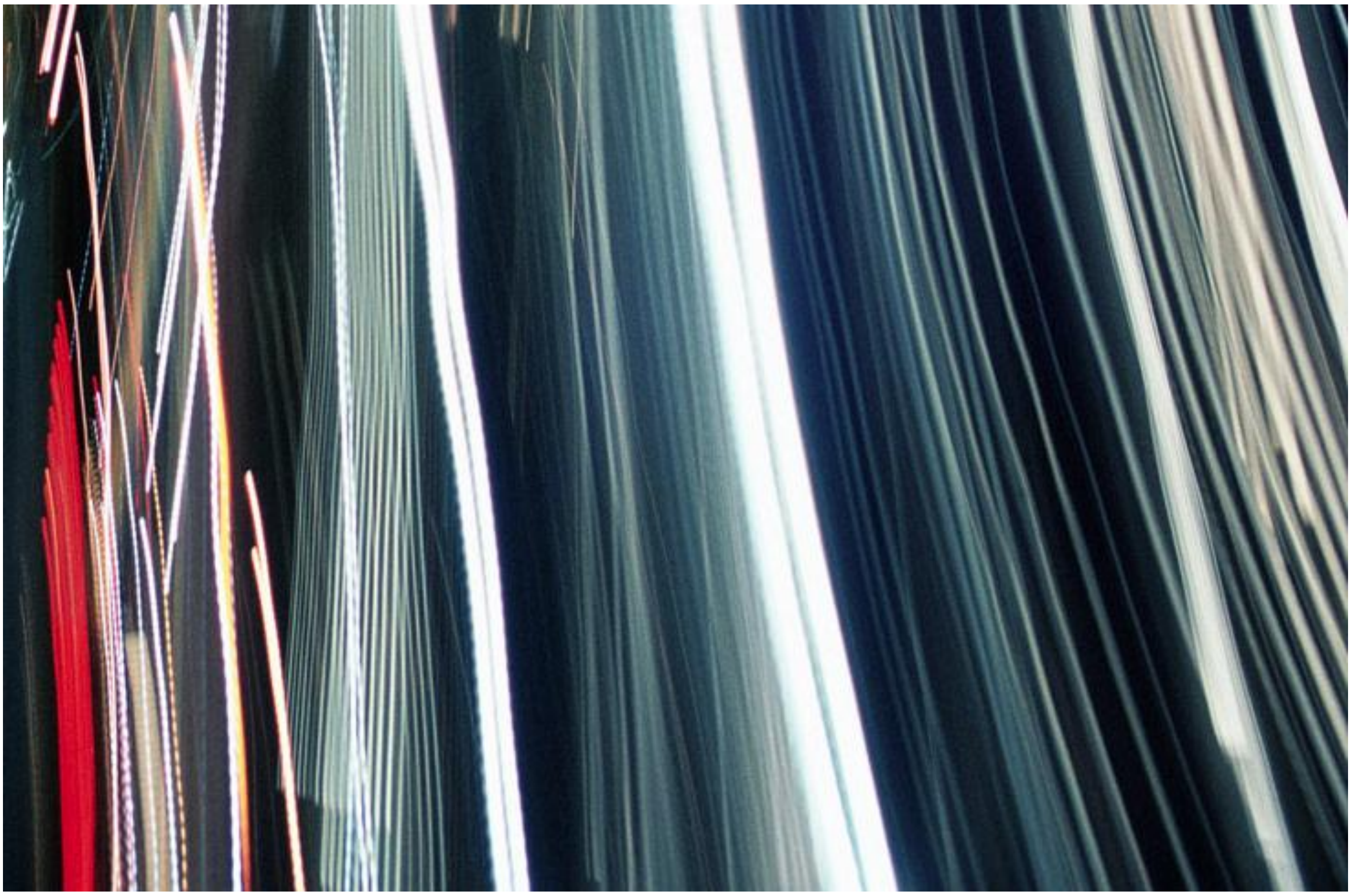


Management Board's report on activities of the Capital Group of PGE Polska Grupa Energetyczna S.A. for the 3-month period

ended March 31, 2014

Polska Grupa Energetyczna

Contents

1 General information about the PGE Capital Group

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

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

1.1 Description of organisation and activity of the Capital Group

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

Mining and Conventional Generation („Conventional Generation")

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

Distribution of electricity

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

Renewable Energy

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

Retail sales of electricity

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

Wholesale Trading

Includes trading of electricity, related products and fuels.

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

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

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

1.2 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

- Demand
  - demand for electricity and heat;
  - seasonality and weather conditions;
- Electricity market
  - Wholesale electricity prices;
  - Prices and tariffs on electricity and heat retail sale markets;
  - Tariffs for transmission and distribution of electricity and heat.
- Related markets
  - prices of property rights;
  - availability and prices of fuels used in generation of electricity and heat, in particular prices of hard coal, fuel gas and biomass;
  - prices of CO_2 emission rights;
- Power infrastructure
  - availability of cross-border transmission capacities;
  - connection of Poland to market coupling mechanisms;
  - growth of generating capacity in national electro-energy system, including renewable energy;
  - development and modernisation of energy grid;
- Macroeconomic environment
  - interest rates and exchange rates, values of which affect evaluation of assets and liabilities shown by the Group;
  - GDP dynamics, particularly in industrial production;
- Implementation of efficiency and investment programs in PGE Group.

Regulatory environment

- Domestic:
  - update of the Poland's Energy Policy ("PEP") – prolonged works over PEP 2050 (current PEP is from 2009);
  - projected modification of current Operational Reserve mechanism in pro-market direction;
  - implementation of cold reserve mechanism;
  - completion of the granting the free allowances for 2013-2020 for the generators from PGE Group;
  - amendments to the Energy Law, particularly in scope of optimisation of support scheme for renewable energy sources and for co-generation and amendments to other acts - lack of clear framework for renewable energy sources and co-generation support in long-term perspective;
  - amendments to the Law on Environmental Protection, particularly in scope of implementation of Industrial Emissions Directive – lack of implementation of derogation regulations with regard to large combustion sources;
  - results of explanatory proceedings before the ERO President in case of issue of certificates of origin of energy produced from biomass for some of the branches of PGE GiEK S.A.;
  - decisions of the ERO President related to realisation of LTC Act and court's rulings on the disputes between the ERO President and generators from the PGE Group entitled to receive compensations under LTC Act with regard to the annual adjustments of the stranded costs for 2008 and annual adjustments of the stranded costs and annual adjustments of costs generated in gas-fuelled units for 2009-2012;

  - possible different decision in law, tax and other contingent liabilities disputes, from which most relevant were presented in Note 19 to the consolidated financial statements;
  - lack of implementation of Energy Efficiency Directive („EED") into the domestic law.

- International:

  - regulations of 2030 climate and energy package – including determination of CO_2 reduction targets, RES share targets, proposal of Stabilisation Capacity Mechanism;
  - revision of BAT – uncertainty with regard to future norms of SO2, NOx and dust emissions from 2019;
  - NEC directive draft with regard to national limits of emissions of pollution to the atmosphere and its impact on the power sector;
  - adjustment of ETS directive and auctioning regulations in view of reallocation of part of allowances for 2013-2015 to 2019-2020 (so called „backloading") with view to impact of this process on the prices of emission rights.

1.3 Strategy of the PGE Capital Group for years 2014 - 2020

The recent developments in the electricity market have led PGE Group to modify its previous strategy. PGE Group have developed a range of potential market scenarios and optimized investment portfolio 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:

- Economic recovery in Poland, leading to higher electricity demand and wholesale power prices;
- New and revised legislation: draft RES Law approved by the Government, adoption of backloading and 2030 climate policy proposals, including the EU ETS system reforms;
- Expected revision of wholesale market model – first new mechanisms already available (Operational Power Reserve, Strategic Reserve), work in progress on the new concept of electricity market organization;
- Commencement of construction of units 5&6 in Opole power plant and a need to update our financial outlook and strategic objectives of the Group;
- Growing competition in the retail sale market;
- New PGE Group operational model approved;

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.

Key strategic objective is to maximize long-term PGE shareholder value. This will be achieved by:

- Strengthening of the leading position in electricity generation with the most effective and diversified asset portfolio assuring long term competitive advantage basing on domestic resources;
- Reliability of supply as well as optimal sales and customer service process;
- Improvement of effectiveness of Group's operations in key areas based on best industry standards;
- Actively pursuing identification and implementation of new growth initiatives oriented on building the value of the Group;
- Continuous analysing of the market environment, identifying and using innovative solutions to create Group's value and achieve strategic goals.

In 2020 perspective implementation of the strategy will allow PGE to:

- Sustain leadership in electricity generation in Poland;
- Achieve status of favoured and reliable electricity supplier;
- Become most efficient power utility in Poland;
- Transform into a Group actively developing new business areas and supporting innovation

and will enable to achieve following financial aspirations[1]:

- Sustaining EBITDA level in the range of PLN 8-9 bn in 2015-2020;
- Maintaining the current policy of dividend payouts (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 net profit as of 2015 intended for R&D activities.

In order to effectively implement the defined strategy, PGE Group will take the following measures.

- Electricity generation leadership will be achieved through 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, lignite-fired unit Turów (total capacity of approx. 2,290 MW) as well as additional 187 MWe of new capacity in CHP plants. There are also ca. 1,100 MWe of CHPs projects in the pipeline, however their further development is conditional upon long-term support system implementation. PGE Group is also committed to diversify its generation portfolio through implementation of low-carbon investments by developing new capacities in onshore wind power plants and further developing project of construction of first Polish nuclear power plant. 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 investment decision and application for the "fundamental decision" will be possible in 2017 and will be based on the form of support system and results of the integrated proceeding. In years 2014- 2016 PGE Group will have additional 234 MW of onshore wind farms operational. 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.
- PGE Group will further be a leading operator of the regulatory assets (Dolna Odra and pumped storage plants) to fully utilise the potential of cooperation with the Transmission System Operator (PSE S.A.). Further investments are planned until 2020 to assure highest operating standards and uninterrupted availability of assets. The ultimate form of the investment programme will depend on the form as well as terms and conditions of agreements for provision of system services.
- PGE Group has identified a considerable industrial resources of lignite as an strategic option for future growth depending on the direction of EU climate policy. Złoczew and Gubin projects 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 portolio.
- 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. This includes effective margin management at the Group level, focusing on retention of historical customers while maintaining the margin levels, acquisition of new customers through improved customer service and expansion of product offering.
- 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[2] 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.
- PGE Group ambition is to be the most efficient power utility in Poland. The operational restructuring process will be continued and focused on cost reduction and increasing revenues. 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

[1] Based on the PGE Group's macroeconomic and market assumptions
[2] SAIDI - System Average Interruption Duration Index – minutes lost; unplanned electricity outages (excluding catastrophic events)

renewable energy. PGE Group will conduct an active dialogue with the stakeholders concerning the regulatory environment which affects the whole value chain. PGE Group will be implementing best corporate governance practices (human resources management, business decisions support and efficiency management, optimization and standardisation of supporting processes), as well as its elaborated operational model with clear division of responsibilities within a process-oriented organisational structure.

- PGE will actively identify and develop new products and business areas. Initially identified growth directions are dual fuel offering, modern electricity infrastructure (e-mobility infrastructure, distributed generation and storage, electrification of home heating).
- 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 net profit as of 2015 on R&D activities with maximization of external financing.
- PGE Group will ensure that its activities remain socially responsible and in line with business ethics and best available industry standards. This includes Group's commitment to provide security of supply basing on own lignite resources, long term contracts for supply of other fuels and reduction of energy outages in distribution. Group's development will remain sustainable - new investments and modernisations will use the most environment friendly technologies, and the process of post-mine land rehabilitation will be continued. PGE Group is also committed to care for development of human capital and work safety, participate in pro-environmental programmes and collaborate with local communities.

2 Activity of the PGE Capital Group

2.1 Factors and events affecting results

2.1.1 Macroeconomic situation

The PGE Group runs its activities mainly on the Polish market. Therefore it is dependent mainly on macroeconomic trends existing in Poland. At the same time, in connection with the growing integration, the domestic economy is increasingly dependent on the economic situation in European Union as well as in the international markets.

As a rule, there is a positive correlation between the growth of electricity demand and economic growth. Thus, the macroeconomic situation of Poland affects the financial results achieved by the PGE Group.

