

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

**ended December 31, 2014**

## Contents

1	Activities of PGE S.A.	4
1.1	Factors important for the development of PGE S.A. and the PGE Capital Group	5
1.2	Factors and events affecting results	6
1.3	Strategy of the PGE Capital Group for years 2014 - 2020 and key activities in 2014	17
2	Financial results of PGE S.A.	24
2.1	Financial results of PGE S.A.	24
2.2	Transactions with related entities	30
2.3	Information about main customers	30
2.4	Publication of financial forecasts	30
2.5	Entity authorised to audit of financial statements	30
2.6	Management of financial resources and financial liquidity	31
3	Risks and threats of the PGE Capital Group	39
4	PGE S.A. share quotations on Warsaw Stock Exchange	45
4.1	PGE S.A. shares	46
4.2	PGE Investor Relations	47
4.3	PGE S.A. reporting calendar.	47
4.4	Dividend policy of PGE Polska Grupa Energetyczna S.A.	48
5	Statement on implementation of Corporate Governance	49
5.1	Corporate governance principles which the Company was obliged to follow in 2013	49
5.2	Information on exceptions in application of the corporate governance principles	49
5.3	Description of the basic characteristics of internal control systems and risk management systems used in the Company during preparation of the financial statements and consolidated financial statements	50
5.4	Shareholders with a significant stake	50
5.5	Shareholders with special control powers	50
5.6	Limitations regarding exercise of the voting rights from the existing shares	51
5.7	Limitations regarding the transfer of ownership of the Company's securities	52
5.8	Rules for amendments to the Company's Statutes	52
5.9	Mode of operation of the General Meeting of the Company, its key powers and the rights of shareholders and the manner of their execution	52
5.10	Composition and the description of operations of the management and supervisory bodies of the Company and committees of the supervisory body	54
5.11	Remuneration of the management of PGE S.A.	61
5.12	Information about shares and other securities	62
6	Description of the organisation of PGE S.A. and the PGE Capital Group	65
6.1	Changes in organisation of PGE S.A.	65
6.2	Changes in management procedures of the Company and the Capital Group	67
7	Commitment	68
7.1	PGE Foundation "Energy from Heart"	68
7.2	PGE and work environment	68
7.3	PGE and the natural environment	70
7.4	PGE S.A. and research and development	71
7.5	PGE and customer relations	71
7.6	PGE S.A. and education	71
7.7	PGE S.A. and human rights	72
7.8	PGE S.A. and promotion of other social goals	72
8	Other significant events of the reporting period and subsequent events	74
8.1	Activities related to nuclear energy – Business partnership	74
8.2	Legal aspects	74

8.3	Description of material agreements	75
8.4	Information concerning proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration authorities	76
8.5	Information on issue, redemption and repayment of debt securities and other securities	76
9	Statements of the Management Board	77
9.1	Statement on the reliable preparation of the financial statements	77
9.2	Statement on the entity authorised to audit the financial statements	77
10	Approval of the Management Board's Report	77
11	Glossary	78

## 1 Activities of PGE S.A.

PGE Polska Grupa Energetyczna S.A. (the „Company”, “PGE S.A.”) is the parent company of PGE Polska Grupa Energetyczna S.A. Capital Group („PGE Capital Group”, the “Capital Group”, the „Group”, „PGE Group”). The Capital Group is the largest vertically integrated company in energy sector in Poland with respect to revenues, installed capacity and electricity produced. The Group established in 2007 and the present organisational form is a result of organizational restructuring and legal and formal consolidation that have been implemented in the company since 2007.

Core operations of the Company comprise:

- activity comprising of tasks of the parent company of the Capital Group, including development strategy and strategic management of the Capital Group, focusing on efficient management of the Group portfolio,
- wholesale trading of electricity on the market and in the Capital Group; Activity with regard to the electricity trading is carried out pursuant to the requirements resulting from the Energy Law of April 10, 1997 and related regulations, as amended,
- trading of related products i.e. emission rights (CO<sub>2</sub>) and energy certificates of origin (Property Rights), executed mainly in order to fulfill legal obligations of purchase and redemption of these assets by the Group companies, market trading of gas,
- rendering of services for the Group companies with regard to commercial management of generation capacities and electricity produced, running of the balancing group and rendering scheduling coordinator services for the PGE Group companies.

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

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

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

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

- construction, renovation and modernization and investments works with regard to 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;
- rehabilitation of degraded areas.

PGE S.A. runs its activities through its headquarter with no branches.

The controlling entity of the Company is the State Treasury, which held 58.39% of the share capital as at December 31, 2014.

## 1.1 Factors important for the development of PGE S.A. and the PGE Capital Group

PGE S.A. as the parent company of the Capital Group is responsible for optimisation and synchronisation of the Group companies operations in order to create synergies and value added for all related entities and increase economical value for the shareholders. In the opinion of the Company's Management Board, the following factors will particularly impact the results of the Capital Group, including PGE S.A.:

### Market environment

**Electricity market**

- prices and trends on the wholesale electricity market as well as price relations of respective products on the short-term market vs the products on the long-term market
- prices of electricity and heat on retail market in particular tariff groups and price trends and relations observed at the respective groups of end users
- possibility to optimise purchase and sale of electricity by PGE S.A. in order to create value added and to identify potential development possibilities for the Group based on price relations on particular products of energy market

**Related markets**

- prices of property rights (certificates of origin of electricity) and price trends allowing for trading optimisation on these markets with account taken to benefits for the end users and the entities of the Capital Group
- prices of fuels used in generation of electricity and heat, as well as price relations on particular fuels, that will allow optimising of generation costs and creating optimal fuel mix.
- prices of CO<sub>2</sub> emission rights

### Regulatory environment

**Domestic**

- implementation and possible changes to the Poland's energy policy
- changes in scope of services like:
  - modification of current Operational Reserve mechanism
  - implementation of cold reserve mechanism
  - implementation of further packages for demand reduction services
- amendments to the Energy Law, particularly in scope of optimisation of support scheme for renewable energy sources and for co-generation and amendments to other acts
- results of explanatory proceedings before the ERO President in case of issue of certificates of origin of energy produced from biomass for some of the branches of PGE Górnictwo i Energetyka Konwencjonalna S.A. ("PGE GiEK S.A.")
- decisions of the ERO President related to realisation of the Act ("LTC Act") and court's rulings on the disputes between the ERO President and generators from the PGE Group entitled to receive compensations under LTC Act with regard to the annual adjustments of the stranded costs for 2009 and 2010 and annual adjustments of costs generated in gas-fuelled units for 2009-2012
- issue of implementation of the ETS directive into the domestic law – inter alia CO<sub>2</sub> derogations. Currently process of obtaining free allowances in exchange for pursuing investments from the National Investment Plan, does not have a clear legal basis.
- Issue of implementation of the Energy Efficiency Directive into the domestic law
- matter of implementation of quality tariff in distribution, that will make regulated income dependant on SAIDI and SAIFI ratios
- draft Water Law Act with regard to imposition of charges for energy entities for use of water for energy purposes
- possible different decision in law disputes, from which most relevant were presented in Note B.16 to the financial statements of PGE S.A. for 2014

**International**

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

and its impact on the power sector

- works on connection of Poland to market coupling mechanisms (connection of markets)

## 1.2 Factors and events affecting results

### 1.2.1 Macroeconomic situation

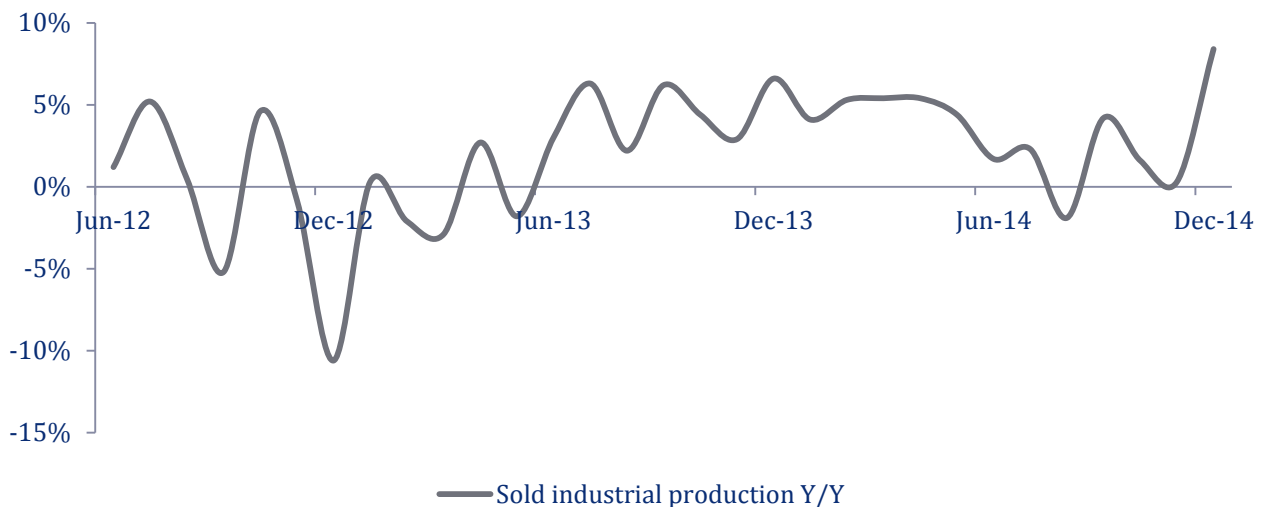
The Company's and PGE Group's main operating area continues to be Poland, and the domestic macroeconomic backdrop has a substantial impact on companies' results. At the same time, the condition of Poland's economy remains largely tied to the situation across the European Union and in global markets.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

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

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

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

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



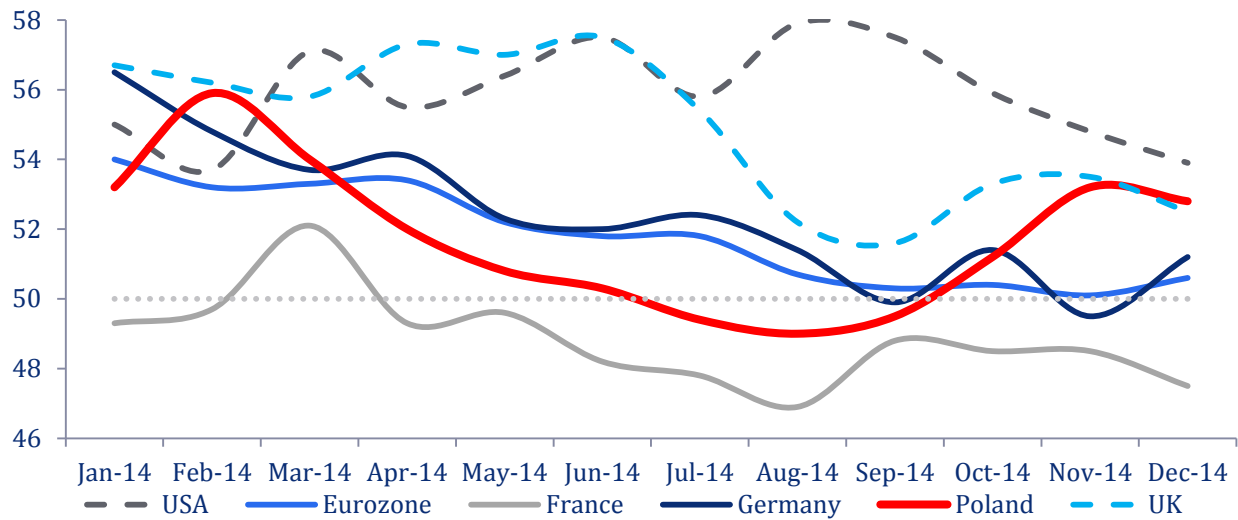
Source: Central Statistical Office of Poland

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

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



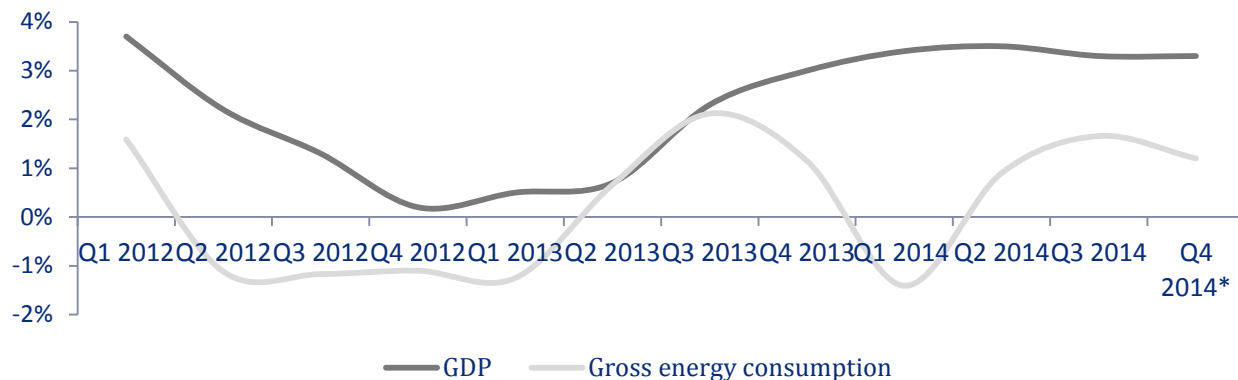
Diagram: Manufacturing PMI in particular countries (in points).



