO2 emission allowances.                                                                                                                                                                                                                                                                                                                  |
| TGE                                | Towarowa Giełda Energii S.A. (Polish Power Exchange), a commodity exchange on which trading can take place in electricity, liquid or gas fuels, extraction gas, emission allowances and property rights whose price depends directly or indirectly on electric energy, liquid or gas fuels and emission allowances, admitted to commodity exchange trading.                                                                                                                                                                       |
| TPA, TPA rule                      | Third Party Access, the owner or operator of the network infrastructure to third parties in order to supply goods/services to third party customers.                                                                                                                                                                                                                                                                                                                                                                              |
| Transmission                       | transport of electricity through high voltage (220 and 400 kV) transmission network from generators to distributors.                                                                                                                                                                                                                                                                                                                                                                                                              |
| Transmission System Operator (TSO) | a power company engaging in the transmission of gaseous fuels or electric energy, responsible for traffic in a gas or power transmission system, current and long-term security of operation of that system, the operation, maintenance, repair and indispensable expansion of the transmission system, including connections with other gas or power systems. In Poland, for the period from July 2, 2014 till December 31, 2030 Polskie Sieci Elektroenergetyczne S.A. was chosen as a TSO in the field of energy transmission. |
| TWh                                | terawatt hour, a multiple unit for measuring of electricity unit in the system SI. 1 TWh is 109 kWh.                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Ultra high-voltage network (UHV)   | an energy network with a voltage equal to 220 kV or higher.                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| V (volt)                           | electrical potential unit, electric voltage and electromotive force in the International System of Units (SI), $1 \text{ V} = 1\text{J}/1\text{C} = (1 \text{ kg} \times \text{m}^2) / (\text{A} \times \text{s}^3)$ .                                                                                                                                                                                                                                                                                                            |
| W (watt)                           | a unit of power in the International Systems of Units (SI), $1 \text{ W} = 1\text{J}/1\text{s} = 1 \text{ kg} \times \text{m}^2 \times \text{s}^{-3}$ .                                                                                                                                                                                                                                                                                                                                                                           |
| Yellow certificate                 | a certificate confirming generation of energy in gas-fired power plants and CCGT power plants.                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Yellow energy                      | popular name for energy generated in gas-fired power plants and CCGT power plants.                                                                                                                                                                                                                                                                                                                                                                                                                                                |