The macroeconomic situation showed visible improvement in the first quarter of 2014 – industrial production sold grew at an annualised rate of 4.8%, and retail sales were up 5.5% year-on-year. Businesses remained upbeat about the condition of the economy. Overall sentiment indicators for production and retail, measured by the Central Statistical Office of Poland (GUS), were 5.1 and 0.1 points respectively in March 2014, compared with -6.4 and -9.0 in March 2013. HSBC's Poland Manufacturing PMI reached 55.9 points in February, the highest level in three years, and new orders were the second-highest in the survey's history.

According to estimates of the Ministry of Economy, Poland's GDP growth in Q1 2014 is set to reach 3.1-3.2%, compared with 0.5% in Q1 2013.

Despite a substantial improvement in macroeconomic conditions, gross electricity consumption in the first quarter of 2014 decreased by 1.4% compared with the first quarter of 2013. This was caused by a milder winter, in particular by significantly higher average daily temperatures. Given the above, the electricity, gas and heating power production and distribution sector noted a 5.4% decline in production sold compared with the same period the previous year.

Prices of sold Industrial production fell by an annualised 1.2% in the first quarter of 2014, while CPI growth was markedly slower than in the first quarter of 2013 and a far cry from the inflation target set by the National Bank of Poland. As a result, the central bank's Monetary Policy Council kept interest rates at their current, relatively low level.

Table: Key economic indicators for Poland.

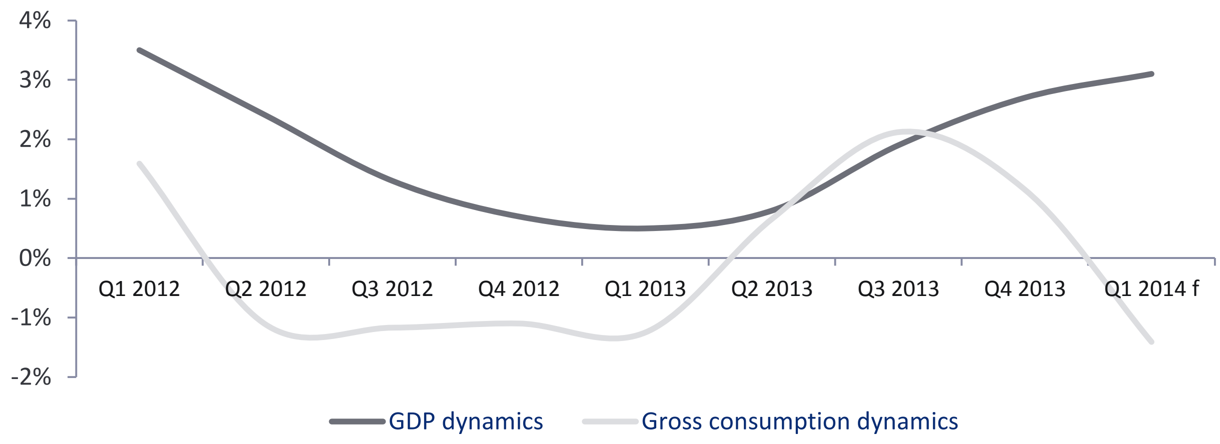
Key economic indicators	Q1 2014	Q1 2013
GDP (% growth)[1]	3.1-3.2*	0.5
CPI (% change)[2]	0.6	1.3
PPI (% change)[2]	-1.2	-0.8
Sold industrial production (% change)[2]	4.8	-2.0
Sold production – energy (% change)[3]	-5.4	-3.7
Gross domestic electricity consumption (% growth)[4]	-1.4	-1.3
Gross domestic electricity consumption (TWh)[4]	41.2	41.8
Manufacturing PMI (points, quarterly average)[5]	55.1	48.5

** Ministry of Economy estimates*

Source: [1] GUS, real GDP growth at previous-year constant prices, [2] GUS, [3] GUS – electricity, gas, steam and heated water production and distribution sector, [4] PSE S.A., [5] HSBC, Markit Economics

The table below presents GDP change vs. change in gross electricity consumption.

Diagram: GDP change vs. change in gross electricity consumption.



2.1.2 Electricity prices

Domestic market

In 2014 exchange trading of electricity has been concentrated on commodity exchange run by Towarowa Giełda Energii S.A. („TGE").

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

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

Futures trading on TGE in the first quarter of 2014 accounted for 72% of the overall organised electricity futures market, whereas spot trading took place exclusively on the organised market.

Table: Trading volume on particular markets in the first quarters of 2014 and 2013.

Trading volume	Q1 2014	Q1 2013	% change
SPOT market, of which:	**6.5**	**5.6**	16%
TGE	6.5	5.6	16%
Futures and forward market, of which:	**48.9**	**43.4**	13%
TGE	35.0	29.9	17%
SPOT+ futures and forward market, of which:	**55.4**	**49.0**	13%
TGE	41.5	35.5	17%

Balancing market

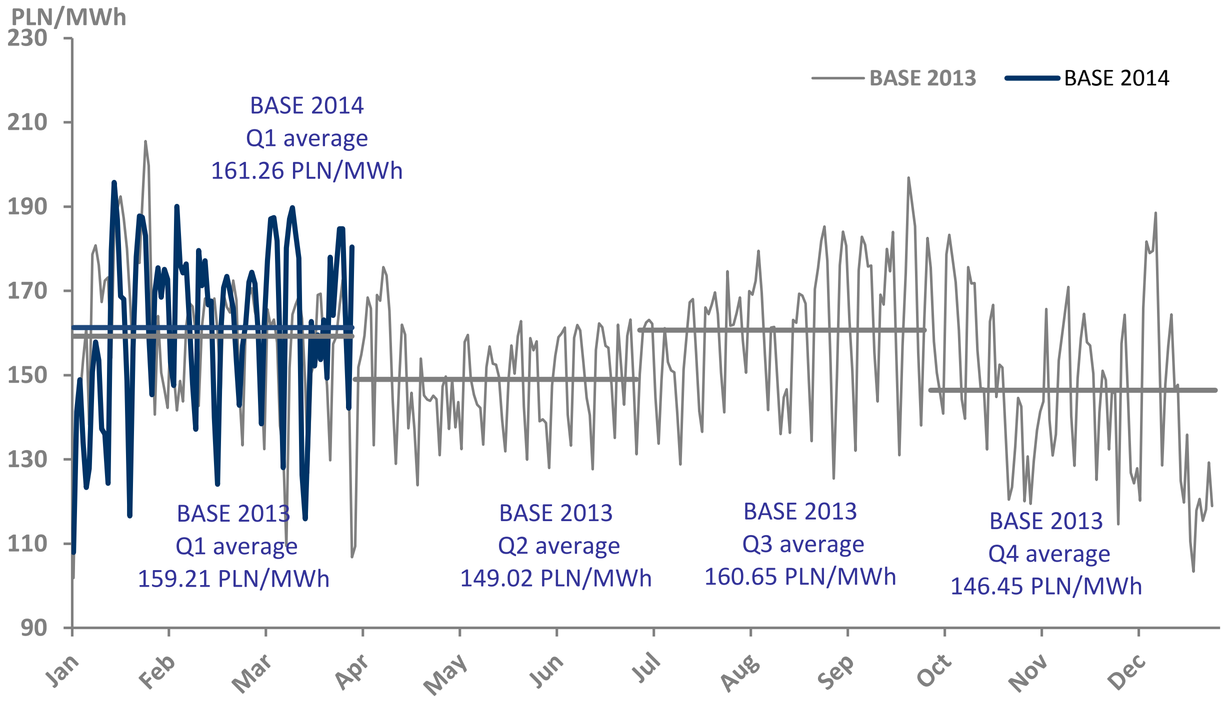
In the first quarter of 2014 the trading volume on the Balancing Market 0.90 TWh and was lower by 15% than In the first quarter of 2013.

The average imbalance settlement price on the balancing market for the first quarter of 2014 was 162.26 PLN/MWh, a similar level to the first quarter of 2013 (162.11 PLN/MWh).

SPOT market

The average price on the day-ahead market ("IRDN24") in the first quarter of 2014 was 161.26 PLN/MWh, i.e. up by about 1% from the first quarter of 2013. At monthly level, a rising trend was observed during this year's first quarter compared to the first quarter of 2013 (January-January change: -6%; February-February: +2%; March-March: +8%).

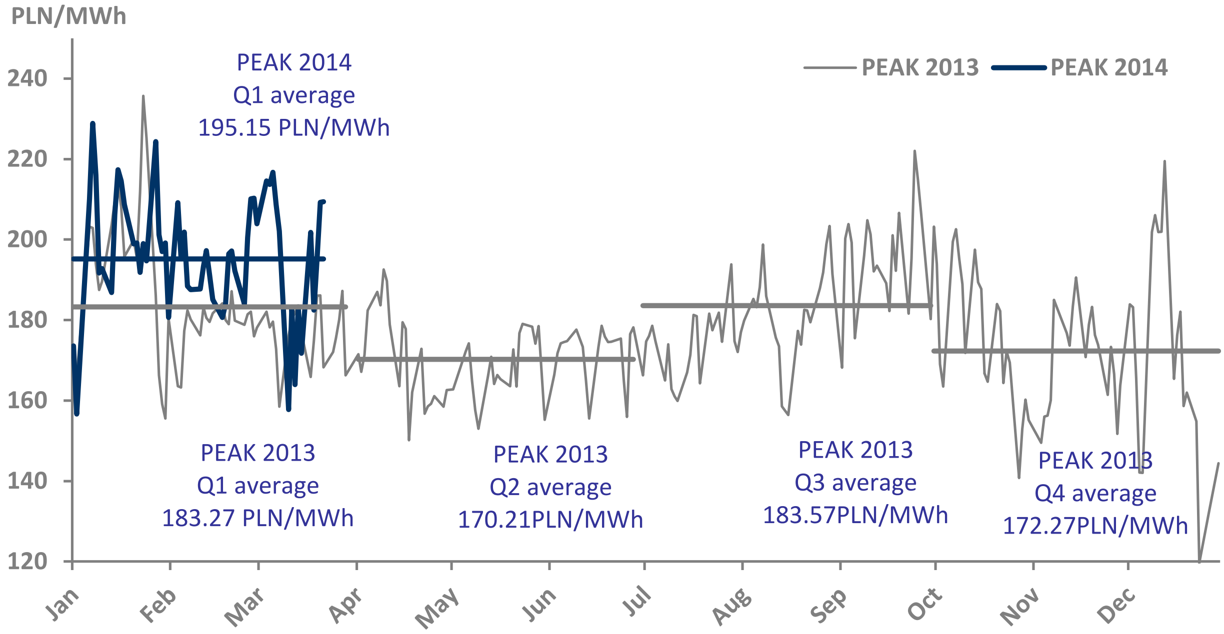
Chart: Daily and quarterly baseload prices in SPOT transactions in 2013-2014 (TGE)*.



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

The average peak price in the first quarter of 2014 was 195.15 PLN/MWh, up 7% compared with the previous year. As with the IRDN24 index, an uptrend was observed at monthly level during the first quarter of 2014 compared to the first quarter of 2013 (January-January change: +1%; February-February: +16%; March-March: +20%).

Chart: Daily and quarterly peak prices in SPOT transactions in 2013–2014 (TGE)*.