Source: Markit Economics

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

Diagram: GDP change vs. change in gross electricity consumption

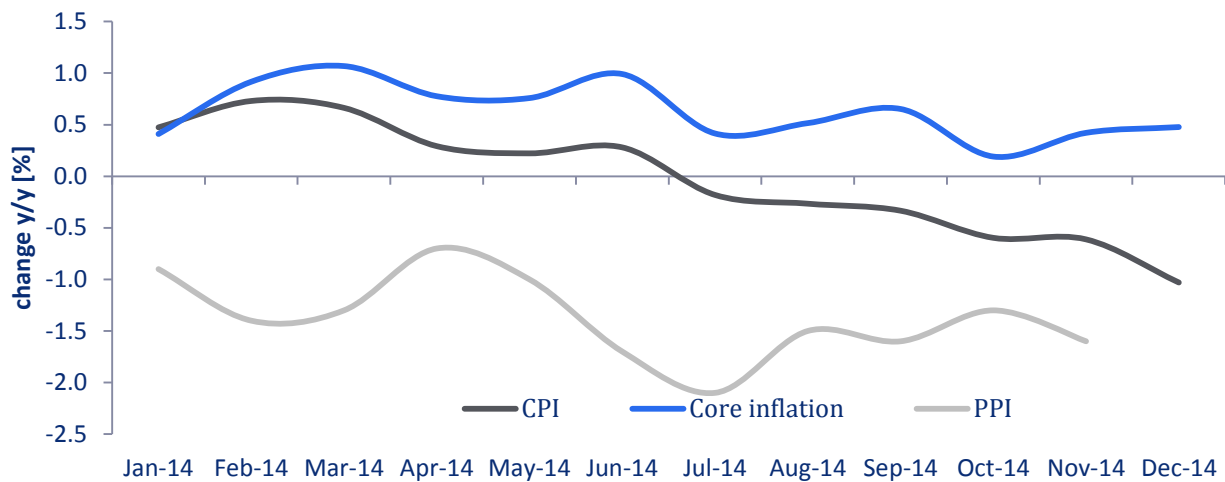


Source: Central Statistical Office of Poland, PSE S.A.

\*Average from forecasts in Q4 2014

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

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



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

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

Table: Key economic indicators for Poland

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

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

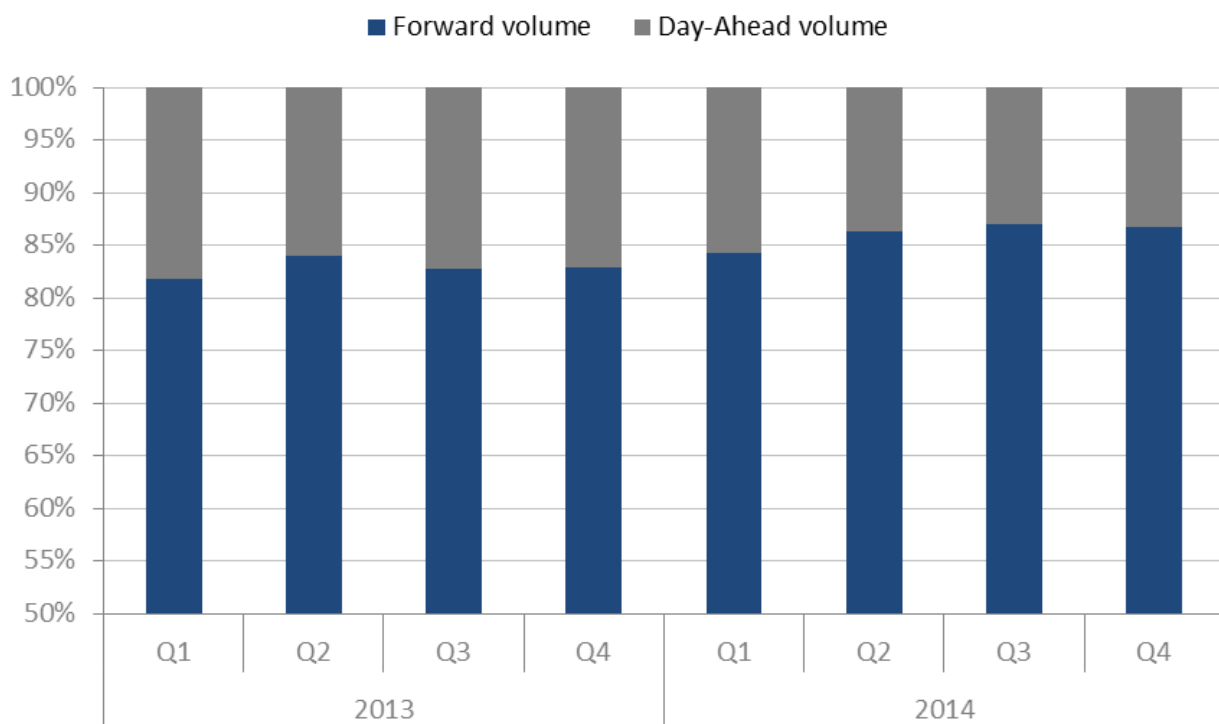


### Domestic market – trading volumes

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

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

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



### 1.2.2 Electricity prices

#### Domestic market - Prices

##### Day-ahead market

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

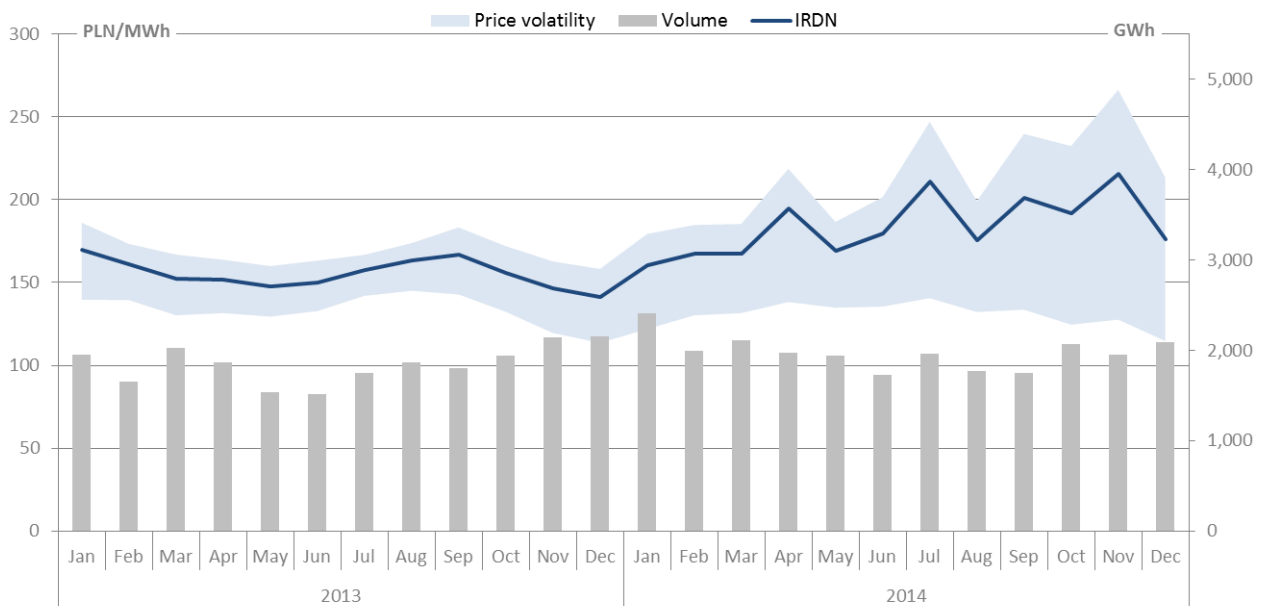
Moreover, the situation in 2014 was characterised by a 58% y/y uptick in price volatility. This was caused not only by growth in peak pricing (the sIRDN index went up 25% y/y), but also a decrease in off-peak prices (the offIRDN index declined 3% y/y), pointing to an increasing amplitude of price swings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

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

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

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

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



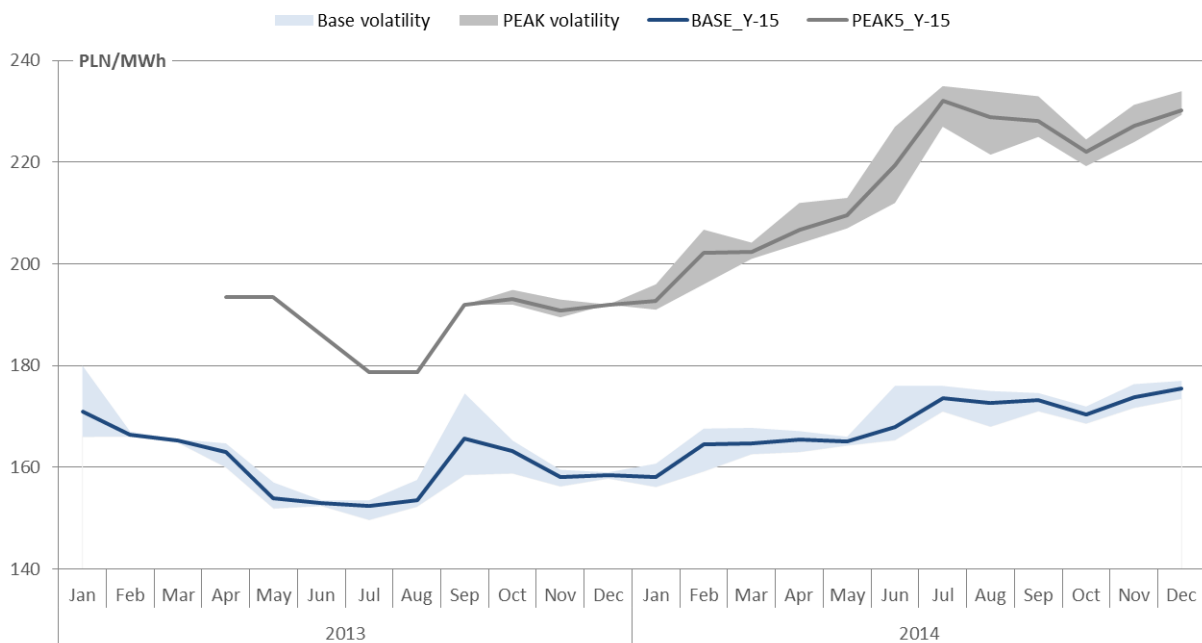
\* arithmetic average price from all power exchange transactions concluded at the session (IRDN) and prices spread (siIRDN, offIRDN)