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

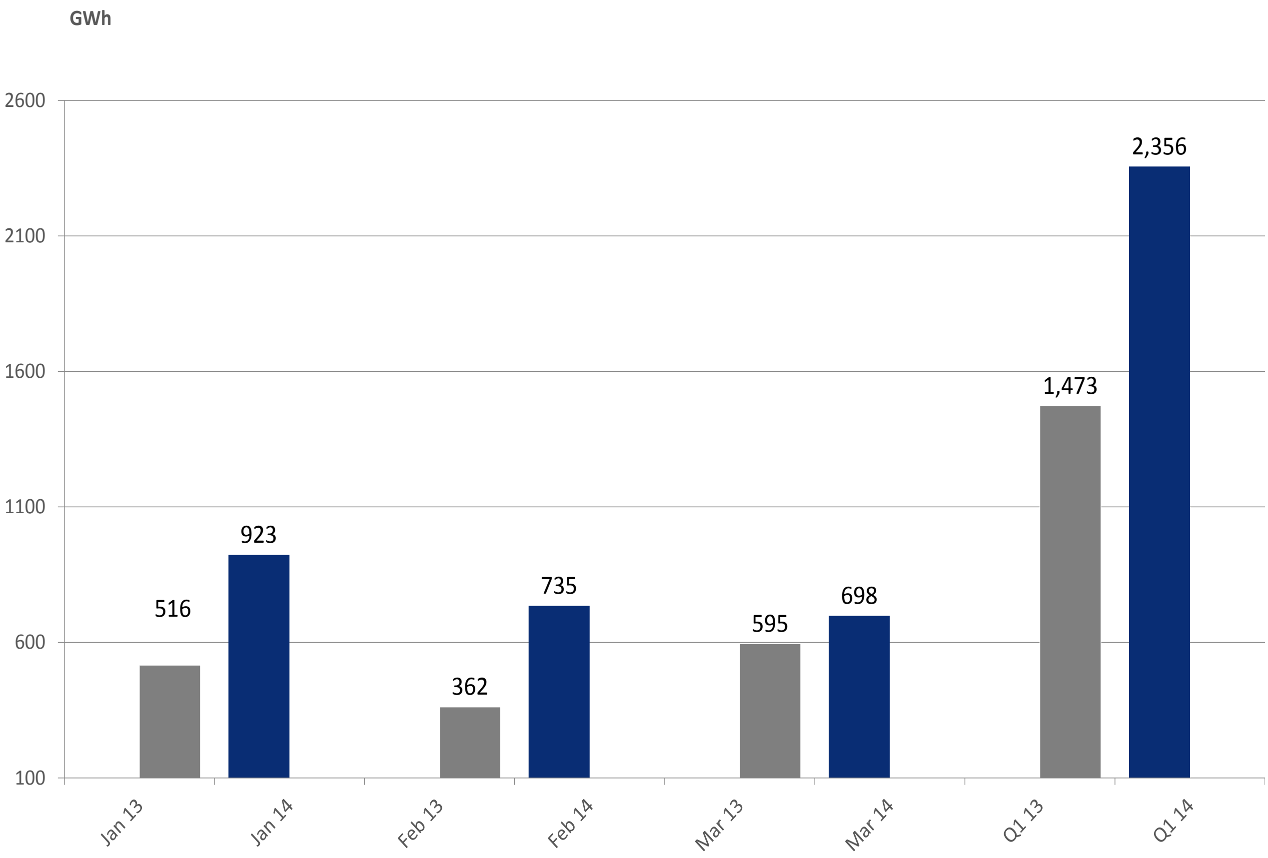
During the first quarter of 2014, spot market prices in Poland were affected by a mild winter, higher wind energy generation and electricity imports from Sweden, which increased supply and lowered market prices. At the same time, the introduction of a capacity mechanism and the higher production units failure rate contributed towards growth in electricity market prices.

The first-quarter volume of electricity imports from Sweden was 0.79 TWh, up 0.51 TWh (i.e. an increase of 182% compared to the first quarter of 2013). At the same time, electricity exported under cross-border exchange between Poland and Sweden decreased from 0.25 TWh in the first quarter of 2013 to 0.03 TWh in the first quarter of 2014.

A capacity mechanism was introduced by Polskie Sieci Elektroenergetyczne S.A. ("PSE") at the beginning of 2014 (Operational Reserve Mechanism – "ORM"). Under the ORM, PSE pays producers for the availability of their capacities for system balancing.

According to data from PSE, wind generation in the first quarter of 2014 was 2,356 GWh, up 883 GWh (approx.. 60%) on the same period in 2013. After the record-breaking final month of 2013, which saw the highest overall volume of wind energy ever produced, the highest hourly capacity was achieved on March 15, 2014, recording a figure of 3,230 MW, compared with the installed rated capacity of wind energy sources at 3,390 MW, meaning 95% capacity utilisation.

Chart: Wind generation in particular months of the first quarters of 2013 and 2014.

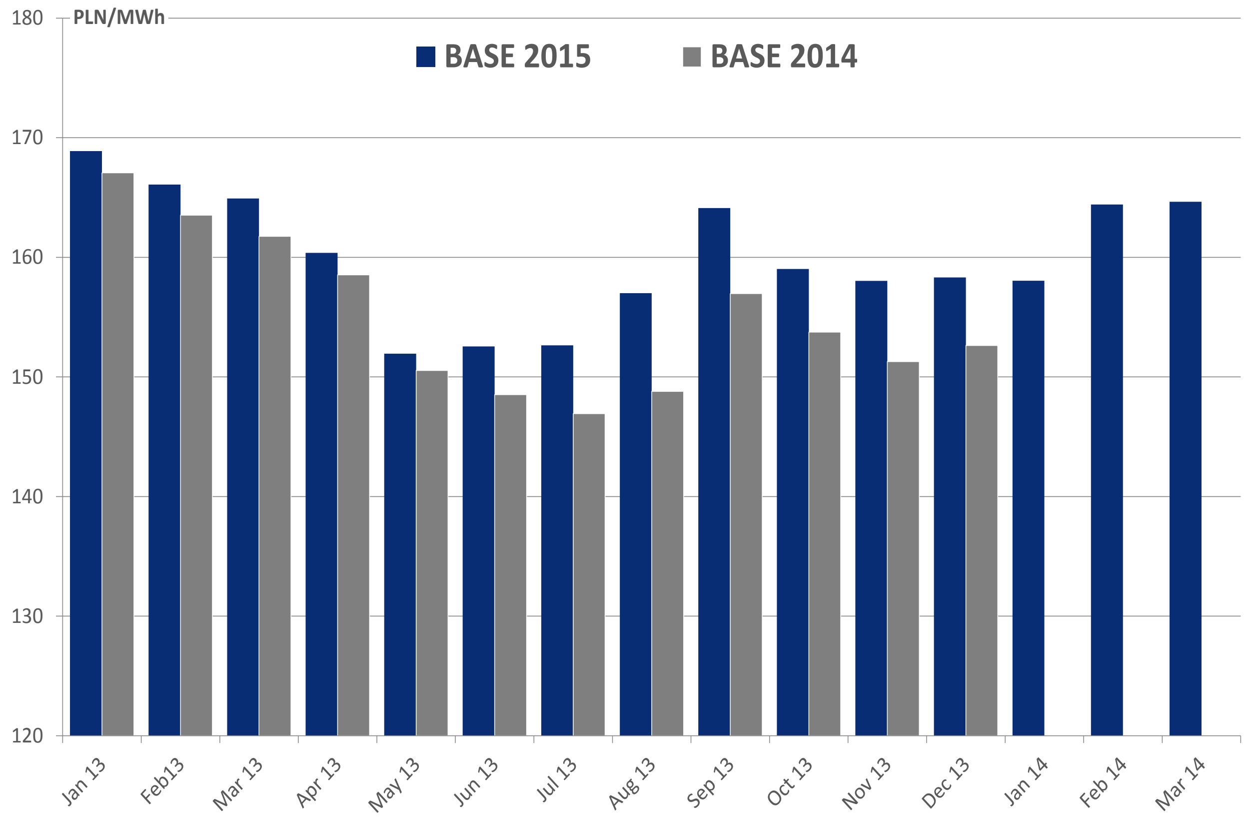


Futures market

The long-term bearish trend on Poland's electricity futures market turned at the beginning of 2014, with the rise in prices due to a decision by the European Parliament in support of the European Commission's proposal to reduce the number of CO_2 emission rights, alongside an update of the System Balancing and System Constraint Management part of the Transmission Grid Operation and Maintenance Manual (IRiESP) which introduced an ORM subsidy for producers.

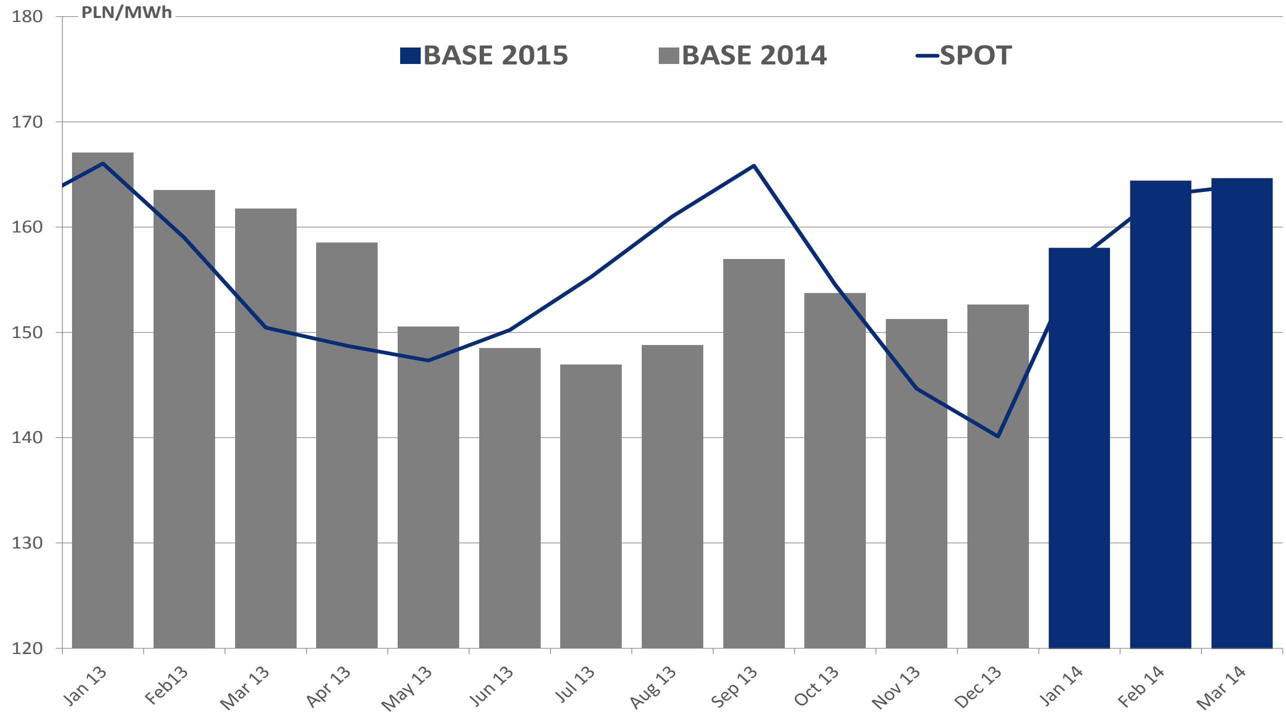
The BASE_Y_2015 annual contract in March 2014 was valued at 164.65 PLN/MWh, closing in on the previous year's level of 164.92PLN/MWh.

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



Spot pricing changes has a fairly substantial impact on prices in the futures market. Correlation between the two markets indicates that the current price levels are having a significant impact on subsequent delivery periods.

Chart: Pricing volatility for annual base products vs. the spot market, by month.

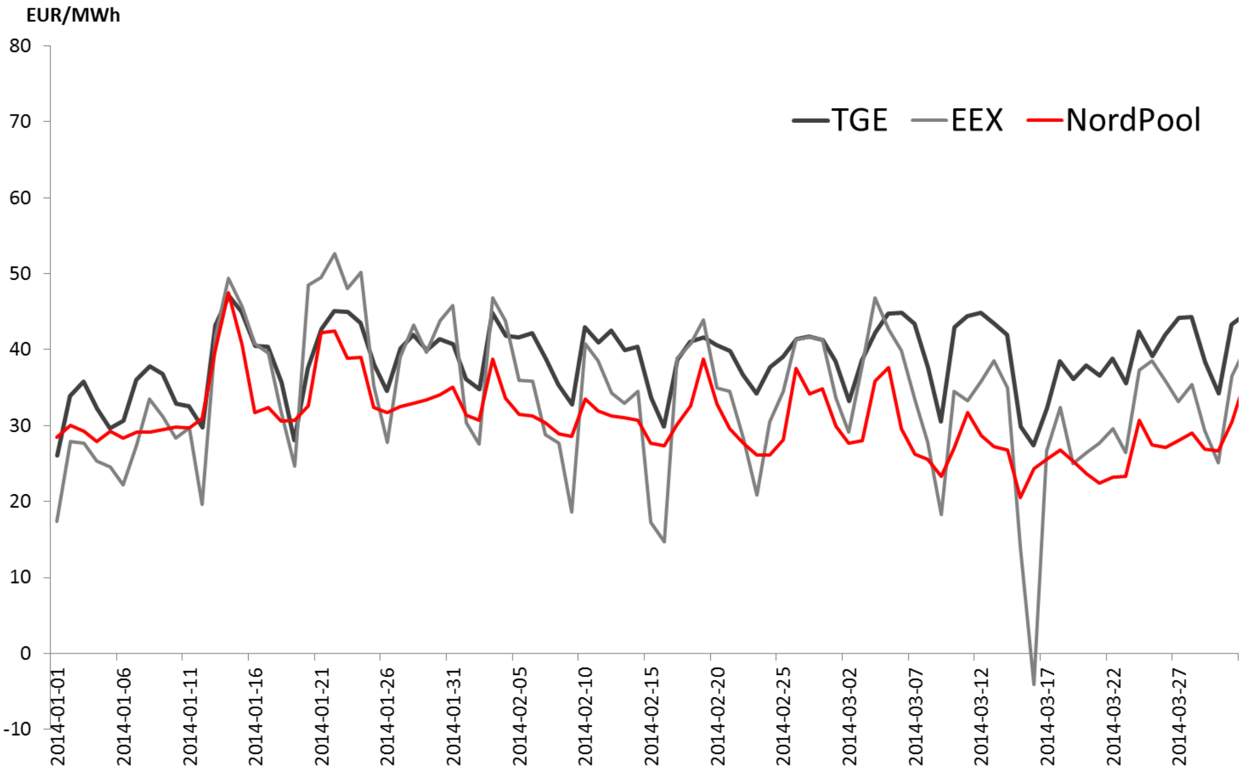


International market

Similar to Sweden, prices in the German market during the first quarter of 2014 were lower than in the same period the previous year despite dynamically growing prices of EUA during the months of January and February. The trend seen in recent years, whereby prices in the Polish market were below those in Germany and Sweden, was also not maintained. The average price in Germany fell by 21% during the first quarter of 2014 vs. the first quarter of 2013 and by 11% compared with the average 2013 price. The Nordics market saw a 27% decrease in electricity prices in the first quarter of 2014.

The significantly warmer winter could well have been the main reason that the price declines were so substantial. The average price in Sweden between January and March 2014 was 30.63 EUR/MWh, compared with 42.14 EUR/MWh in the same period of the previous year.

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



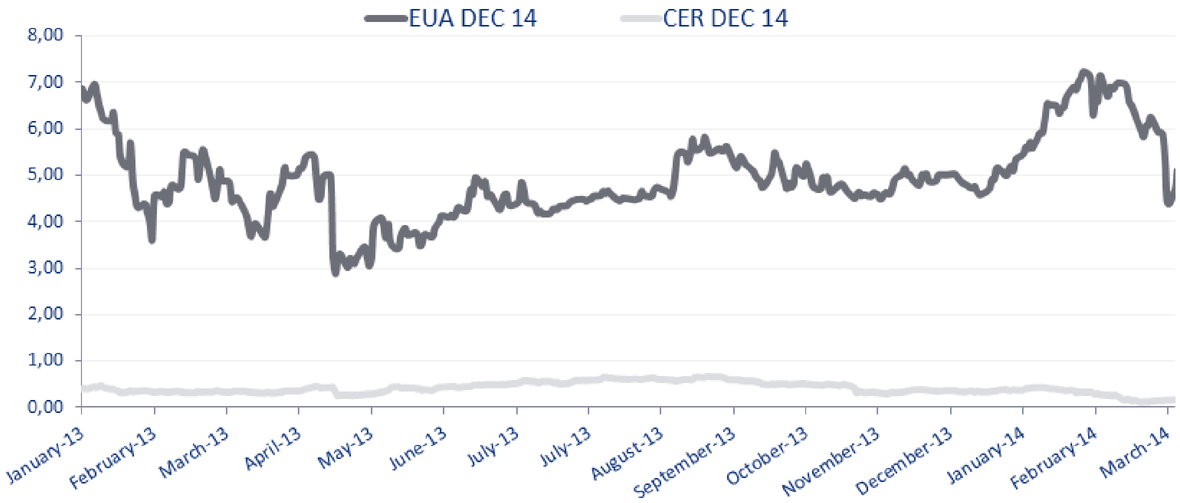
Unlike Germany and the Nordics, Poland saw higher average spot market prices in the first quarter of 2014 than in the same period the previous year. Growth in the average price in the first quarter of 2014 was about 1% y-o-y, what together with the substantial declines in foreign markets resulted in a situation where the Polish market became the most expensive of the three mentioned. The current pricing resulted in a negative cross-border exchange balance of -0.33 TWh, compared with a positive 1.77 TWh in the period from January to March 2013.

2.1.3 Prices of CO_2 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) allowing for the emission of one tonne of CO_2. CER-type and ERU-type rights may be redeemed by business operators only to a limited extent, in settlement period 2013-2020 up to 1% of the allocations granted under the National Allocation Plan for years 2008-2012.

The number of CO_2 allowances initially granted to the installations Poland within the National Allocation Plan of CO_2 Allowances is lower than demanded by the Polish industry sector. Business operators are obliged to purchase the difference between the demand resulting from CO_2 emission levels and allowances granted for free under the framework of the so-called European Emissions Trading Scheme ("EU ETS"). The purchasing cost of lacking allowances is therefore a significant factor determining the financial results achieved by PGE.

Chart: Prices of CO_2 emission rights in 2013 and in the first quarter of 2014, for contract with EUA delivery in December 2014.



The market of CO_2 emission rights in 2013 was characterised by high volatility of prices. Until the last decade of April 2013 the market was in a downward trend, reaching lower and lower price levels. Starting from the last week of April 2013, there has been a reversal of the trend. Despite the reversal of the trend in the market of CO_2 emission rights, year 2013 is a reflection of the market trend, which is characterized by low prices of emission allowances.

The market was in an uptrend from the beginning of 2014 to the end of the first 10-day period of March, followed by a correction in the last two weeks of March which resulted in a decrease in allowance prices. These declines brought prices to the levels from the beginning of this year. During the analysed period, emission allowances were quoted in the following price ranges:

- EUA: 4.35-6.89EUR/t;
- CER: 0.19-0.24EUR/t;
- ERU: 0.08-0.19EUR/t.

Among significant factors determining the prices of emission rights and in 2013 and in the first quarter of 2014 there were:

- oversupply of emission rights on the market;
- decreased demand from the industry sector for emission rights due to economic slowdown;
- lack of coherent attitude of European Commission with regard to backloading, i.e. reallocation of part of allowances for 2013-2015 to 2019-2020.

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

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

On March 5, 2014, Polish auctions for allowances sold at European auctions were suspended until 2015.

2.1.4 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 the period ended March 31, 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.

In the 3-month period ended March 31, 2014 sales of energy to the corporate customers (key and business) and to individuals (other than G tariff customers connected to the distribution network of PGE Dystrybucja S.A.), took place on the basis of "Tariff for customers from A, B, C and R tariff groups", approved by the resolution of the Management Board of PGE Obrót S.A. and effective from December 1, 2011, as well as on the basis of public promotional offers and individually negotiated sale conditions.

DISTRIBUTION OF ELECTRICITY

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

Tariff of PGE Dystrybucja S.A. for 2014 was approved by the President of the Energy Regulatory Office on December 17, 2013. Tariffs for 2014, according to resolution of the Management Board of PGE Dystrybucja S.A. of December 18, 2013, 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.

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 theEnergy Regulatory Office.

2.1.5 Termination of long-term contracts (LTC)

Due to the termination of LTCs in accordance with The Act on coverage of stranded costs resulting at generators in relation to accelerated termination of long-term contracts ("LTC Act"), the producers being earlier the parties to such contracts obtained a right to receive compensations for the coverage of so called stranded costs. 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 6,317 million for PGE GiEK S.A.

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

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

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 24.1 to the consolidated financial statements and in p. 2.6.6 of this report.

2.1.6 Emission rights granted free of charge for years 2013-2020

Official allocations of emission allowances for electricity and heat producers for the settlement period 2013–2020 are already known and approved by the European Commission. The Regulation of the Council of Ministers, that sets the allocation of allowances for particular units of electricity producers in period 2013-2010, was adopted on April 8, 2014. Analogically, allocation of allowances for heat producers was 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_2 emission from major Group installations in the first quarter of 2014 (in comparison to the allocations).

Table: Emission of CO_2 from major Group installations in the first quarter of 2014 in comparison to allocation of CO_2 emission rights for 2014 (in Mg).

Operator	CO_2 emissions in Q1 2014	Allocation of CO_2 emission rights for 2014
PGE GiEK Branch Elektrownia Bełchatów	9,006,232	15,535,037
PGE GiEK Branch Elektrownia Turów	1,945,476	6,247,900
PGE GiEK Branch Elektrownia Opole	1,727,804	3,587,594
PGE GiEK Branch Zespół Elektrowni Dolna Odra	1,244,102	2,931,631
PGE GiEK Branch Zespół Elektrociepłowni Bydgoszcz	280,378	708,528
PGE GiEK Branch Elektrociepłownia Gorzów	141,380	297,971
PGE GiEK Branch Elektrociepłownia Lublin-Wrotków	139,297	387,687
PGE GiEK Branch Elektrociepłownia Rzeszów	79,338	140,185
PGE GiEK Branch Elektrociepłownia Kielce	77,293	128,824
PGE GiEK Branch Elektrociepłownia Zgierz	33,512	56,103
TOTAL	**14,674,812**	**30,021,460**

2.1.7 Fuel purchase costs

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

Type of fuel	Q1 2014		Q1 2013	
	Volume (tons 000')	Cost (PLNm)	Volume (tons 000')	Cost (PLNm)
Hard coal	1,397	355	1,380	393
Gas (cubic metres thousand)	66,683	20	179,167	170
Biomass	326	89	297	87
Fuel oil (heavy and light)	10	18	11	24
TOTAL		**482**		**674**

In the first quarter of 2014 the costs of purchasing primary fuels from providers outside the Group amounted to PLN 482 million and were lower by approximately 28% as compared to the first quarter of 2013.

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

- decreased volumes of use of gas in connection with ceasing production from CCGT in Rzeszów CHP from March 18, 2013, decreased use in Lublin Wrotków CHP (lack of support for cogeneration);
- The purchase price of gas was 68% lower due to an increase of the share of locally-sourced high-nitrogen gas in total gas consumption during the first quarter of 2014, as compared with the share of this type of gas in the first quarter of 2013 (about 96% in 2014 vs. about 30% in 2013;
- purchase prices of hard-coal – lower by 11%.

In the first quarter of 2014 approximately 70% of the electricity was produced from internally sourced lignite, whose price is fully controlled by PGE Capital Group.

2.2 Key operational figures of PGE Capital Group

Table: Key operational figures.

Key figures	Unit	Q1 2014	Q1 2013	% change
Lignite extraction	Tons m	12.30	12.56	-2%
Net electricity production	TWh	13.50	14.67	-8%
Heat sales	GJ m	7.58	9.40***	-19%
Sales to final customers *	TWh	9.91	8.95	11%
Distribution of electricity **	TWh	8.22	7.98	2%

** sales by PGE Obrót S.A. with additional estimation and with taking into account the sales within PGE Group*
*** with additional estimation*
**** data restated for comparability with regard to the consolidated entities*

2.2.1 Balance of energy of PGE Capital Group

SALES OF ELECTRICITY

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

Sales volume	Q1 2014	Q1 2013	% change
SALES IN TWh, including:	**24.94**	**26.96**	**-7%**
Sales to end-users *	9.88	8.94	11%
Sales on the wholesale market, including:	14.74	17.66	-17%
Sales on the domestic wholesale market – power exchange	*13.74*	*13.48*	2%
Other sales on the domestic wholesale market	*0.82*	*3.83*	-79%
Sales to foreign customers	*0.18*	*0.35*	-49%
Sales on the Balancing Market	0.32	0.36	-11%

** after elimination of internal sales within PGE Group*

The decrease of volume of electricity sold by the Group resulted mainly from reduced trade operations on the wholesale market other than power exchange. Lower sales on this market is connected with lack of electricity sales within the contract with Energa - Obrót S.A. that was pursued in the first quarter of 2013.