### Futures market

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

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

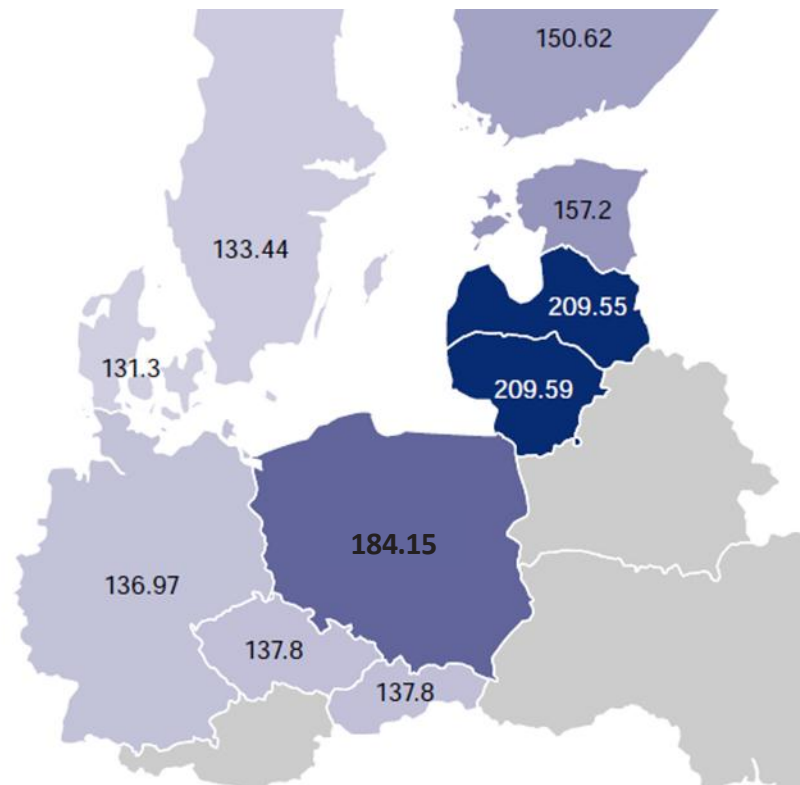
Chart: Average prices and price volatility on the futures market in 2013-2014 (TGE).



### International markets

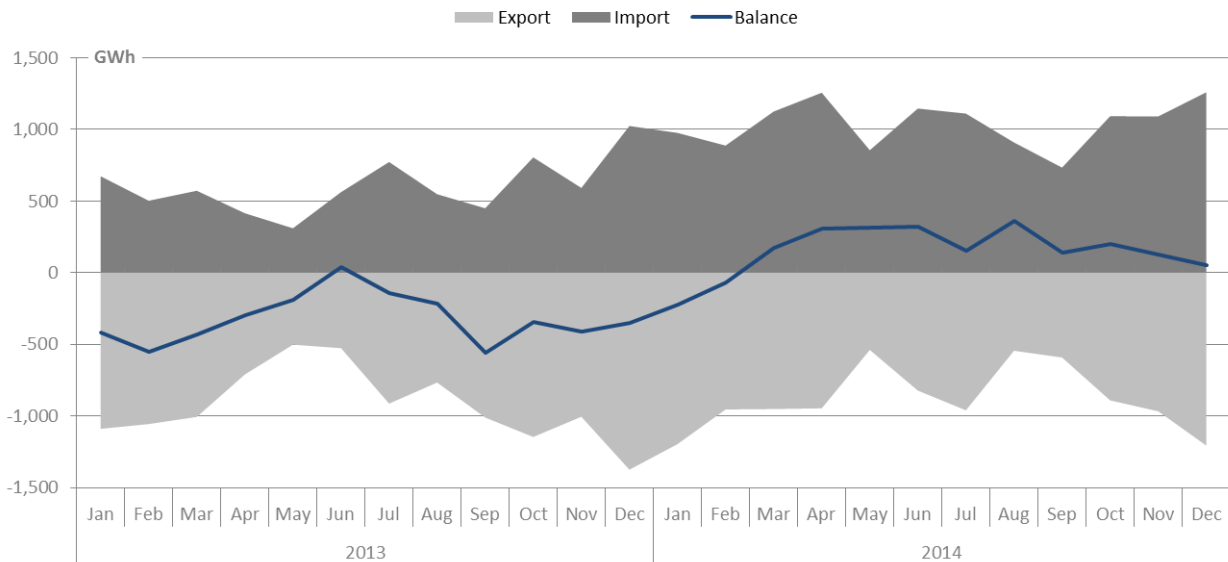
In 2014, prices on the Polish market were higher than those in Sweden, Germany, the Czech Republic and Slovakia. 2014 saw the average price on the German market decrease by 13% compared with 2013 – mainly due to higher wind and photovoltaics production. An even more pronounced decline was observed in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

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



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

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

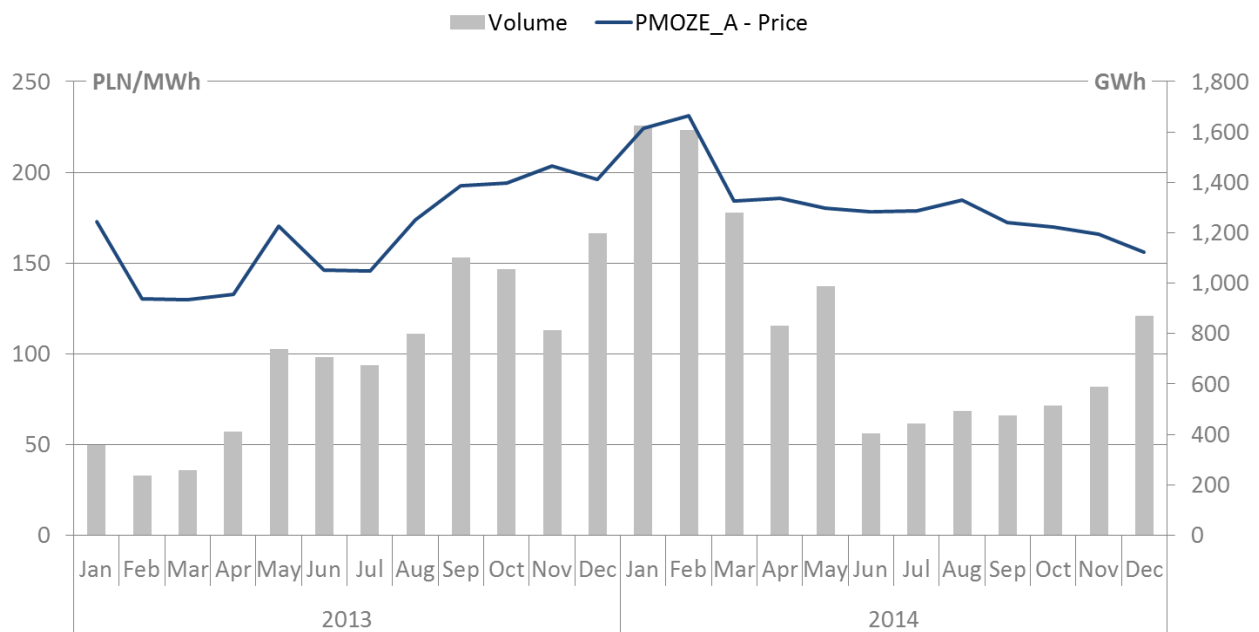


### 1.2.3 Prices of property rights

#### Green certificates – Renewable Energy Sources

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

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



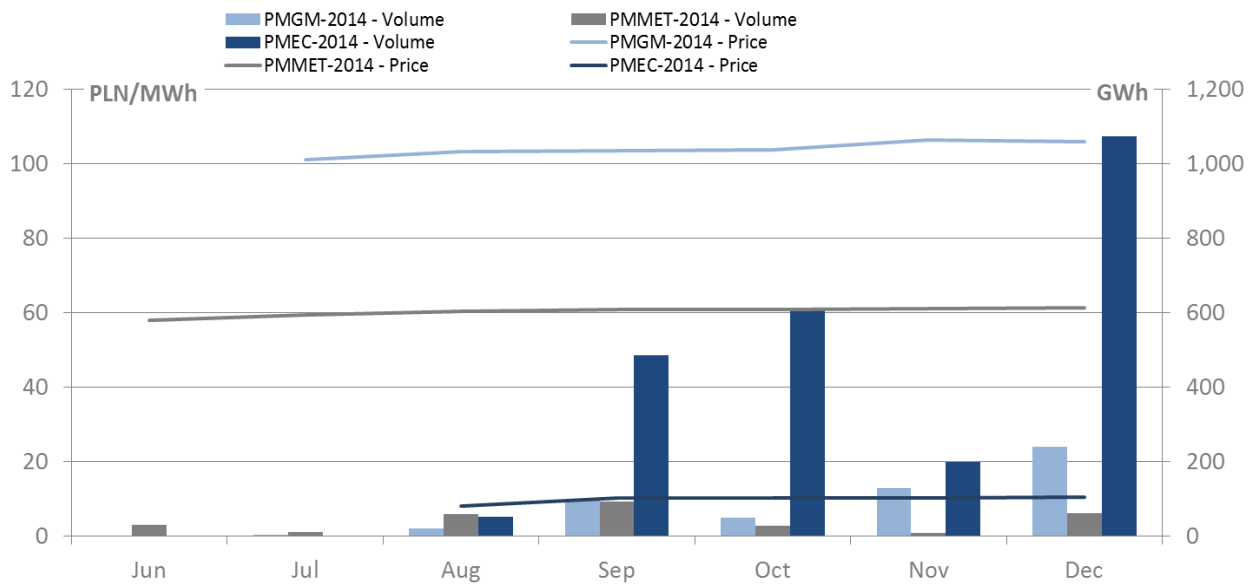
#### Yellow, red and violet certificates - cogeneration

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

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

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

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



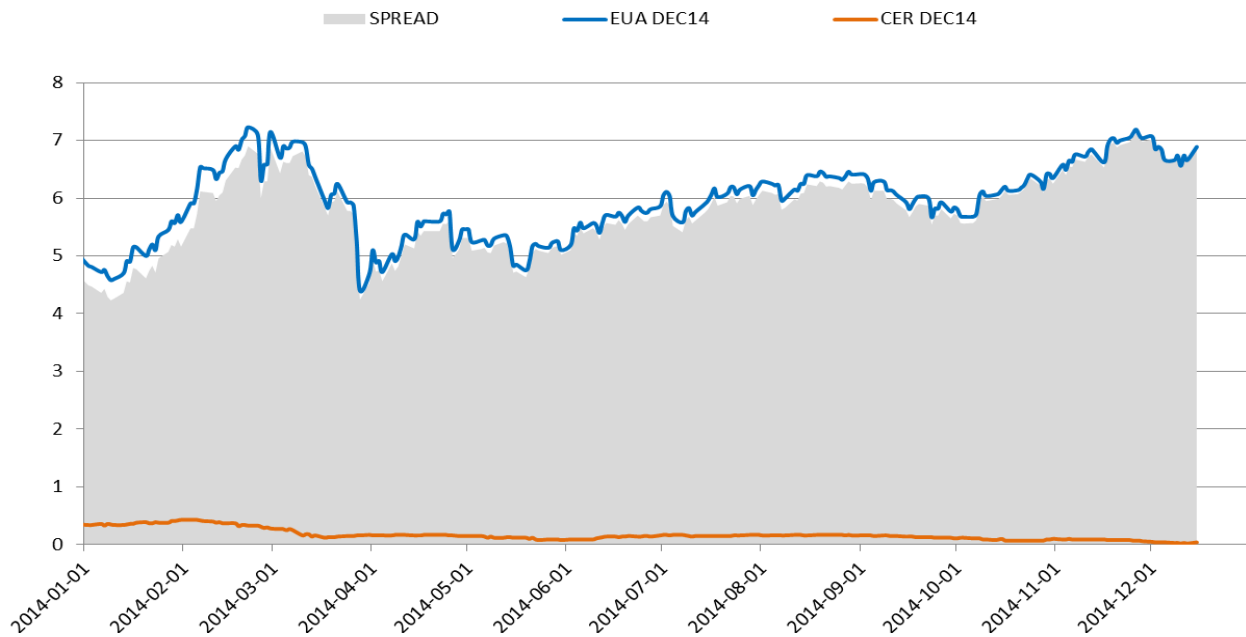
#### 1.2.4 Prices of CO<sub>2</sub> emission rights

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

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



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



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

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

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

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

2014, prices of certified emission reduction units (CERs) were in a downtrend, losing substantial value throughout the year, from EUR 0.43/tonne to EUR 0.04/tonne. The main reason for the fall in CER prices is their oversupply on the market and the limited capabilities to use them in the current settlement period. In accordance with the provisions of the EU-ETS Directive, installation operators may redeem CERs from various types of projects. CERs from projects that were eligible for use in the Community scheme during the period from 2008 to 2012, issued in respect of emission reductions until 2012, may be used only up to March 31, 2015.