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

PURCHASES OF ELECTRICITY

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

Purchases volume	Q1 2014	Q1 2013	% change
PURCHASES IN TWh, including:	**12.97**	**13,85**	**-6%**
Purchases on the domestic wholesale market – power exchange	9.57	11.27	-15%
Purchases on the domestic wholesale market, other	1.09	0.95	15%
Purchases from abroad	0.14	0.10	40%
Purchase from the Balancing Market	2.17	1.53	42%

During the first quarter of 2014 2013, PGE S.A. purchased larger volumes under an agreement with Energa-Obrót S.A. An increase in other purchases on the domestic wholesale market other than power exchange 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.

PRODUCTION OF ELECTRICITY

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

Generation volume	Q1 2014	Q1 2013	% change
ENERGY GENERATION IN TWh, including*:	**13.50**	**14.67**	**-8%**
Lignite-fired power plants	9.55	10.04	-5%
Coal-fired power plants	2.82	3.10	-9%
Coal-fired CHP plants	0.39	0.43	-9%
Gas-fired CHP plants	0.14	0.65	-78%
Biomass-fired CHP plants	0.11	0.11	0%
Pumped storage power plants	0.19	0.11	73%
Hydroelectric plants	0.10	0.15	-33%
Wind power plants	0.20	0.08	150%
** including biomass*	*0.31*	*0.25*	*24%*

A fall in electricity production at lignite-fired plants results primarily from lower production at Elektrownia Turów due to the decommissioning, by the end of 2013, of unit no. 10. Additionally, lower utilization of Bełchatów plant units by the TSO also attributed to the lower generation.

The lower electricity production at coal-fired plants results mainly from lower production at Dolna Odra power plant due to the decommissioning, by the end of 2013, of unit no. 3. Furthermore, the first quarter of 2014 saw unit no. 1 at Dolna Odra power plant undergo a major overhaul and in January 2014 unit no. 4 in Opole power plant also went through a major overhaul.

A decrease in production at coal-fired CHP plants results mainly from lower production of electricity in co-generation with heat at ZEC Bydgoszcz due to weather conditions.

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

The decreased electricity production in hydroelectric power plant was a result of unfavourable hydrological conditions.

Increased production in pumped storage power plants results from the character of work of these units, which were used at higher degree by PSE S.A. in the first quarter of 2014.

Increase of production in wind power plants is a result of recognition of energy production from plants belonging to PGE Energia Natury Group as from July 2013 as well as from wind power plants: EW Resko and EW Wojciechowo belonging to PGE Energia Odnawialna S.A. Group.

2.2.2 Sales of heat

In the first quarter of 2014 the heat sales in PGE Group totaled 7.58 GJ million and were lower by 19% as compared to 2013. Lower sales of heat resulted from lower demand for heat and is dependent on weather conditions in Poland. Decline of heat sales was recorded in all branches of PGE Górnictwo i Energetyka Konwencjonalna S.A. The highest falls were recorded in ZEC Bydgoszcz (-0.49 GJ million), in Lublin Wrotków CHP (-0.26 GJ million) and in Rzeszów CHP (-0.22 GJ million).

2.3 Business segments

Table: Breakdown of the Group's income by business segments in the first quarter of 2014 and 2013.

in PLN million	Total income Q1 2014	Total income Q1 2013	% change
Conventional Generation	3,054	3,364	-9%
Renewable Energy	203	158	28%
Wholesale Trading	2,457	3,411	-28%
Distribution	1,485	1,435	3%
Retail Sale	3,174	3,365	-6%
Other activity	398	371	7%
TOTAL	**10,771**	**12,104**	**-11%**
Consolidation adjustments	**-3,842**	**-4,312**	**-11%**
TOTAL AFTER ADJUSTMENTS	**6,929**	**7,792**	**-11%**

Table: Key figures for each business segment in the first quarter of 2014 (after eliminations).

in PLN million	EBITDA	EBIT	Capital expenditures	Purchase of PPE* net, within purchase of new companies	Assets of the segment **
			Q12014		
Conventional Generation	812	394	693	0	32,002
Renewable Energy	110	59	119	0	3,297
Wholesale Trading	166	163	3	0	1,065
Distribution	598	354	176	0	15,145
Retail Sale	1	-1	1	0	2,218
Other activity	29	-2	29	0	1,399
TOTAL	**1,716**	**967**	**1,021**	**0**	**55,126**
Consolidation adjustments	**-2**	**8**	**-20**	**0**	**-1,211**
TOTAL AFTER ADJUSTMENTS	**1,714**	**975**	**1,001**	**0**	**53,915**

** PPE – property, plant and equipment*

*** see Note 10 to the consolidated financial statements*

Table: Key figures for each business segment in the first quarter of 2013 (after eliminations).

in PLN million	EBITDA	EBIT	Capital expenditures	Purchase of PPE* net, within purchase of new companies	Assets of the segment **
			Q12013***		
Conventional Generation	928	509	541	0	29,915
Renewable Energy	78	36	65	11	2,528
Wholesale Trading	253	249	2	0	1,313
Distribution	553	305	182	0	14,892
Retail Sale	264	262	2	0	2,169
Other activity	17	-11	31	0	1,293
TOTAL	**2,093**	**1,350**	**823**	**11**	**52,110**
Consolidation adjustments	**22**	**31**	**-28**	**19**	-1,657
TOTAL AFTER ADJUSTMENTS	**2,115**	**1,381**	**795**	**30**	**50,453**

** PPE – property, plant and equipment*

*** see Note 10 to the consolidated financial statements*

**** data restated*

2.3.1 Conventional Generation

Table: Key figures for Conventional Generation

in PLN million	Q1 2014	Q1 2013	% change
Sales revenues	3,054	3,364	-9%
EBIT	394	509	-23%
EBITDA	812	928	-13%
Capital expenditures	693	541	28%

Decrease of EBIT by PLN 115 million was mainly connected with:

- lower revenues from sales of electricity PLN (-) 351 million ;
- provision for costs of Voluntary Leave Programme PLN (-) 154 million ;
- increased merchandise and materials sold (mainly electricity) PLN (-) 92 million ;
- lower revenues from LTC compensations PLN (-) 70 million ;
- lower revenues from sales of heat PLN (-) 30 million .

Above decreases were partly offset by:

- lower costs of production fuel used PLN 296 million ;
- lower costs of fees for CO_2 emission PLN 105 million;
- higher revenues from sales of energy origin certificates PLN 60 million.

Chart: Key changes of EBIT in Conventional Generation (in PLN million).

	Result Q1 2013	Sale of electricity - difference in volume	Sale of electricity - difference in price	Revenues from regul. serv.	Revenues from cert. of origin*	Other revenues	Cost of CO2	Cost of fuel	Cost of merchandise and materials sold*	VLP costs	Other costs	Other operating activity (others)	Result Q1 2014
Change		**-68**	**-283**	**17**	**60**	**-106**	**105**	**296**	**-92**	**-154**	**92**	**18**	
Q1 2013	**509**			42	32	546	377	829	149	0	1,487	-13	
Q4 2014				59	92	440	272	533	241	154	1,395	5	**394**

**does not include purchased property rights intended for sale*

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

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

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Conventional Generation segment in the first quarter of 2014 and 2013, by particular investment tasks.

in PLN million	Capital expenditures		
	Q1 2014	Q1 2013	% change
Investments in generating capacities, including:	387	230	68%
▪ *Development*	*334*	*223*	50%
▪ *Modernization and replacement*	*53*	*7*	657%
Purchases of finished capital goods	22	5	340%
Vehicles	5	2	150%
Other	138	149	-7%
TOTAL	**552**	**386**	**43%**
Activated costs of overburden removal in mines	141	155	-9%
TOTAL	**693**	**541**	**28%**

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

- complex reconstruction and modernization of units 7 - 12 in Bełchatów power plant PLN 221 million;
- realisation of units 5 and 6 in Opole power plant PLN 53 million;
- change of technology of furnace waste storage in Bełchatów power plant PLN 39 million;
- construction of installation for NO_x reduction at units 1-3 in Opole power plant PLN 14 million;
- modernisation of IOS at units 3-12 in Bełchatów power plant PLN 12 million.

2.3.2 Renewable Energy

Table: Key figures for Renewable Energy

PLN million	Q1 2014	Q1 2013	% change
Sales revenues	203	158	28%
EBIT	59	36	64%
EBITDA	110	78	41%
Capital expenditures	119	65	83%
Purchase of PPE net, within purchase of new companies	0	11	-

Growth of EBIT by PLN 23 million mainly resulted from:

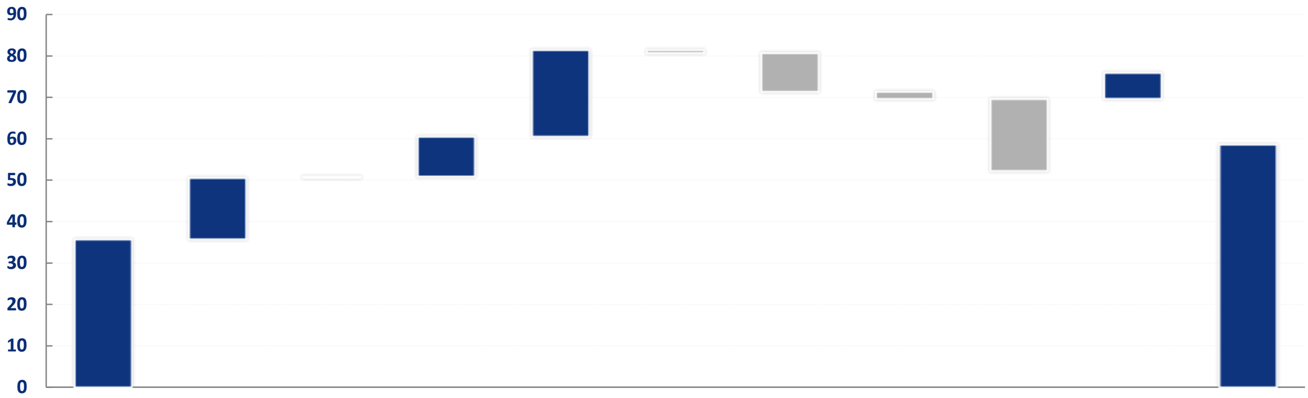
- Higher revenues from sale of property rights PLN 21 million;
- Higher revenues from sale of electricity (mainly due to new generation capacities) PLN 15 million.

Higher revenues from sale of property rights, as well as from sale of electricity result mainly from increase of new wind capacity by 173 MW.

Increased revenues were partly offset by higher costs of:

- Higher operational expenses of wind farma acquired in the second half of 2013 PLN (-) 17 million;
- Higher costs of use of energy PLN (-) 9 million.

Chart: Key changes of EBIT in Renewable Energy (in PLN million).



	Result Q1 2013	Sale of electricity - difference in volume	Sale of electricity - difference in price	Revenues from regul. serv. and bal. market	Revenues from cert. of origin.	Other revenues	Energy consumption	Operating expenses PGE Energia Odniawialna	Operating expenses PGE Energia Natury	Result on other oper. activities	Result Q1 2014
Change		**15**	**0**	**10**	**21**	**-1**	**-9**	**-2**	**-17**	**6**	
Q1 2013	**36**			87	32	4	33	86	0	-4	
Q1 2014				97	53	3	42	88	17	2	**59**

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Renewable Energy segment in the first quarter of 2014 and 2013.

in PLN million	Capital expenditures		
	Q1 2014	**Q1 2013**	**% change**
Investments in generating capacities, including:	117	63	86%
▪ *Development*	*117*	*61*	92%
▪ *Modernization and replacement*	*0*	*2*	-
IT	1	0	-
Vehicles	0	1	-
Other	1	1	0%
TOTAL	**119**	**65**	**83%**
Purchase of PPE net, within purchase of new companies	0	11	-
TOTAL	**119**	**76**	**57%**

In the first quarter of 2014 the highest capital expenditures were incurred for the construction projects of:

- Wind farm Wojciechowo with a capacity of 28 MW PLN 111 million;
- Wind farm Karwice with a capacity of 40 MW PLN 1 million.

2.3.3 Wholesale Trading

Table: Key figures for Wholesale Trading

in PLN million	Q1 2014	Q1 2013	% change
Sales revenues	2,457	3,411	-28%
EBIT	163	249	-35%
EBITDA	166	253	-34%
Capital expenditures	3	2	50%

Decrease of EBIT by PLN 86 million was mainly connected with:

- lower result on electricity sales PLN (-) 77 million;
- lower remuneration with regard to services for PGE GiEK S.A. due to the Agreement on Commercial Management of Generation Capacities PLN (-) 12 million.

Chart: Key changes of EBIT in Wholesale Trading (in PLN million).

	Result Q1 2013	Sale of electricity	Management service	Revenues from cert. of origin	Other revenues	Cost of products and services	Selling expenses	General and administrative costs	Result on other oper. activities	Result Q1 2014
Change		**-77**	**-12**	**0**	**5**	**-5**	**6**	**-2**	**-1**	
Q1 2013	**249**	168	126	4	17	20	12	35	2	
Q1 2014		91	114	4	22	25	6	37	1	**163**

2.3.4 Distribution

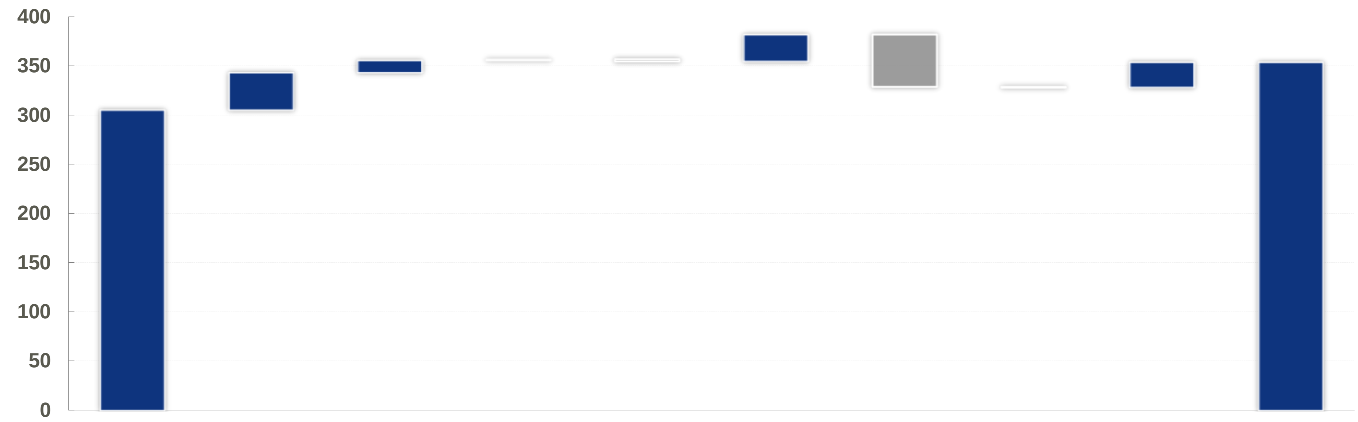
Table: Key figures for Distribution

in PLN million	Q1 2014	Q1 2013	% change
Sales revenues	1,485	1,435	3%
EBIT	354	305	16%
EBITDA	598	553	8%
Capital expenditures	176	182	-3%

Growth of EBIT by PLN 49 million mainly resulted from:

- higher revenues from the distribution services — PLN 51 million;
- higher result on other operations (mainly due to higher balance of provisions reversed/created) — PLN 26 million;
- lower cost of energy for covering the balancing difference — PLN 25 million;
- higher costs of transmission services — PLN (-) 53 million.

Chart: Key changes of EBIT in Distribution (in PLN million).



	Result Q1 2013	Revenue from distrib. service - difference in volume	Revenue from distrib. service - difference in price	Other distribution related revenues	Other revenues	Energy consumption	Transmission services	Cost of merchandise and materials sold+ opex	Result on other oper. activities	Result Q1 2014
Change		**38**	**12**	**1**	**-2**	**27**	**-53**	**-1**	**26**	
Q1 2013	**305**			98	30	190	259	680	-1	
Q1 2014				99	29	163	312	681	25	**354**

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Distribution segment in the first quarter of 2014 and 2013.

in PLN million	Capital expenditures		
	Q1 2014	Q1 2013	% change
MV and LV power networks	42	46	-9%
110/MV and MV/MV power stations	9	14	-36%
110 kV power lines	3	3	0%
Connection of new off-takers	88	83	6%
Purchase of transformers and energy counters	12	19	-37%
IT, telemechanics and communication	7	9	-22%
Other	15	8	88%
TOTAL	**176**	**182**	**-3%**

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

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

2.3.5 Retail Sales

Table: Key figures for Retail Sales

in PLN million	Q1 2014	Q1 2013	% change
Sales revenues	3,174	3,365	-6%
EBIT	-1	262	-100%
EBITDA	1	264	-100%
Capital expenditures	1	2	-50%

Decrease of EBIT by PLN 263 million was mainly related to:

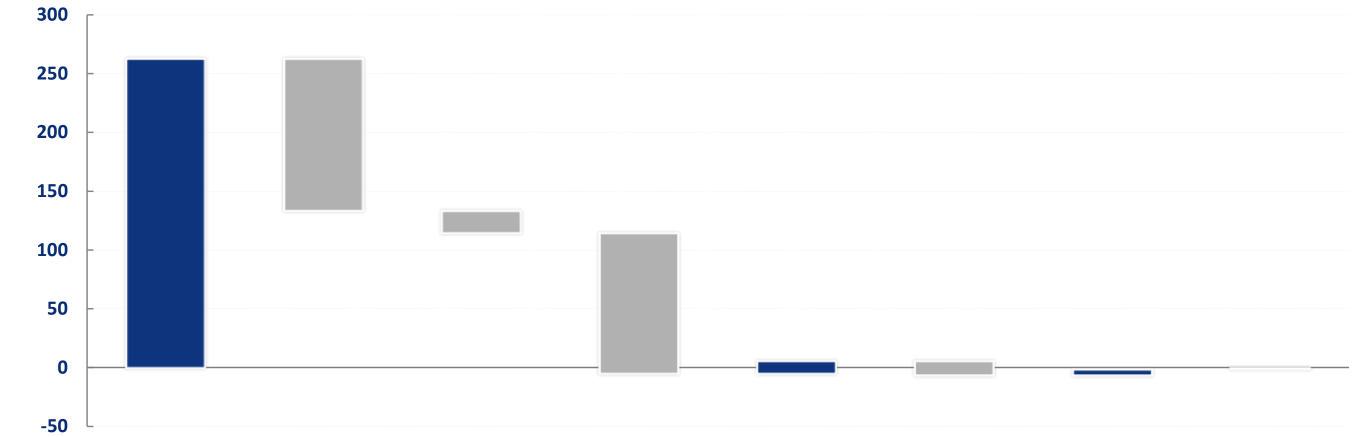
- lower margin on electricity sales PLN (-) 129 million;
- higher costs of redemption of property rights PLN (-) 119 million.

Lower margin on sale of electricity in the first quarter of 2014 as compared to the first quarter of 2013 is mainly due to:

- increasing competition in the corporate customers segment, what directly affects the decline of electricity prices offered to these customers;
- change of sales structure resulting in growth of electricity sales to customers from A and B tariff groups, where margins are lower in comparison to other sales.

Reversal of provision for purchase of green certificates was recognised in costs of redemption of property rights in the first quarter of 2014. In 2013, due to the closing of accounts of PGE Obrót S.A., reversal of provision was recognised in the consolidation adjustments.

Chart: Key changes of EBIT in Retail Sales (in PLN million).



	Result Q1 2013	Change in result on electricity sales	Other revenues	Costs of certificates of origin	Cost of merchandise and materials sold	Operating expenses	Result on other oper. activities	Result Q1 2014
Change		**-129**	**-19**	**-119**	**11**	**-12**	**5**	
Q1 2013	**262**	453	1,087	136	1,071	68	-3	
Q1 2014		324	1,068	255	1,060	80	2	**-1**

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

2.3.6 Other Operations

in PLN million	Q1 2014	Q1 2013	% change
Sales revenues	398	371	7%
EBIT	-2	-11	-82%
EBITDA	29	17	71%
Capital expenditures	29	31	-6%

Lower loss on EBIT by PLN 9 million was mainly connected with:

- better result of EXATEL S.A. due to savings in the telecommunication expenses (lease and exploitation of infrastructure) and one-off costs incurred in the first quarter of 2013 related to employment restructuring that did not occur in year 2014; PLN 4 million;
- better result of RAMB sp. z o.o., mainly connected with wider range of ancillary services (construction works, repairs, modernisations) rendered by the company to companies from other segments of PGE Capital Group and to external contractors PLN 3 million.

CAPITAL EXPENDITURES

Capital expenditures in Other Operations in the first quarter of 2014 amounted to PLN 29 million as compared to PLN 31 million in the first quarter of 2013. The main expenditures were incurred by:

- Exatel S.A. – for telecommunication infrastructure development PLN 10 million;
- PGE Systemy S.A. – for IT infrastructure development PLN 10 million.

Other capital expenditures were mostly related to ancillary services.

2.4 Financial results of PGE Capital Group

Key financial data	Unit	Q12014 (reviewed)	Q12013 (not audited) data restated	% change
Sales revenues	PLN million	6,929	7,792	-11%
EBIT	**PLN million**	**975**	**1,381**	**-29%**
EBITDA	**PLN million**	**1,714**	**2,115**	**-19%**
Net profit attributable to equity holders of the parent company	PLN million	789	1,095	-28%
LTC compensations	PLN million	131	201	-35%
Capital expenditures	**PLN million**	**1,001**	**795**	**26%**
Net cash from operating activities	PLN million	889	1,377	-35%
Net cash from investing activities	PLN million	-1,876	-1,299	-44%
Net cash from financial activities	PLN million	160	-343	-
Net earnings per share	PLN	0.42	0.59	-29%
Working capital	PLN million	5,179	5,223*	-1%
EBITDA margin	**%**	**25%**	**27%**	
Net debt/LTM EBITDA **	x	-0.31x	-0.46x***	

**as at December 31, 2013*
*** LTM EBITDA - Last Twelve Months EBITDA*
**** Net debt as at December 31, 2013*

Consolidated statement of comprehensive income

In the first quarter of 2014 total **sales revenues** of the Group amounted to PLN 6,929 million as compared to PLN 7,792 million in the first quarter of 2013, what means decrease by approx.11%.

Decrease of revenues by PLN 863 million was mainly caused by:

- decreased revenues from sales of electricity PLN (-) 982 million;
- decrease of revenues from LTC compensations PLN (-) 70 million;
- decreased revenues from sales of heat PLN (-) 32 million.

This decrease was partly offset by:

- increased revenues from sales of certificates of energy origin PLN 158 million;
- increased revenues from sales of distribution services PLN 55 million.

Cost of goods sold In the first quarter of 2014 amounted to PLN 5,446 million, what means decrease by approx.9% in comparison to the first quarter of 2013.

The decrease of the cost of goods sold by PLN 551 million was mainly caused by:

- lower costs of production fuel PLN 296 million;
- lower merchandise and materials sold PLN 268 million;
- decreased costs of fees for CO_2 emission PLN 105 million.

Gross profit on sales in the first quarter of 2014 amounted to PLN 1,483 million as compared to PLN 1,795 million in the first quarter of 2013, what means decrease by approx.17%.

In the first quarter of 2014 **distribution and selling expenses** of PGE Group amounted to PLN 363 million and were higher by approx. 53% in comparison to the first quarter of 2013. The increase of selling and distribution expenses was mainly associated with higher costs of redemption of property rights incurred by PGE Obrót S.A.

In the first quarter of 2014 **general and administrative expenses** amounted to PLN 183 million, what means approximately 5% growth as compared to the first quarter of 2013.

Result on other operating activities in the first quarter of 2014 was positive and amounted to PLN 38 million in comparison to the negative result of PLN (-) 2 million in the first quarter of 2013.

Other operating revenues of the Group in the first quarter of 2014 amounted to PLN 98 million, what means decrease by approx. 13% in relation to PLN 113 million achieved in the first quarter of 2013.

Decrease of operating revenues by PLN 15 million mainly resulted from:

- lower compensations, penalties and fines received PLN (-) 35 million;

This decrease was partly compensated by:

- higher revenues from provisions reversed PLN 21 million.

Other operating expenses of the Group in the first quarter of 2014 amounted to PLN 60 million as compared to PLN 115 million in the first quarter of 2013, what means decrease by approx.48%.