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

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

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

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

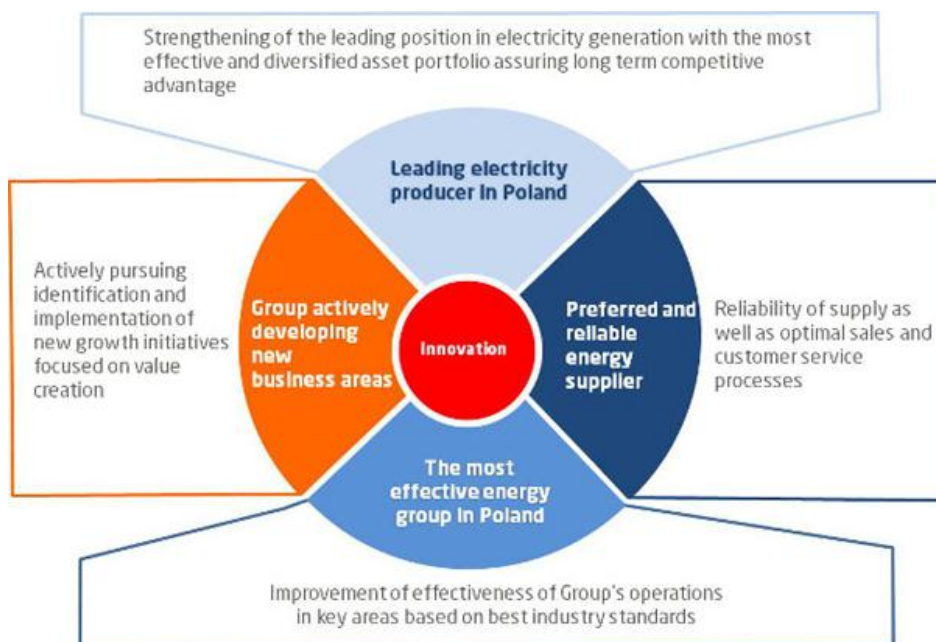
- PGE is the largest vertically integrated power utility in Poland with regard to energy production and installed capacity;
- PGE is leading in the cost efficient, base-load generation technologies in Poland and has the youngest generation asset base.

#### Strategy of the PGE Capital Group

##### Financial aspirations

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

Diagram: Strategic aspirations of PGE Capital Group



#### Leading electricity producer in Poland

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

## Key projects in 2014

Construction of new units in Opole power plant	<ul style="list-style-type: none"> <li>● construction of two power units of 900 MW each</li> <li>● budget: approx. PLN 11 billion (net, without costs of financing)</li> <li>● <b>fuel:</b> hard coal</li> <li>● <b>efficiency:</b> 45.5%</li> <li>● <b>contractor:</b> syndicate of companies: Rafako, Polimex-Mostostal and Mostostal Warszawa; main subcontractor: Alstom</li> <li>● commissioning: unit 5 – Q3 2018; unit 6 – Q2 2019</li> <li>● January 31, 2014 – issue of Notice to Proceed</li> <li>● works currently underway: construction of foundations for the main buildings and basic equipment, assembly of communication pillars for the boiler at unit no. 5</li> </ul>
Construction of new unit in Turów power plant	<ul style="list-style-type: none"> <li>● construction of power unit with a capacity of 490 MW</li> <li>● budget: approx. PLN 3.65 billion (net, without costs of financing)</li> <li>● <b>fuel:</b> lignite</li> <li>● <b>efficiency:</b> 43.4%</li> <li>● <b>contractor:</b> syndicate of companies: Mitsubishi-Hitachi Power Systems Europe, Budimex and Tecnicas Reunidas</li> <li>● commissioning: Q3 2019</li> <li>● December 1, 2014 - issue of Notice to Proceed</li> </ul>
Construction of new unit in Gorzów CHP	<ul style="list-style-type: none"> <li>● construction of cogeneration CCGT unit with a capacity of 138 MWe and 88 MWt</li> <li>● budget: approx. PLN 625 million (net, without costs of financing)</li> <li>● <b>fuel:</b> local nitrogen-rich gas</li> <li>● <b>general efficiency:</b> 84%</li> <li>● <b>contractor:</b> Siemens</li> <li>● commissioning: Q1 2016</li> <li>● October 3, 2013 - issue of Notice to Proceed</li> </ul>
Investment in conventional energy sources - executed in 2014	<p><b>Cogeneration unit producing electricity and heat powered by internal combustion piston engines - Rzeszów CHP</b></p> <ul style="list-style-type: none"> <li>● capacity: 29 MWe and 26 MWt</li> <li>● November 2014 – construction completed, commissioning protocol signed</li> </ul> <p><b>Deployment of an extraction-condensing turboset together with a peak-load and reserve boiler –Zgierz CHP</b></p> <ul style="list-style-type: none"> <li>● capacity: 20 MWe and 18 MWt</li> <li>● December 2014 - construction completed, commissioning protocol signed</li> </ul>
Investments in renewable energy sources - executed in 2014	<p><b>Wojciechowo wind farm</b></p> <ul style="list-style-type: none"> <li>● capacity: 28 MW (14 turbines with a capacity of 2 MW each)</li> <li>● March 2014 – concession for power generation obtained</li> </ul> <p><b>Oława hydro power plant</b></p> <ul style="list-style-type: none"> <li>● capacity: 3,2 MW</li> <li>● January 2014 - concession for power generation obtained</li> </ul>
Investments in renewable energy sources – in	<p><b>Karwice wind farm</b></p> <ul style="list-style-type: none"> <li>● budget: approx.. PLN 256 million (net, without costs of financing)</li> <li>● capacity: 40 MW (16 turbines with a capacity of 2.5 MW)</li> <li>● May 2014 – turnkey contract for construction of the wind farm (Aldesa)</li> <li>● Q3 2015 – projected obtaining of occupancy permit</li> </ul> <p><b>Gniewino Lotnisko wind farm</b></p> <ul style="list-style-type: none"> <li>● budget: approx. PLN 530 million (net, without costs of financing)</li> <li>● capacity: 90 MW (30 turbines with a capacity of 3 MW)</li> <li>● June 2014 – contract for supply of wind turbines (Alstom)</li> <li>● August 2014 – contract for construction works (CJR)</li> <li>● Q4 2015 - projected obtaining of occupancy permit</li> </ul> <p><b>Resko II wind farm</b></p> <ul style="list-style-type: none"> <li>● budget: approx. PLN 386 million (net, without costs of financing)</li> <li>● capacity: 76 MW (38 turbines with a capacity of 2 MW)</li> <li>● October 2014 - contract for supply of wind turbines (Vestas)</li> <li>● November 2014 - contract for construction works (Mega, Elektrobudowa)</li> </ul>

- Q4 2015 - projected obtaining of occupancy permit

**Kisielice II wind farm**

- budget: approx. PLN 87 million (net, without costs of financing)
- capacity: 12 MW (6 turbines with a capacity of 2 MW)
- January 2015 – turnkey contract for construction of the wind farm (Mega)
- Q4 2015 - projected obtaining of occupancy permit

After completion of the above investments total installed capacity in PGE Group's wind farms will reach approx. **530 MW**.

Modernisation and replacement projects	<p>Comprehensive modernization of units 7-12 - Bełchatów power plant</p> <p>Modernization of desulphurization installations for units 3-12 - Bełchatów power plant</p> <p>Change in technology of furnace waste storage for units 1-12 – Bełchatów power plant</p> <p>Reduction of NOx emission - units 1, 2 and 4 Opole power plant</p> <p>Construction of desulphurization installations for units 4-6 – Turów power plant</p> <p>Construction of overburden line in Bełchatów Lignite Mine (Szczerców Field)</p>
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**Preferred and reliable energy supplier**

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

- In corporate customers segment, PGE Group intends to focus on effective margin management at the Group level and on securing optimal contracts of generating units if PGE Capital Group;
- In SME segment, PGE Group intends to focus on retention of historical customers while maintaining the margin levels, acquisition of new customers through improved customer service and expansion of product offering;
- In households segment, PGE Group intends to acquire new customers, expand product offering, lower the service and sales costs and build modern IT tools supporting sale processes.
- In the distribution segment, assuring reliability of supply through operational and investment efficiency will be the main goal. PGE Group is committed to improve grid reliability - we intend to achieve a goal of 50% SAIDI reduction by 2020 mainly by refocusing the investment outlays on projects to the largest extent limiting the level of undelivered energy and by increasing operational performance. Total capital expenditures in the distribution segment in years 2014-2020 will amount to approx. PLN 12.3 billion.

## Key projects in 2014

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

## The most effective energy group in Poland

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

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



## Key projects in 2014

Optimisation of Conventional Generation business line	<ul style="list-style-type: none"> <li>● <b>the project is intended to</b> prepare Conventional Generation segment for operating under changing market conditions and while facing challenges connected with new investments</li> <li>● 2014 saw the <b>launch of the programme's implementation</b>, which covers: <ul style="list-style-type: none"> <li>▪ a number of initiatives aimed at restructuring the organisation and re-modelling its business processes</li> <li>▪ cost optimisation</li> <li>▪ revenue growth</li> </ul> </li> </ul> <p>Carrying out these initiatives will make it possible for Conventional Generation segment to adapt its operational costs to market changes as necessary, all the while maximising its revenue generating potential.</p>
Operational Efficiency Improvement in PGE Dystrybucja S.A.	<ul style="list-style-type: none"> <li>● <b>the aim of this programme</b> was to reduce the SAIDI quality factor and facilitate operational cost optimisation in respect of the power network.</li> <li>● main tasks: <ul style="list-style-type: none"> <li>▪ increase the number of operational tasks, in particular step up the felling of trees and</li> <li>▪ improve the operation of remote-controlled connectors</li> <li>▪ introduce prioritisation for MV lines</li> </ul> </li> </ul> <p>The first effects of the programme's implementation are expected in 2015.</p>
Tax Capital Group ("PGK")	<ul style="list-style-type: none"> <li>● the tax group has been formed with the <b>intent</b> to facilitate more effective Group management, including through the optimisation of tax settlements of companies belonging to PGK as well as reduction of fiscal risks</li> <li>● the tax group comprises 32 companies from PGE Group</li> <li>● the agreement concerning formation of the tax group was signed on September 18, 2014, and the tax group was launched on January 1, 2015 and will be in effect for the next 25 years</li> </ul>
Operating model	<ul style="list-style-type: none"> <li>● <b>the aim of this project is</b> organisational performance improvement across PGE Group, which will be achieved through the following: <ul style="list-style-type: none"> <li>▪ centralisation of management, decision-making and planning functions at the Corporate Centre, alongside a synergetic combination of potential of the Group's key value drivers – capital, experience, competences and knowledge – which are embedded across Business Lines</li> </ul> </li> <li>● as part of the project, a defined portfolio of 51 implementation projects was launched, the result of which will be permanent deployment of the designed changes to business processes.</li> </ul>
PGE Group Code	<ul style="list-style-type: none"> <li>● the aim of the project was to introduce a so called <b>statutory mechanism for managing PGE Group companies</b>, facilitating efficient and effective corporate management, while minimising legal risks</li> <li>● Details of the project are presented in p. 6.2 Changes in management procedures of the Company and the Capital Group.</li> </ul>
Cash Management	<ul style="list-style-type: none"> <li>● <b>the aim of this project is</b> centralisation of liquidity management in PGE Group through implementation of one-way real cash pooling</li> <li>● The project will result in: <ul style="list-style-type: none"> <li>▪ optimisation of the cash flows and improved liquidity management in the Group,</li> <li>▪ limited use of external financing thanks to use of the Group's own funds,</li> <li>▪ security of short-term financing of the Group entities,</li> <li>▪ lower bank fees.</li> </ul> </li> <li>● Cash pooling agreements were concluded on December 22, 2014 between 16 companies from the PGE Capital Group and banks: Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A.</li> </ul>
Human Capital Management Strategy („HCM Strategy")	<ul style="list-style-type: none"> <li>● <b>the aim of this project is</b> supporting the business strategy goals through: <ul style="list-style-type: none"> <li>▪ enhancing the effectiveness of human resources management</li> <li>▪ <b>reinforcing strategic HR management</b> (separating transactional functions from strategic management)</li> <li>▪ <b>optimisation and standardisation of HR processes in terms of:</b> maximising the benefits through operational scale and specialisation (integration of IT tools and systems), harmonised operating standards, optimal use of resources,</li> </ul> </li> <li>● HCM Strategy document was adopted in the PGE capital Group in 2014.</li> </ul>