Decrease of operating expenses by PLN 55 million mainly resulted from:

- recognition impairment allowance for Project Opole II in the first quarter of 2013 (that was reversed in next reporting periods) PLN 56 million;
- higher expenses of liquidation of damages and removal of failures PLN (-) 8 million.

In the first quarter of 2014 result on financial activities was positive and amounted to PLN 7 million, in comparison to negative result in amount of PLN 19 million in the first quarter of 2013.

The Group's **financial revenues** in the first quarter of 2014 amounted to PLN 80 million, what means increase by approx. 3% in relation to PLN 78 million achieved in the first quarter of 2013.

The increase of financial revenues by PLN 2 million was mainly caused by:

- higher level of provisions reversed PLN 9 million;
- higher revaluation/ impairment allowances reversed PLN 5 million;
- lower level of exchange gains PLN (-) 9 million.

Financial expenses of the Group in the first quarter of 2014 amounted to PLN 73 million, what means decrease by approx.25% in comparison to PLN 97 million achieved in the first quarter of 2013.

Lower level of financial expenses by PLN 24 million mainly resulted from:

- lower expenses due to exchange losses PLN 21 million.

As a result of the factors discussed above, the gross profit of the Group in the first quarter of 2014 amounted to PLN 982 million, as compared to PLN 1,362 million in the first quarter of 2013.

In the first quarter of 2014 **gross profit margin** of the Group (gross profit to total sales revenues) decreased to14% from 17% in the first quarter of 2013.

Net profit of the PGE Capital Group in the first quarter of 2014 amounted to PLN 792 million as compared to PLN 1,099 million in the first quarter of 2013.

Net profit attributable to the equity holders of the parent company decreased in the first quarter of 2014 by PLN 306 million, as compared to the first quarter of 2013 and amounted to PLN 789 million.

Total comprehensive income of the Group amounted to PLN 792 million in the first quarter of 2014 as compared to PLN 1,100 million in the first quarter of 2013.

Consolidated statement of financial position

Non-current assets of the Group as at March 31, 2014 and as at December 31, 2013 amounted respectively to PLN 48,557 million and PLN 47,738 million.

Increase in value of non-current assets by PLN 819 million was mainly caused by:

- Capital expenditures incurred for property, plant and equipment and intangible assets including: PLN 1,001 million;
  - PGE GiEK S.A. PLN 693 million;
  - PGE Dystrybucja S.A. PLN 176 million;
- Increased advances for construction in progress PLN 510 million.

This growth was compensated by:

- depreciation charges on fixed assets and intangible assets PLN (-) 739 million.

Current assets of the Group as at March 31, 2014 and as at December 31, 2013 amounted respectively to PLN 12,359 million and PLN 13,013 million.

The decrease of the value of the Group's current assets by PLN 654 million was mainly related to:

- decreased cash and cash equivalents PLN (-) 828 million;
- decreased trade receivables PLN (-) 322 million.

This decrease was offset by:

- increased other short-term assets PLN 284 million;
- higher inventory PLN 85 million;
- increase in greenhouse gases emission rights PLN 54 million.

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

Increase in other short-term assets resulted from increased VAT receivables, accrued revenues, real estate tax and fees for perpetual usufruct of land.

Increase in inventory results from higher value of certificates of energy origin and CO_2 emission rights held for trading with the simultaneous decrease of value of hard coal reserves and of repair and exploitation materials.

Increase in greenhouse gases emission rights results mainly from purchase of CO_2 emission rights for the own needs of PGE GiEK S.A.

As at March 31, 2014 and as at December 31, 2013 **total equity of the Group** amounted respectively to PLN 44,374 million and PLN 43,648 million.

Non-controlling interest as at March 31, 2014 and as at December 31, 2013 amounted respectively to PLN 198 million and PLN 266 million.

The increase in total equity by PLN 726 million mainly resulted from recognition of the net profit for the period ended March 31, 2014 in amount of PLN 792 million.

Long-term liabilities as at March 31, 2014 and as at December 31, 2013 amounted respectively to PLN 9,362 million and PLN 9,313 million.

Growth of long-term liabilities by PLN 49 million was mainly caused by:

- increase of deferred tax liability PLN 66 million.

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

Short-term liabilities as at March 31, 2014 and as at December 31, 2013 amounted respectively to PLN 7,180 million and PLN 7,790 million.

Fall of short-term liabilities by PLN 610 million mainly resulted from:

- decrease of other financial liabilities PLN (-) 625 million;
- decrease of other non-financial liabilities PLN (-) 153 million;
- lower trade liabilities PLN (-) 125 million.

This decrease was compensated by:

- increase in short-term part of interest-bearing loans, borrowings, bonds and lease PLN 208 million;
- increased short-term provisions PLN 186 million.

Decrease of other financial liabilities was mainly caused by lower investment liabilities related to purchase of property, plant and equipment, received bails and guarantee deposits and lower liabilities related to LTC.

Decrease of other non-financial liabilities was mainly caused by lower environmental fees and liabilities related to current employment, with the increased VAT and excise tax liabilities.

Increase in short-term part of interest-bearing loans, borrowings, bonds and lease results from higher degree of use of current account credits by the Group companies.

Increased short-term provisions mainly results from additional provisions raised for purchase of CO2 emission rights. This growth was partly offset by lower provision for the property rights.

Consolidated statement of cash flows

Cash and cash equivalents as at March 31, 2014 amounted to PLN 5,121 million and were higher by PLN 596 million than at the end of analogical period of 2013.

The total net cash flow from operating activities for the 3-month period ended March 31, 2014 amounted to PLN 889 million as compared to PLN 1,377 million for the 3-month period ended March 31, 2013.

Negative net cash flow from investing activities for the 3-month period ended March 31, 2014 amounted to PLN 1,876 million as compared to negative net cash flow in amount of PLN 1,299 million for the 3-month period ended March 31, 2013.

The level of **cash flow from investing activities** for the 3-month period ended March 31, 2014 was mainly affected by:

- expenses for the purchase of property, plant and equipment and intangible assets PLN (-) 1,857 million;
- expenses for purchase of other financial assets and increasing shares in the Group companies PLN (-) 49 million.

Positive net cash flow from financial activities for the 3-month period ended March 31, 2014 amounted to PLN 160 million as compared to negative net cash flow in amount of PLN 343 million for the 3-month period ended March 31, 2013.

Cash flow from financial activities for the 3-month period ended March 31, 2014 was mainly affected by positive balance of of proceeds/repayments from/of bank loans, borrowings, bonds and finance lease.

2.5 Publication of financial forecasts

PGE Polska Grupa Energetyczna S.A. did not publish financial forecasts.

2.6 Other significant events of the reporting period and subsequent events

2.6.1 Changes in the Supervisory Board

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

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

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

As at the publication date of this report, the composition of the Supervisory Board is as follows:

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

In accordance with the Supervisory Board resolutions of March 12, 2014 the composition of the Committees of the Supervisory Board were also changed.

In accordance with the Supervisory Board resolution no 170/IX/2014, the Audit Committee consists of:

Name and surname	Position
Jarosław Gołębiewski	Chairman of the Committee
Barbara Dybek	Committee Member
Krzysztof Trochimiuk	Committee Member
Anna Kowalik	Committee Member

In accordance with the Supervisory Board resolution no 171/IX/2014, the Corporate Governance Committee consists of:

Name and surname	Position
Małgorzata Mika – Bryska	Chairman of the Committee
Piotr Machnikowski	Committee Member
Jacek Barylski	Committee Member
Czesław Grzesiak	Committee Member

In accordance with the Supervisory Board resolution no 172/IX/2014, the Strategy and Development Committee consists of:

Name and surname	Position
Małgorzata Mika – Bryska	Chairman of the Committee
Jarosław Gołębiewski	Committee Member
Czesław Grzesiak	Committee Member
Małgorzata Molas	Committee Member

In accordance with the Supervisory Board resolution no 173/IX/2014, the Appointment and Remuneration Committee consists of:

Name and surname	Position
Jacek Barylski	Chairman of the Committee
Czesław Grzesiak	Committee Member
Krzysztof Trochimiuk	Committee Member
Anna Kowalik	Committee Member

2.6.2 Activities related to nuclear energy

Environmental and site characterization

On February 7, 2013 PGE EJ1 sp. z o.o. signed an agreement with syndicate of WorleyParsons companies ("Contractor"). The subject-matter of the agreement is the environmental research, site characterisation and services connected with obtaining permits and rights which are necessary in the investment process.

On March 8, 2013 the Contractor received authorisation for commencement of the works with the indications for Choczewo and Żarnowiec localisations.

In the first quarter of 2014, the Contractor:

- continued preparations consisting of field work and mobilisation of essential resources;
- submitted requests to approve geological work programmes for hydrological surveying;
- continued work related to the planning of hydrological surveying;
- obtained a permit to build a meteorological tower at the Żarnowiec site;
- completed analysis concerning cooling water for both of the sites.

The following tasks are scheduled for the second quarter of 2014:

- preparation and handover by the Contractor of a project data sheet, together with a requirement matrix and the proposed scope of the environmental impact assessment report;
- preparation of a requirements matrix and the proposed scope of the site characterisation report and a chapter in the preliminary safety report;
- preparation of a transition report concerning the existing environmental conditions at both of the sites;
- commencement of field work under Phase I;
- commencement of hydrological monitoring and major disadvantage analysis;
- construction of a meteorological tower in Żarnowiec along with obtaining a use permit for the meteorological tower in Choczewo.

Selection of Owner's Engineer

On February 17, 2014, final tenders in the procurement procedure to provide owner's engineer services were opened. The tenders were submitted by:

- Exelon Generation Company, LLC;
- Consortium: URS Polska sp. z o.o. Tractebel Engineering S.A.;
- Consortium: Mott MacDonald Limited, AF-Consult Ltd.;
- AMEC Nuclear UK Ltd.

The tender committee has begun to analyse and evaluate the tenders. Completion of the procedure and award of the contract are planned for the third quarter of 2014 (provided that there are no appeals).

Grid analyses

Pursuant to a memorandum signed on November 28, 2012 between PSE S.A. and PGE Energia Jądrowa S.A., the parties' on-going cooperation resulted in the preparation of a procurement procedure to select a contractor for variant-based grid analyses, which was concluded on May 2013. An agreement with a consortium comprising PSE Innowacje sp. z o.o., Lublin University of Technology, Warsaw University of Technology - Electrical Power Engineering Institute and Biuro Studiów i Projektów Energetycznych Energoprojekt-Kraków S.A. was executed on July 9, 2013.

In accordance with the agreement, work under phase one has now been completed, which included analysis of National Power System requirements with regard to the safe and reliable withdrawal of capacity from a nuclear power plant connected to the Żarnowiec power station (Żarnowiec and Choczewo sites). The works were handed over on March 19, 2014. The analyses covered three variants of nuclear technology. The analysed technologies were selected so as to cover the full nuclear reactor capacity spectrum. The analyses resulted in the specification of essential investments aimed at strengthening the transmission system, together with a cost estimate.

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 EJ1 sp. o.o. will be able to decide on the final shape, scope, approach and formula of integrated proceeding.

Participation in legislative work

On 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 Polska Grupa Energetyczna S.A. Operational management of the initial nuclear power plants will be assumed by a subsidiary/subsidiaries of PGE.

During the first quarter of 2014, legislative work was carried out at the Polish parliament (the Sejm) on a bill to amend the Nuclear Law and certain other acts. PGE EJ 1 Sp. z o.o. participated in consultations with regard to the above bill as carried out by the Polish government at inter-ministerial level. The bill was drafted in order 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 Directive was adopted by the Sejm on April 4, 2014 and subsequently submitted to the Senate.

Educational and information activities

In the first quarter of 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 with WorleyParsons in all three municipalities.

Business partnership

On January 28, 2014, Poland's cabinet adopted the Polish Nuclear Power Programme. Its adoption of the Programme was one of the conditions precedent for the conclusion of a partners' agreement between PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A., Tauron Polska Energia S.A. and ENEA S.A. (later jointly "Parties") A second condition precedent is the acquisition of the legally required approval of the President of the Polish Office for Competition and Consumer Protection (UOKiK) regarding the proposed concentration.

The Partners' Agreement was initialled on September 23, 2013 as a result of works concerning implementation of a draft purchase agreement with regard to shares in special purpose company for construction and operating of the nuclear power plant. In this way parties jointly declared that the initialled document constitutes a draft of a future Partner's Agreement, which will be signed if necessary corporate approvals are obtained by all parties.

The Partner's Agreement will obligate its Parties to conclude the purchase agreement with regard to shares in PGE EJ 1 sp. z o.o. – a special purpose company for construction and operating of the nuclear power plant. According to the Partners' Agreement, PGE shall sell for the benefit of other parties 30% of the share capital of PGE EJ 1 sp. z o.o. As a consequence:

- PGE S.A. will hold 70% in the share capital of PGE EJ 1 sp. z o.o.
- KGHM Polska Miedź S.A. will hold 10% in the share capital of PGE EJ 1 sp. z o.o.
- Tauron Polska Energia S.A. will hold 10% in the share capital of PGE EJ 1 sp. z o.o.
- ENEA S.A. will hold 10% in the share capital of PGE EJ 1 sp. z o.o.

2.6.3 Legal aspects

Information about the petition for annulment of the resolutions of the Extraordinary General Meeting of PGE S.A. of February 6, 2014.

On April 1, 2014 the Company received a copy of petition filed by one of the shareholders with the Regional Court in Warsaw. The shareholder files for annulment of resolutions no 1, 2 and 4 of the Extraordinary General Meeting of February 6, 2014.

The Company filed a reply to the petition.

2.6.4 Description of material agreements

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

On January 20, 2014 PGE S.A. and PGE GiEK S.A. concluded an agreement with Powszechna Kasa Oszczędności Bank Polski S.A. („PKO BP"). Subject matter of the Agreement is the establishment by PKO BP of a guarantee limit for PGE GiEK 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) and a statement of execution by PGE, as a guarantor (up to 120% of the current amount of the guarantee);
- 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.

2.6.5 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 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 (yyyy-mm-dd)	Agreement maturity date (yyyy-mm-dd)	Available guarantee limit in PLN
Powszechna Kasa Oszczędności Bank Polski S.A.	2014-01-20	2019-08-20	2,548,607,358
Bank Polska Kasa Opieki S.A.	2014-01-20	2019-08-20	424,767,893
BNP Paribas Bank Polska S.A	2014-01-20	2019-08-20	424,767,893
TOTAL			**3,398,143,144**

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

Guarantor	Type of security	Security for	Beneficiary of the guarantee	Guarantee issued for the liability of	Issue date	Guarantee period from	Guarantee period to	Total value of the guaranteed instrument as at March 31, 2014 in PLN	Value of the guarantee as at March 31, 2014 in PLN
PGE S.A.	Guarantee	bank guarantee of payment	Bank Polska Kasa Opieki S.A.	PGE GiEK S.A.	2014-01-22	2014-01-29	2020-03-31	216.718.312.5	260.061.975
PGE S.A.	Guarantee	bank guarantee of payment	Powszechna Kasa Oszczędności Bank Polski S.A.	PGE GiEK S.A.	2014-01-22	2014-01-29	2020-03-31	1.300.309.875.0	1.560.371.850
PGE S.A.	Guarantee	bank guarantee of payment	BNP Paribas Bank Polska S.A.	PGE GiEK S.A.	2014-01-22	2014-01-29	2020-03-31	216.718.312.5	260.061.975
								1.733.746.500.0	**2.080.495.800**

2.6.6 Decisions of the President of the Energy Regulatory Office related to realisation of LTC Act

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

In the previous years entitled producers from PGE Group received decisions on annual adjustments of stranded costs and costs related to natural gas fired entities for 2008-2012. The majority of these decisions were disadvantageous for the particular entities and the Group believes that they were issued in violation of the Long-Term Contracts Act. As a consequence, since 2009, a number of proceedings have been pending before the Regional Court in Warsaw - Competition and Consumer Protection Court ("CCP Court") and before the Court of Appeal concerning appeals by PGE Group producers against the Decision of the President of the Energy Regulatory Office. These proceedings are currently at various levels of advancement. In the first quarter of 2014 there were no new verdicts in cases regarding the appeals aginst the decisions of the President of the Energy Regulatory Office concerning annual adjustments of stranded costs and costs related to natural gas fired entities for 2008-2012.

Impact on the financial statements for the first quarter of 2014

In the financial statement for the period ended March 31, 2014 the Group recognised the LTC compensations in amount of PLN 131 million in sales revenues.

Claim value in all cases related to years 2008 – 2012 amounts to PLN 1,660 million, including claim value in cases with favourable verdicts of the Court of Appeal and favourable final and binding verdict of the CCCP – PLN 742 million.

2.7 Description of the organization of the PGE Capital Group

Companies comprising the main business segments of PGE Group as at March 31, 2014:

Segment		Company
CONVENTIONAL GENERATION	1.	PGE Górnictwo i Energetyka Konwencjonalna S.A.
	2.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o.
RENEWABLE ENERGY	3.	PGE Energia Odnawialna S.A.
	4.	Bio-Energia S.A.
	5.	Pelplin sp. z o.o.
	6.	Żuromin sp. z o.o.
	7.	Elektrownia Wiatrowa Baltica-1 sp. z o.o.
	8.	Elektrownia Wiatrowa Baltica-2 sp. z o.o.
	9.	Elektrownia Wiatrowa Baltica-3 sp. z o.o.
	10.	Eolica Wojciechowo sp. z o.o.
	11.	PGE Energia Natury S.A.
	12.	PGE Energia Natury sp. z o.o.
	13.	PGE Energia Natury Karnice sp. z o.o.
	14.	PGE Energia Natury Bukowo sp. z o.o.
	15.	PGE Energia Natury Omikron sp. z o.o.
	16.	PGE Energia Natury Kappa sp. z o.o.
	17.	PGE Energia Natury PEW sp. z o.o.
	18.	EPW Energia Olecko sp. z o.o.
WHOLESALE TRADING	19.	PGE Polska Grupa Energetyczna S.A.
	20.	PGE Dom Maklerski S.A.
	21.	PGE Trading GmbH
DISTRIBUTION	22.	PGE Dystrybucja S.A.
RETAIL SALES	23.	PGE Obrót S.A.

2.7.1 Changes in organisation of the Capital Group

2.7.1.1 Changes in organisation of the Capital Group in the first quarter of 2014

The changes, which occurred in the Group's structure during the first quarter of 2014, are presented in Note 3 to consolidated financial statements and described below.

Shares in subsidiaries and associates

In the first quarter of 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 Polska Grupa Energetyczna S.A. in exchange for a cash contribution. On April 16, 2014, the share capital increase was registered with the National Court Register.

- In period January 1, 2014 – March 31, 2014 PGE Polska Grupa Energetyczna S.A. purchased from minority shareholders – on ground of share sale agreements - a total of 2,014,677 shares of PGE GiEK S.A., constituting 0.29% in the share capital of PGE GiEK S.A. Currently PGE Polska Grupa Energetyczna S.A. holds 93.91% of shares in the share capital of PGE GiEK S.A.

In the first quarter of 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 ENERGA 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 ENERGA Wytwarzanie sp. z o.o. belonging to the Energa S.A. Capital Group). In connection with the division by separation, the share capital of the company was decreased by an amount of PLN 380,000, i.e. from PLN 2,000,000 to PLN 1,620,000, and the number of shares was reduced by 380 shares, with a nominal value of PLN 1,000 each, attributable to ENERGA Wytwarzanie sp. z o.o., that are subject to conversion for 250 new shares of EPW 1 sp. z o.o. in the increased share capital of that company.

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

On February 11, 2014 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 ENERGA 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" Wracławek and EPW Energia sp. z o.o. Branch „Galicja" Orzechowce to PGE Energia Natury sp. z o.o.
- branch under the name: EPW Energia sp. z o.o. Oddział „Pipeline" Pruszcz Gdański
  to EPW Parsówek sp. z o.o. with seat in Pruszcz Gdański (a subsidiary of ENERGA Wytwarzanie sp. z o.o. belonging to the Energa S.A. Capital Group).

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

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

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

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

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, ENERGA 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.

During the period from January 1,2014 to March 31, 2014, PGE Górnictwo i Energetyka Konwencjonalna S.A., through a squeeze-out of shares pursuant to art. 418^1 § 4 of the Polish Commercial Companies Code, purchased a total of 508,988 treasury shares from minority shareholders, constituting 0.07% of PGE GiEK S.A.'s share capital.

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

2.7.1.2 Changes in Group structure after the end of the reporting period

On March 19, 2013, an agreement was executed in Sundsvall, Sweden, between Bolagsrätt Sundsvall AB and PGE Polska Grupa Energetyczna S.A. concerning the sale of shares in Stockholm-based Goldcup 5812 AB (publ.). Pursuant to the share sale agreement, PGE Polska Grupa Energetyczna S.A. purchased 500,000 shares in Goldcup 5812 AB (publ.), constituting 100% of its share capital. PGE Polska Grupa Energetyczna 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 Polska Grupa Energetyczna S.A., in the amount of PLN 15,000,000, which constitutes 20.55% of the nominal value of the shares held by PGE Polska Grupa Energetyczna S.A. The contribution was made on April 11, 2014.

3 Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at Company's General Meeting as at the date of the quarterly report

According to the information held by the Company*, the sole shareholder holding at least 5% of the total number of votes is the State Treasury, which holds 1,157,124,546 shares of the Company, what constitutes 61.89% of the share capital of the Company 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 o PGE Polska Grupa Energetyczna S.A.

Shareholder	Number of shares	Number of votes	% in total votes on General Meeting
State Treasury	1,157,124,546	1,157,124,546	61.89%
Others	712,636,283	712,636,283	38.11%
Total	**1,869,760,829**	**1,869,760,829**	**100.00%**

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

4 Number of shares or rights to shares of the Company held by Company's managers and supervisors, as of the date of submission of the quarterly report

According to the best knowledge of the Management Board of PGE S.A., as of the date of submission of this consolidated quarterly report and as of the date of publishing of the consolidated report for the year 2013 Company's managers and supervisors held following number of shares:

Shareholder	Number of shares as of submission date of the FY 2013 report (i.e. March 14, 2014) (pieces)	Change in number of owned shares (pieces)	Number of shares as of submission date of the quarterly report (pieces)	Nominal value of shares as of submission date of the quarterly report (PLN)
The Management Board	**350**	**no change**	**350**	**3.500**
Grzegorz Krystek	350	no change	350	3.500
The Supervisory Board	**873**	**no change**	**873**	**8.730**
Krzysztof Trochimiuk	873	no change	873	8.730

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

5 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 20 to the consolidated financial statements and p. 2.7.1. of the foregoing report.

6 Information on granting by the Company or its subsidiary of loan securities or guarantees – jointly to a single entity or its subsidiary, if the total value of the existing securities or guarantees is equivalent to at least 10% of Company's equity

Within the Group, in the 3-month period ended March 31, 2014 PGE S.A. and its subsidiaries did not grant any loan securities or guarantees to another entity or its subsidiary, where the value of securities and guarantees constituted at least 10% of the Company's equity.

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

As at March 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, except for applications filed by generators from PGE Group to confirm excise tax overpayment and tax return together with interest for the years 2006-2008 and the first two months of 2009. Total overpaid tax to be returned to the PGE Group companies may amount to approximately PLN 3.4 billion, excluding interest (the generators are entitled to interest on overpaid excise tax, accrued from the date of payment of the overstated tax). PGE Group entities are convinced of the merits of the claim, however taking into account the current practice of the tax authorities and court verdicts, refund of overpaid tax should be considered unlikely. Significant proceedings pending in front of courts, competent arbitration authority or public administration authority are described in Note 19.4 to the consolidated financial statements

8 Statements of the Management Board

8.1 Statement on the reliable preparation of the financial statements

To the best knowledge of the Management Board of PGE Polska Grupa Energetyczna S.A., the interim consolidated and stand-alone 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 S.A. and 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.

8.2 Statement on the entity authorised to audit the financial statements

The Management Board of PGE Polska Grupa Energetyczna S.A. declares that the entity authorised to audit the financial statements, that reviews the interim 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 report on the review, in accordance with the governing provisions and professional standards.

Warsaw, May 13, 2014

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

Marek Woszczyk

President of the Management Board

Jacek Drozd	Grzegorz Krystek	Dariusz Marzec
Vice-President of the Management Board	*Vice-President of the Management Board*	*Vice-President of the Management Board*