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Creation of Shared Services Center („SSC”)	<ul style="list-style-type: none"><li>● <b>the aim of the project</b> of SSC creation in fields of accounting, payroll and HR is:<ul style="list-style-type: none"><li>▪ efficiency, standardization, improvement of processes</li><li>▪ implementation of organisation management focused on processes and services to internal client ,</li><li>▪ efficient use of uniform IT tools,</li><li>▪ better utilisation of in-house competencies and knowledge.</li></ul></li></ul>
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Program SAP	<ul style="list-style-type: none"><li>● <b>the aim of the project is:</b><ul style="list-style-type: none"><li>▪ improved operational efficiency through: standardisation of processes within the Group, the aim of the project, optimisation of the technical assets efficiency, more efficient maintenance and development of the system</li><li>▪ improved transparency through: creation of uniform records of economic events, access to the ongoing and compact of management information, streamlining and accelerating of decision making process</li><li>▪ base creation for: creation of SSC within PGE Group, procurement system integration, maintaining a dominant market position while facing the growing competition</li></ul>Implementation process of modules: Accounting and Logistics, HCM Strategy and Asset Management will be continued in 2015 in the major companies of the PGE Capital Group.</li></ul>
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#### Group actively developing new business areas

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

#### Innovation

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

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## Projects in 2014

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Sector Programme; Cooperation with the National Centre for Research and Development (the "NCBiR")	<ul style="list-style-type: none"><li>● the activities undertaken are intended to drive PGE Group's innovativeness and prepare it for effectively raising capital for R&amp;D purposes from public sources</li><li>● main tasks:<ul style="list-style-type: none"><li>▪ approval by PGE's Management Board of documents regulating work in the area of business development and innovation, which facilitate initiating and effectively managing R&amp;D projects across the entire Group</li><li>▪ identification of strategic R&amp;D areas where PGE Group intends to carry out R&amp;D projects</li><li>▪ commencement of bilateral cooperation with the NCBiR</li><li>▪ submission to the NCBiR, together with the Consortium led by the Polish Electricity Association (PKEE), of a feasibility study for the Power Sector Research Programme</li></ul></li></ul> <p>Ongoing works are described in broader range in p. 7 Commitment.</p>
R&D projects portfolio	<ul style="list-style-type: none"><li>● a number of R&amp;D ventures were being carried out in the area of mining and conventional energy generation with the participation of technical universities and Polish and foreign research institutions</li><li>● the key tasks being implemented as part of the projects are as follows:<ul style="list-style-type: none"><li>▪ analysis of technology for reducing pollution introduced to the atmosphere by coal combustion processes</li><li>▪ potential changes to the technology for combustion waste storage</li><li>▪ use of alternative fuels in electricity generation processes, including communal waste</li><li>▪ deployment of a management and monitoring system for electricity consumed by technological processes</li></ul></li></ul> <p>Detailed description of the pursued R&amp;D tasks is presented in p. 7 Commitment.</p>

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## 2 Financial results of PGE S.A.

### 2.1 Financial results of PGE S.A.

Key financial data	Unit	Year ended December 31, 2014	Year ended December 31, 2013 <i>data restated</i>	% change
Sales revenues	PLN million	9,671	12,408	-22%
<b>EBIT</b>	<b>PLN million</b>	<b>476</b>	<b>966</b>	<b>-51%</b>
<b>EBITDA</b>	<b>PLN million</b>	<b>489</b>	<b>984</b>	<b>-50%</b>
Net cash from operating activities	PLN million	530	469	13%
Net cash from investing activities	PLN million	-320	1,533	-
Net cash from financial activities	PLN million	581	-774	-
Net earnings per share	PLN	2.92	1.13	158%
<b>EBITDA margin</b>	<b>%</b>	<b>5%</b>	<b>8%</b>	

Key financial data	Unit	Year ended December 31, 2014	Year ended December 31, 2013 <i>data restated</i>	% change
Shares in subsidiaries	PLN million	29,046	24,165	20%
Working capital	PLN million	4,252	3,465	23%
<b>Net debt/LTM EBITDA *</b>	<b>x</b>	<b>1.68x</b>	<b>-1.19x</b>	

\* LTM EBITDA - Last Twelve Months EBITDA

### 2.1.1 Statement of comprehensive income

In 2014 **sales revenues** of the Company amounted to PLN 9,671 million compared to PLN 12,408 million in 2013, what means decrease by approx. 2%.

#### Sales revenues – decrease by approx. PLN 2,737 million

Positive impact	<ul style="list-style-type: none"> <li>● increased revenues from sale of certificates of energy origin PLN 138 million</li> <li>● increased revenues from sale of CO<sub>2</sub> emission rights PLN 58 million</li> <li>● increased revenues from sale of fuels PLN 67 million</li> <li>● increased revenues from other services PLN 3 million</li> </ul>
Negative impact	<ul style="list-style-type: none"> <li>● decreased revenues from sale of electricity PLN (-) 2,987 million, including decrease due to lower volume of sales by PLN (-) 2,283 million and average sale price by PLN (-) 704 million</li> <li>● decreased revenues from the services under the agreement for Commercial Management of Generation Capacities PLN (-) 16 million</li> </ul>

Dynamics of sale of particular commodities was as follows:

Table: Volume of electricity sales

[TWh]	2014	2013	% change
Sale of electricity to the Group companies	38.5	38.0	1%
Sale of electricity on the power exchange and in bilateral transactions outside the Group	1.0	13.3	-93%
Sale within the balancing group and on the balancing market	1.2	1.2	0%
<b>Total electricity sales</b>	<b>40.7</b>	<b>52.5</b>	<b>-22%</b>

The Company sold 12.3 GWh less energy on the market in 2014, including more than 9 TWh due to ceasing of electricity sales contract with Energa - Obrót S.A.

Table: Volume of certificates sales

[TWh]	2014	2013	% change
Green certificates	5.3	3.7	45%
Yellow certificates	0.0	0.8	-
Red certificates	0.4	2.7	-87%
Violet certificates	0.2	0.1	124%

Certificates were supplied by PGE S.A. to the companies from the Group in order to meet the legal requirement for redemption thereof. Significant increase of sales of green certificates was partly connected with the increased demand for certificates by PGE Obrót S.A., due to increased electricity sales to the final off-takers. The other reason was acceleration of green certificates supply so that the demand for these certificates in 2014 be covered at the highest possible degree by the end of the reporting period, despite the fact that the end of the settlement period for certificates redemption for 2014 falls on March 31, 2015.

Since April 30, 2014 a support for cogeneration and obligation of red and green certificates redemption have been restored. Due to low supply of these certificates on the market, they will be delivered for the need of redemption for year 2014 in the first half of 2015.

Table: Volume of CO<sub>2</sub> emission rights sales

[TWh]	2014	2013	% change
Sale of EUA to the Group	33.0	38.1	13%
Sale of CER to the Group	2.7	0.0	-
<b>Total CO<sub>2</sub> emission rights sales</b>	<b>35.7</b>	<b>38.1</b>	<b>6%</b>

CO<sub>2</sub> emission rights trading for the Group's redemption needs is pursued by PGE S.A. under the agreement for Commercial Management of Generation Capacities. Deliveries of the allowances for PGE GiEK S.A. were matched with the realized electricity sales volume within current contracting for 2014 and subsequent years – in accordance with the trading strategy.

The Company is also engaged in trading of CO<sub>2</sub> emission rights within so called trading portfolio on the exchange and in bilateral transactions outside the PGE Capital Group. Result on those transactions is recognised by the Company in financial revenues and expenses (see Note B.1.8 to the financial statements of PGE S.A. for 2014)

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

in PLN million	Total income				
	2014	% share	2013	% share	% change
Domestic market	9,660	100%	12,048	97%	-20%
EU member states	11	0%	360	3%	-97%
Other countries	0	0%	0	0%	0%
<b>Total</b>	<b>9,671</b>	<b>100%</b>	<b>12,408</b>	<b>100%</b>	<b>-22%</b>

In 2014 and 2013 the Company generated revenues mainly on the domestic market. The decrease of revenues from sales to the EU member states is connected with termination of significant transactions for electricity sales under bilateral contracts of the Company.

**Cost of goods sold** in 2014 amounted to PLN 9,021 million, what means decline by approx. 20% in comparison to PLN 11,269 million in 2013. Decline resulted from lower merchandise and materials sold, including energy purchased for resale, by PLN 2,260 million.

**Gross profit on sales** in 2014 amounted to PLN 650 million compared to PLN 1,138 million in 2013, what means decrease by approx. 43%. Decrease mainly results from lower result on electricity trading by PLN 467 million - from PLN 658 million in 2013 to PLN 191 million in 2014. In 2014 the Company sold approx. 12 TWh energy less. Additionally, increase of electricity prices in 2014, with the already contracted, fixed prices of energy sold to the Group companies, resulted in decreased margin on electricity trading and in consequence it also attributed to the lower result on electricity trading compared to the previous year. Peak hour prices had the biggest impact on the increased prices – due to the implementation of fees for operational capacity reserve, peak prices were at the significantly higher level with respect to baseload prices than in the previous years. In 2013 average spot price of electricity in peak hours on working days amounted to PLN 177.43/MWh while in 2014 it was PLN 232.65/MWh.

In 2014 **distribution and selling expenses** of PGE S.A. amounted to PLN 23 million and were higher by approx. 35 % in comparison to 2013. Increased distribution and selling expenses resulted mainly from higher commissions, mainly to PGE Dom Maklerski S.A.

In 2014 **general and administrative expenses** amounted to PLN 150 million, i.e. decrease by approx. 7 % in comparison to 2013. Decline is a result of lower costs of management services contracts and advisory services.

Result on other operating activities in 2014 was negative and amounted to PLN (-) 1 million in comparison to positive result of PLN 6 million in 2013.



**Other operating revenues** of the Company in 2014 amounted to PLN 10 million, what means decrease by approx. 38 % in relation to PLN 16 million achieved in the comparative period of 2013.

**Other operating revenues – decrease by PLN 6 million**

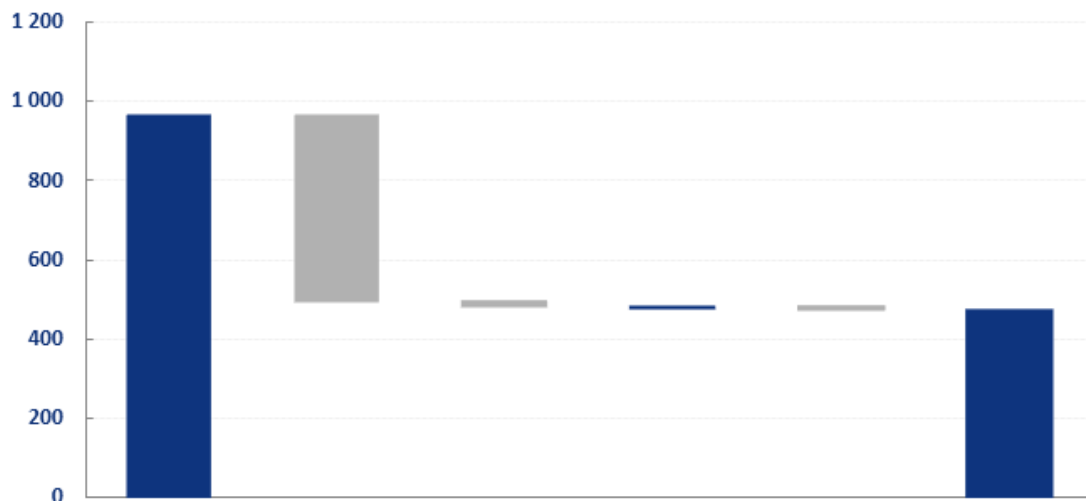
Positive impact	<ul style="list-style-type: none"> <li>increase due to re invoiced revenues (to the Group companies within the support services) by PLN 5 million</li> <li>reversal of provision for compensation due to the CSOEE (central system for electricity trading) failure in amount of PLN 2 million</li> </ul>
Negative impact	<ul style="list-style-type: none"> <li>variation for PLN (-) 10 million as a result of recognition in 2013 revenues of final settlement related to closure of the court dispute with Alpiq Holding AG</li> <li>lower profit from sale of property, plant and equipment and intangible assets by PLN (-) 2 million</li> </ul>

**Other operating expenses** of the Company in 2014 amounted to PLN 11 million compared to PLN 10 million in 2013, what means increase by 10%.

**Other operating expenses – increase by PLN 1 million**

Positive impact	<ul style="list-style-type: none"> <li>expenses incurred in 2013 (success fee) regarding dispute with Alpiq Holding AG in amount of PLN 7 million</li> </ul>
Negative impact	<ul style="list-style-type: none"> <li>increase due to re invoiced revenues by PLN (-) 6 million</li> <li>write-down of discontinued investments in tangible and intangible assets in amount of PLN (-) 3 million</li> </ul>

Chart: Key changes of EBIT in PGE S.A.



	EBIT result 2013	Result on electricity sales	Management service	Result on sale of certificates and gas	Other	EBIT result 2014
<b>Change</b>		<b>-467</b>	<b>-16</b>	<b>3</b>	<b>-10</b>	
FY 2013	966	658	481	8	182	
FY 2014		191	465	11	191	476

The Group's **financial revenues** in 2014 amounted to PLN 5,543 million what means increase by approx. 300 % in relation to PLN 1,384 million achieved in 2013.

#### Financial revenues – increase by PLN 4,159 million

Positive impact	<ul style="list-style-type: none"> <li>donation of PGE Dystrybucja shares and PGE GiEK shares from PGE Obrót, after decrease related to write-off of PGE Obrót S.A. shares, in amount of PLN 4,281</li> <li>higher interest from cash and deposits by PLN 17 million</li> </ul>
Negative impact	<ul style="list-style-type: none"> <li>lower revenues from dividends by PLN (-) 70 million</li> <li>lower interest from acquired bonds of PGE Group companies by PLN (-) 34 million</li> <li>lower profit from the forward transaction valuation by PLN (-) 18 million</li> </ul>

**Financial expenses** of the Group in 2014 amounted to PLN 542 million in comparison to PLN 27 million achieved in 2013.

#### Financial expenses – increase by PLN 515 million

Negative impact	<ul style="list-style-type: none"> <li>impairment loss on value of bonds issued by Autostrada Wielkopolska S.A. (including interest accrued and foreign exchange translations) in amount of PLN (-) 386 million, including PLN (-) 298 million of interest accrued and foreign exchange translations</li> <li>higher interest and commissions from loans and issued bonds by PLN (-) 74 million</li> <li>loss from valuation of derivatives in amount of PLN (-) 56 million</li> </ul>
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As a result of the factors discussed above, the gross profit of PGE S.A. in 2014 amounted to PLN 5,477 million compared to PLN 2,323 million in 2013.

In 2014 **gross profit margin** of the Company (gross profit to total sales revenues) increased to 57% from 19% in 2013.

**Net profit** of PGE S.A. in 2014 amounted to PLN 5,453 million compared to PLN 2,121 million in 2013.

**Total comprehensive income** of the Company amounted to PLN 5,390 million in 2014 compared to PLN 2,124 million in 2013.

### 2.1.2 Statement of financial position

**Non-current assets** of PGE S.A. as December 31, 2014 and as at December 31, 2013 amounted respectively to PLN 33,097 million and PLN 27,692 million.

#### Non-current assets – increase by PLN 5,400 million

Increase	<ul style="list-style-type: none"> <li>donation of PGE Dystrybucja shares and PGE GiEK shares, after decrease related to write-off of PGE Obrót S.A. shares, in amount of PLN 4,281 million</li> <li>increase of bonds issued by subsidiaries PLN 853 million</li> <li>acquisition of shares in subsidiaries of PGE GiEK S.A – increase by PLN 224 million</li> <li>recapitalisation of subsidiaries (PGE EJ 1 sp. z o.o., PGE Sweden AB, PGE Dom Maklerski S.A.) – increase by PLN 267 million</li> <li>purchase of shares of PGE GiEK S.A from minority shareholders - increase by PLN 112 million</li> <li>recognition of deferred income tax asset in amount of PLN 22 million</li> </ul>
Decrease	<ul style="list-style-type: none"> <li>impairment loss on value of bonds issued by Autostrada Wielkopolska S.A. in amount of PLN (-) 358 million</li> </ul>

PGE S.A. purchases bonds issued by the Group companies. Proceeds from the bonds issues are used for financing of investments, repayment of financial liabilities secured by cession of LTCs and for financing of ongoing operations. Changes in the bonds acquired by PGE S.A. are described in Note B.17.1.2 of the financials statements of PGE S.A. for 2014.

**Current assets** of PGE S.A. as December 31, 2014 and as at December 31, 2013 amounted respectively to PLN 4,252 million and PLN 3,465 million.

#### Current assets - increase by PLN 787 million

Increase	<ul style="list-style-type: none"> <li>● increased cash and cash equivalent by PLN 798 million</li> <li>● inventories increase by PLN 159 million, including increase net value of CO<sub>2</sub> emission rights intended for trade by PLN 152 million and of certificates by PLN 7 million</li> <li>● increase of other short-term assets by PLN 110 million, including increase of advance payment to subsidiary PGE Dom Maklerski S.A. for purchase of electricity of PLN 105 million</li> </ul>
Decrease	<ul style="list-style-type: none"> <li>● decreased trade receivables by PLN (-) 173 million</li> <li>● decrease in short-term financial assets at fair value through profit or loss by PLN (-) 93 million, including:                             <ul style="list-style-type: none"> <li>▪ commodity forward PLN (-) 96 million</li> <li>▪ FX forward PLN 3 million</li> </ul> </li> <li>● Decreased of other loans and receivables PLN (-) 14 million</li> </ul>

As at December 31, 2014 and as at December 31, 2013 **equity of the Company** amounted respectively to PLN 33,102 million and PLN 29,769 million.

#### Equity – increase by PLN 3,333 million

Increase	<ul style="list-style-type: none"> <li>● recognition of the net profit for the year ended December 31, 2014 in amount of PLN 5,453 million</li> </ul>
Decrease	<ul style="list-style-type: none"> <li>● dividend payment to the shareholders in amount of PLN (-) 2.057 million</li> <li>● recognition of negative equity from valuation of financial instruments in amount of PLN (-) 60 million</li> </ul>

**Long-term liabilities** as at December 31, 2014 and as at December 31, 2013 amounted respectively to PLN 3,774 million and PLN 1,054 million.

#### Long-term liabilities - increase by PLN 2,720 million

Increase	<ul style="list-style-type: none"> <li>● increase in interest-bearing loans, borrowings, bonds and lease by PLN 2,754 million, including loans from PGE Sweden AB in amount of EUR 658 million</li> <li>● increased long-term provisions for employee benefits by PLN 1 million</li> </ul>
Decrease	<ul style="list-style-type: none"> <li>● lower deferred tax liability by PLN (-) 35 million</li> </ul>

**Short-term liabilities** as at December 31, 2014 and as at December 31, 2013 amounted respectively to PLN 473 million and PLN 339 million.

#### Short-term liabilities - increase by PLN 134 million

Increase	<ul style="list-style-type: none"> <li>● increased trade receivables - trading on electricity markets, by PLN 105 million</li> <li>● increase of liabilities at fair value through profit or loss by PLN 98 million</li> <li>● increase in short-term part of interest-bearing loans and borrowings, by PLN 58 million</li> <li>● increase of other liabilities, including income tax liabilities, by PLN 8 million</li> </ul>
Decrease	<ul style="list-style-type: none"> <li>● decrease in other non-financial liabilities by PLN (-) 136 million, including inter alia due to VAT PLN (-) 126 million and settlements in the Tax Capital Group, PLN (-) 12 million</li> </ul>

Increase of liabilities at fair value through profit or loss was affected by:

- commodities forwards related mainly to trade of greenhouse gases emission rights,
- IRS transactions to secure interest rate on issued bonds with a nominal value of PLN 1,000 million,
- CCIRS transactions, to secure the exchange rate and interest rate of the loans granted by the subsidiary - PGE Sweden AB (publ).

### 2.1.3 Statement of cash flows

The total net cash flow from operating activities for 2014 amounted to PLN 530 million compared to PLN 469 million in 2013.

Negative net cash flow from investing activities for 2014 amounted to PLN 320 million in comparison to positive net cash flow of PLN 1,5343 million in 2013. The level of cash flow from investing activities in 2014 was mainly affected by net flows related to purchase of bonds issued by the Group companies. In 2014 PGE S.A. recognised outflow of cash due to purchase and buy-out of bonds issued by the Group companies in amount of PLN (-) 906 million while in 2013 the Company had proceeds from such operations amounting to PLN 1,357 million.

Positive net cash flow from financial activities in 2014 amounted to PLN 581 million in comparison to negative net cash flow of PLN 744 million in 2013. The level of cash flow from financial activities in 2014 was mainly affected by loans, borrowings and bonds which amounted to PLN 2,720 million in 2014 and were higher by PLN 1,726 million than income in 2013. In 2014 the dividend paid to shareholders amounted to PLN 2,057 million and were higher than dividend paid in 2013 by PLN 449 million.

## 2.2 Transactions with related entities

Information about transactions with related entities are presented in Note B.20.1 to the standalone financial statements for 2014.

## 2.3 Information about main customers

Information about main customers of the Company are presented in Note B 1.7 to the standalone financial statements for 2014.

## 2.4 Publication of financial forecasts

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

## 2.5 Entity authorised to audit of financial statements

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

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

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

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

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

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

Dom Maklerski S.A., PGE Energia Natury S.A., PGE Energia Natury sp. z o.o., PGE Energia Natury Karnice sp. z o.o., PGE Energia Natury Bukowo sp. z o.o., PGE Energia Natury Olecko sp. z o.o., PGE Energia Natury Omikron sp. z o.o., PGE Energia Natury Kappa sp. z o.o. and PGE Energia Natury PEW sp. z o.o.

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

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

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

## 2.6 Management of financial resources and financial liquidity

### 2.6.1 Rating

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

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

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

## 2.6.2 Net debt of PGE S.A. and main financial ratios

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

in PLN million	December 31, 2014	December 31, 2013
A. Cash <sup>(1)</sup>	830	210
B. Cash equivalents	2.158	1.909
C. Securities held for trading and available for sale <sup>(2)</sup>	0	0
<b>D. Liquidity (A) + (B) + (C)</b>	<b>2.988</b>	<b>2.118</b>
E. Investments held to maturity and loans and receivables <sup>(3)</sup>	2	56
F. Short-term debt with banks and current part of long-term debt <sup>(4)</sup>	58	0
G. Other short-term financial debt <sup>(5)</sup>	0	0
H. Short-term financial debt (F) + (G) <sup>(6)</sup>	58	0
<b>I. Short-term financial debt, net (H) - (D) - (E)</b>	<b>-2.932</b>	<b>-2.174</b>
J. Long-term bank loans and advances	2.754	0
K. Bonds issued	1.000	1.000
L. Other long-term loans and advances or other commitments <sup>(5)</sup>	0	0
<b>M. Long-term financial debt (J) + (K) + (L) <sup>(6)</sup></b>	<b>3.754</b>	<b>1.000</b>
<b>N. Net financial debt (I) + (M)</b>	<b>822</b>	<b>-1.174</b>

### Comments:

(1)	Excluding restricted cash, attributable primarily funds as collaterals for settlements with Izba Rozliczeniowa Gield Towarowych S.A. (Warsaw Commodity Clearing House)
(2)	Including stocks listed in active markets, participation units in investment funds classified as financial assets available for sale and acquired bonds, bills of exchange, bills and participation units in investment funds classified as assets held for trading
(3)	Including short-term acquired bonds, bills of exchange, bills classified as investments held to maturity, acquired bonds, bills of exchange and bills, loans granted and deposits classified as loans and receivables
(4)	Including loans and bonds
(5)	Including payables under lease and lease repo agreements
(6)	Excluding other financial commitments measured at depreciated cost

Table: Key financial ratios

	For the year ended	
	December 31,	
	2014	2013*
<b>Return on sales ROS (in %)</b>		
Net profit x 100% / Net revenues	56%	17%
<b>Return on equity ROE (in %)</b>		
Net profit x 100% / (equity – net profit)	16%	7%
<b>Debtor's days</b>		
Average trade receivables (gross) x 365 days / net revenues	25	22
<b>Debt ratio (in %)</b>		
Liabilities x 100% / total equity and liabilities	11%	4%
<b>Current ratio</b>		
Current assets / short-term liabilities	9	10

\* data restated

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

In order to optimise the cash flows of the Group companies, improve the liquidity management efficiency and secure short-term financing of the entities from the Group, PGE Capital Group introduced one-way real cash-pooling, where PGE S.A. acts as a pool leader i.e. entity responsible for coordination of cash pooling in the Group. The cash pooling agreements were signed on December 22, 2014.

### 2.6.3 Bonds issued

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

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

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

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

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



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

- Bond Issue program signed with ING Bank Śląski S.A. on September 20, 2013 allowing for issue of bonds of up to PLN 400 million. The agreement was signed for an indefinite period. On January 24, 2014 annex no 1 was signed, that increased the value of the program to PLN 700 million. On January 27, 2014 PGE Energia Naturity PEW sp. z o.o. and PGE Energia Naturity sp. z o.o. entered into the agreement. As at December 31, 2014 the nominal value of the bonds issued acquired by PGE S.A. amounted to:
  - bonds issued by PGE Energia Naturity PEW Sp. z o.o. – **PLN 270 million;**
  - bonds issued by PGE Energia Naturity Omikron sp. z o.o. – **PLN 145 million;**
  - bonds issued by PGE Energia Naturity Kappa sp. z o.o. – **PLN 50 million;**
  - bonds issued by PGE Energia Naturity S.A. – **PLN 3 million.**

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

During 2014, PGE S.A. had a binding Agency Agreement with ING Bank Śląski S.A. regarding the establishment of the bond issue made to companies of the PGE Group PGE S.A. concluded on May 11, 2009. The maximum amount of the programme for the Group is PLN 5,000 million. Under the Program for the Group, PGE S.A. may issue coupon or zero coupon bonds.

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

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

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

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

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

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

#### 2.6.4 Bank loans and advances

Table: Information about bank loans and advances agreements signed by PGE S.A. in 2014

Company	Party of an agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Amount ( million )	Currency	Fixed/ floating rate
PGE S.A.	Bank Gospodarstwa Krajowego	Bank loan	2014-12-17	2027-12-31	1,000.0	PLN	Floating

Table: Information about loan agreements signed by PGE S.A. in 2014

Company (Borrower)	Party of an agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Amount ( million )	Currency	Fixed/ floating rate
PGE S.A.	PGE Sweden AB (publ)	Loan	2014-06-10	2019-06-05	300.0	EUR	Fixed
PGE S.A.	PGE Sweden AB (publ)	Loan	2014-06-10	2019-06-05	210.0	EUR	Fixed
PGE S.A.	PGE Sweden AB (publ)	Loan	2014-08-27	2029-07-31	100.0	EUR	Fixed
PGE S.A.	PGE Sweden AB (publ)	Loan	2014-08-27	2029-07-31	43.5	EUR	Fixed
PGE S.A.	PGE Sweden AB (publ)	Loan	2014-06-10	2019-06-05	4.0	EUR	Fixed

Total value of loans capital from PGE Sweden AB amounted to EUR 657.5 million in 2014.

### 2.6.5 Loans granted

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

Company (Borrower)	Party of an agreement	Type of financ- ing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Annex signing date (yyyy-mm-dd)	Amount ( million )	Currency	Fixed/ floating rate
EPW Energia Olecko Sp. zo.o.	PGE S.A.	Loan	2013-06-28	2015-06-30	2014-06-30	1.9	PLN	Fixed

Table: Loans granted by PGE S.A. and repaid ahead of schedule by the borrower in 2014

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

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

### 2.6.6 Guarantees

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

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

The total amount of guarantees granted by the companies of the PGE and valid on December 31, 2014 amounted to EUR 2,512.1 million, PLN 1,978.0 million, and CZK 0.7 million.

Table: Main guarantees granted as at December 31, 2014

Company	Entity entitled to guarantee (Beneficiary)	Entity whose liabilities are subject to guarantee (Debtor)	Form of security	Validity of guarantee yyyy-mm-dd		Value of guarantee ( million )	Currency
				Beginning	End		
PGE S.A.	Bondholders	PGE Sweden AB (publ)	Guarantee of financial instrument	2014-05-22	2041-12-31	2,500.0	EUR
PGE S.A.	Societe Generale S.A. Poland Branch	PGE Trading GmbH	Other guarantee	2011-12-08	2015-12-31	9.0	EUR
PGE S.A.	Societe Generale S.A. Poland Branch	PGE Trading GmbH	Other guarantee	2011-12-14	2016-02-05	1.0	EUR
PGE S.A.	E.ON Energy Trading SE	PGE Trading GmbH	Other guarantee	2012-04-02	2015-01-01	0.5	EUR
PGE S.A.	Powszechna Kasa Oszczędności Bank Polski S.A.	PGE Górnictwo i Energetyka Konwencjonalna S.A.	Guarantee of financial instrument	2014-01-29	2020-03-31	1,478.5	PLN
PGE S.A.	Bank Polska Kasa Opieki S.A.	PGE Górnictwo i Energetyka Konwencjonalna S.A.	Guarantee of financial instrument	2014-01-29	2020-03-31	246.4	PLN
PGE S.A.	BNP Paribas Bank Polska S.A.	PGE Górnictwo i Energetyka Konwencjonalna S.A.	Guarantee of financial instrument	2014-01-29	2020-03-31	246.4	PLN
PGE S.A.	Polish Agency for Enterprise Development	PGE Polska Grupa Energetyczna SA	Bill of exchange	2011-05-26	2015-12-31	6.7	PLN
PGE S.A.	Societe Generale S.A. Poland Branch	PGE Trading GmbH	Other guarantee	2011-12-09	2016-01-29	0.7	CZK

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

Company	Guarantee issuer	Entity for whose liabilities a guarantee was issued (Debtor)	Form of security	Validity of guarantee yyyy-mm-dd		Value of guaran- tee ( million )	Currency
				Beginning	End		
PGE S.A.	Vattenfall AB	Vattenfall Energy Trading GmbH	Corporate guarantee	2013-04-22	2016-01-31	5.0	EUR

### 2.6.7 Evaluation of investment capacities

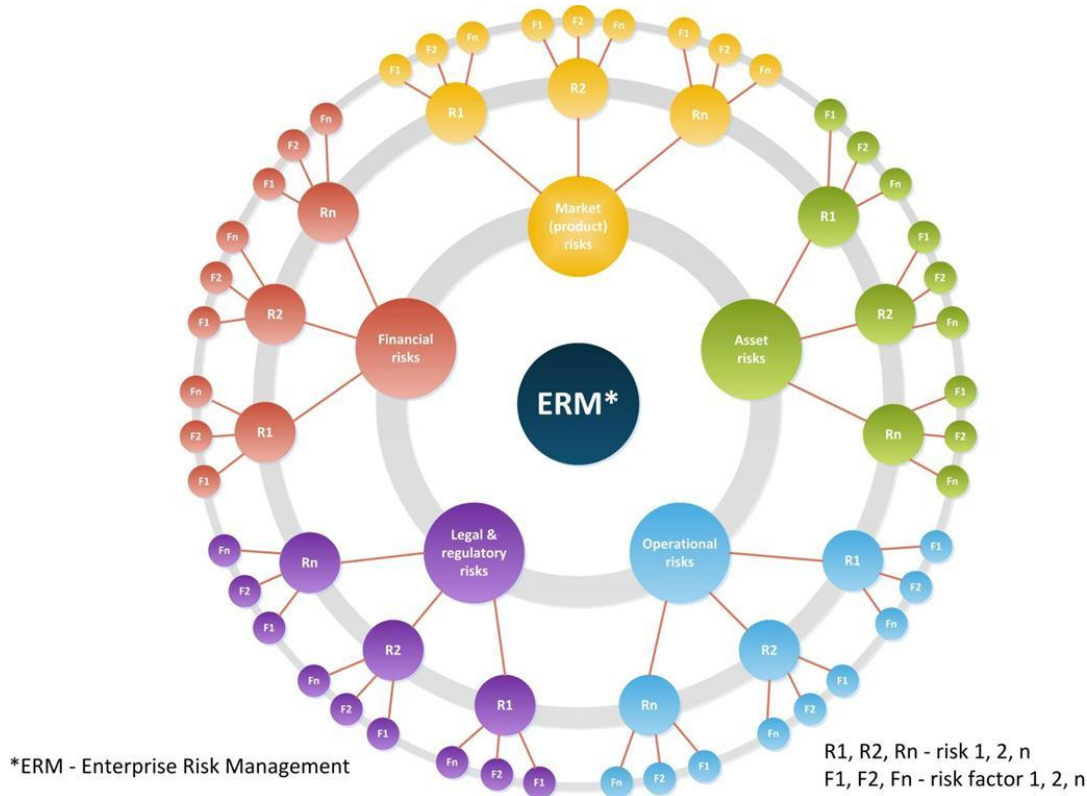
As the parent company of the PGE Capital Group, PGE S.A. provides individual companies of the Group with funds for investments and current activities. On-going and future investments are and will be financed from funds generated from the dividends paid by the subsidiaries, by the core activity of the Company and from external financing. Financial results achieved by the Company and debt level in 2013 confirm that the Company owns sufficient resources to achieve its investment goals, including potential capital investments.

## 3 Risks and threats of the PGE Capital Group

### Risk management

PGE S.A., as the Corporate Center managing the Group, creates and implements solutions with regard to risk management architecture in the PGE Capital Group. In particular PGE S.A. forms policies, standards and practices of risk management in the Capital Group, develops internal IT tools supporting the proces, specifies global risk appetite and adequate limits and also monitors its levels.

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



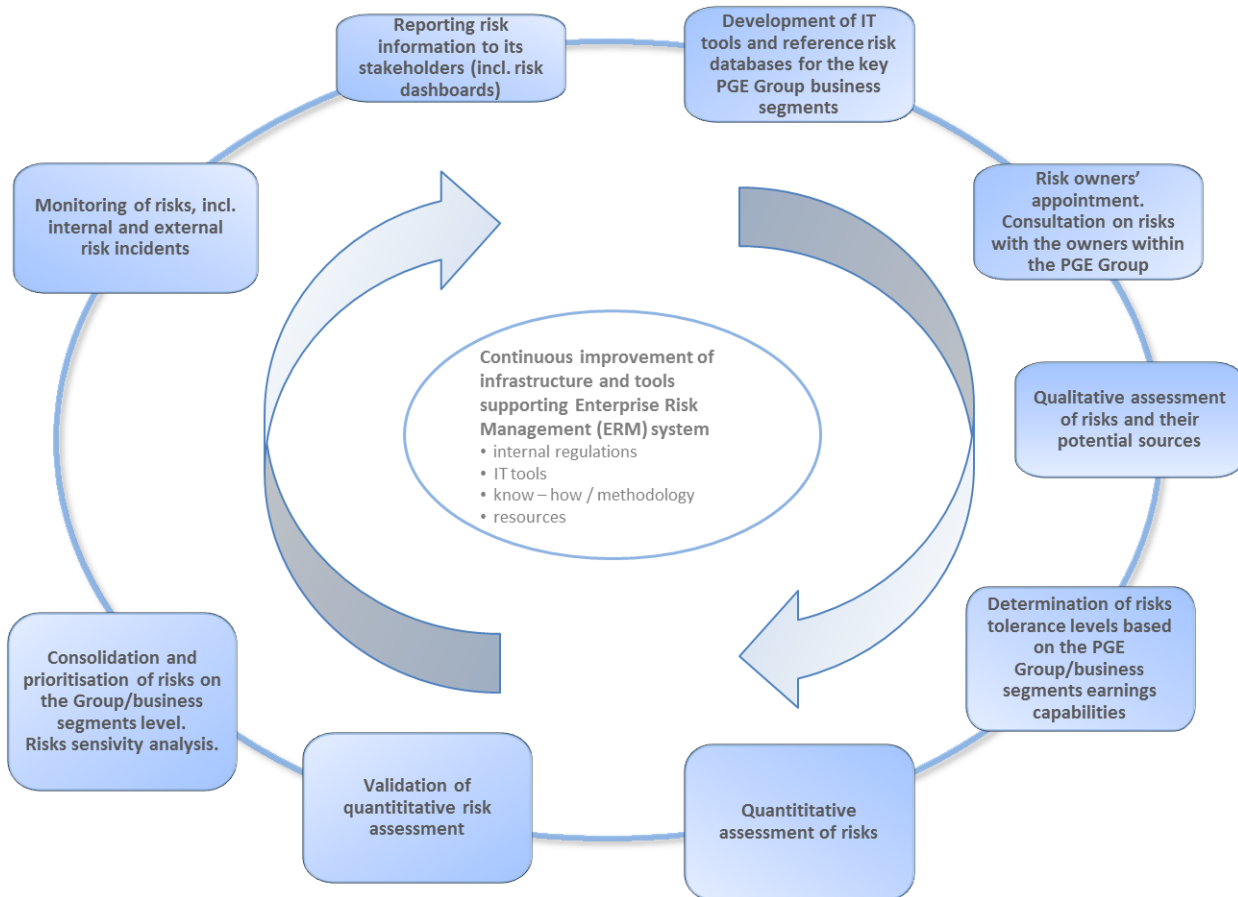
PGE Group's risk management process is based on the GRC (Governance - Risk - Compliance) model, which makes it possible to adapt and integrate each of the Group's operational areas at all levels of management. Having established a top-level Risk Committee, which reports directly to the Management Board,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



Source: own work

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

















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





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

Risk level	Risk perspective		
	low	medium	high
<p><b>low level</b></p> <p><b>medium level</b></p> <p><b>high level</b></p>	<p>Risk does not pose a threat and may be tolerated,</p> <p>Risk which needs preparation of the proper reaction based on analysis of costs and benefits,</p> <p>Intolerable risk, which needs immediate and active reaction, leading simultaneously to limitation of possible consequences and of probability of occurrence thereof</p>		
<p><b>Market risks (product)</b></p> <p>Related to prices and volumes of offered products and services</p>	<p><b>Prices of electricity and related products</b> – resulting from a lack of certainty with regard to the future levels and volatility of commodity prices relative to open contract positions - this particularly concerns electricity and associated products (property rights, CO<sub>2</sub> emission allowances and fuels). <span style="float: right;">■ ▲</span></p> <p><b>Electricity and heat sales volumes</b> – this risk derives from a lack of certainty with regard to the conditions determining the demand and supply of electricity and heat <span style="float: right;">■ ◀▶</span></p> <p><b>Tariffs (regulate prices)</b> – resulting from the requirement to approve rates for distribution services and electricity and heat prices for particular groups of entities <span style="float: right;">■ ◀▶</span></p>		
<p><b>Property risks</b></p> <p>Related to development and maintenance of the assets</p>	<p><b>Failures</b> – connected with the operation and degradation over time of energy equipment and facilities (maintenance and repair work, diagnostics) <span style="float: right;">■ ▼</span></p> <p><b>Damage to property</b> – connected with the physical protection of energy equipment and facilities against destructive external factors (including fire, flood and intentional damage) <span style="float: right;">■ ◀▶</span></p> <p><b>Investment and development</b> – connected with strategic plans for expanding the generation, distribution and sales potential as well as on-going investments <span style="float: right;">■ ▼</span></p>		
<p><b>Operational risks</b></p> <p>Related to pursuing of ongoing economic processes</p>	<p><b>Production costs</b> – connected with the growing costs of fuel procurement, operational works, environmental fees, HR-related factors, etc. <span style="float: right;">■ ◀▶</span></p> <p><b>Electricity and heat production</b> – connected with production planning and impact of the factors that determine production capacities. <span style="float: right;">■ ◀▶</span></p> <p><b>Fuel management</b> – connected with uncertainty regarding the quality, timeliness and volumes of fuel supply (mainly coal) and the effectiveness of inventory management processes. <span style="float: right;">■ ▲</span></p> <p><b>HR</b> – pertaining to provision of employees with the relevant experience and competences, who are capable of performing specific tasks <span style="float: right;">■ ◀▶</span></p> <p><b>Social dialogue</b> – connected with a failure in achieving agreement between the Group's management and employees, what could lead to strikes/collective labour disputes <span style="float: right;">■ ▲</span></p>		
<p><b>Regulatory and legal risks</b></p> <p>Related to compliance with external and internal legal provisions</p>	<p><b>Legal changes in support systems</b> – connected with uncertainty as to the future shape of the support system (or a lack thereof) for production of certified energy <span style="float: right;">■ ▼</span></p> <p><b>Purchase volume of certificates and CO<sub>2</sub> allowances</b> - resulting from the possible changes to the statutory requirement for electricity sellers to purchase a specified quantity of property rights and to uncertainty with regard to volume of CO<sub>2</sub> emission rights granted free of charge in future <span style="float: right;">■ ◀▶</span></p> <p><b>Compensation for the termination of long-term contracts (LTCs)</b> – there is a possibility that the level of adjustments to advances collected for stranded costs, as calculated by the company, will be questioned by the President of the Energy Regulatory Office (URE), as a result of which the company will be obligated to return advances received for terminating the LTCs <span style="float: right;">■ ▼</span></p>		

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

## Risk mitigation measures

### Market (product) risks

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

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

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

### Property risks

In general, property risks affect assets

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

## Operational risks

Operational risks mainly impact the cost side

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

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

## Regulatory and legal risks

Regulatory and legal risks mainly impact the compliance area

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

## Financial risks

Financial risks mainly have an impact on finances

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

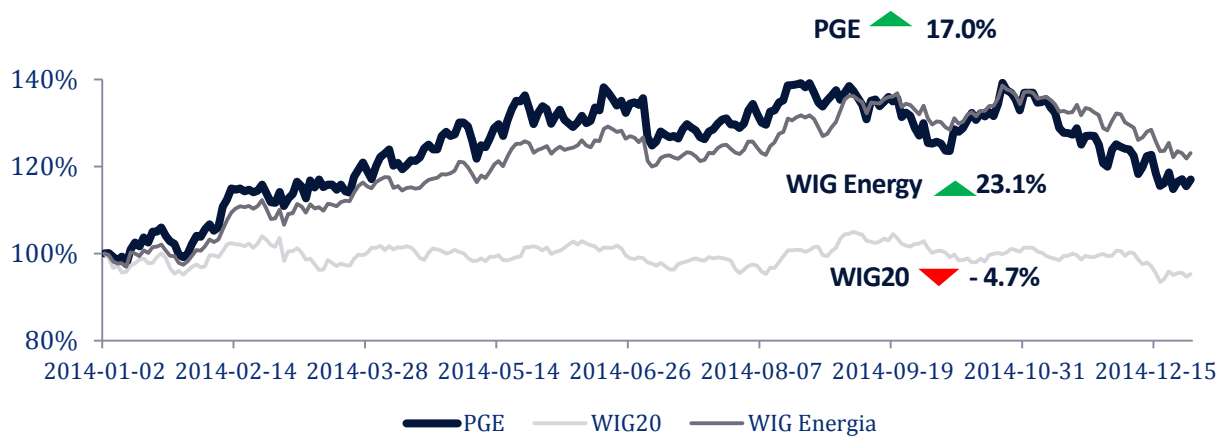
#### 4 PGE S.A. share quotations on Warsaw Stock Exchange

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

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

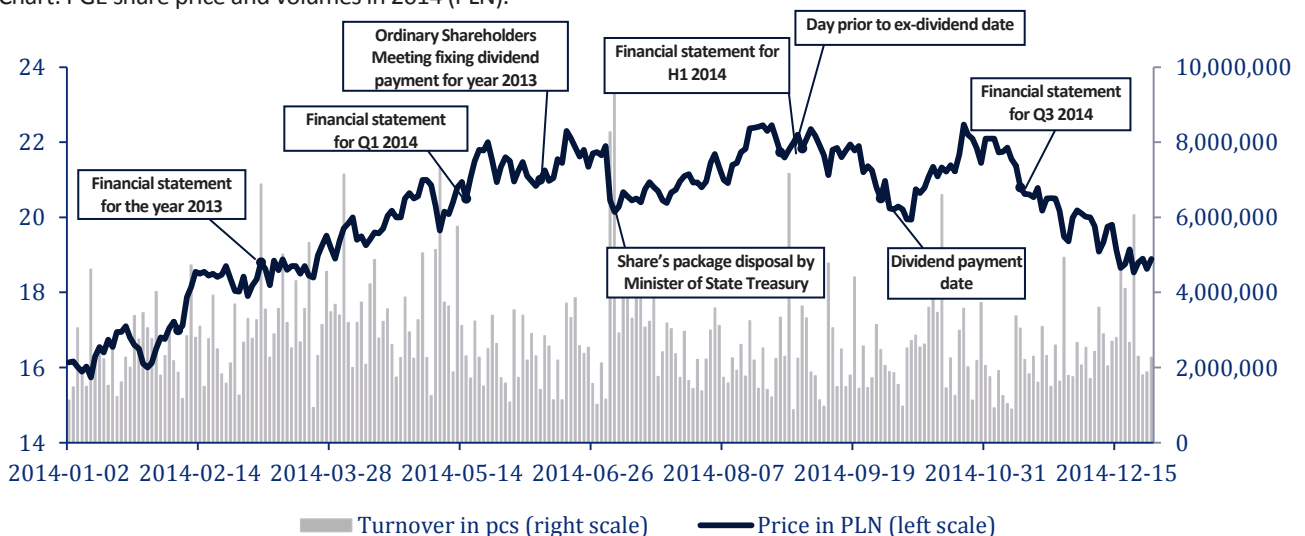
The quotations of PGE shares and the values of the WIG20, WIG Energia and RESPECT indexes on WSE from January 2 to December, 30 2014 (own calculations based of WSE's data).

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



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

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



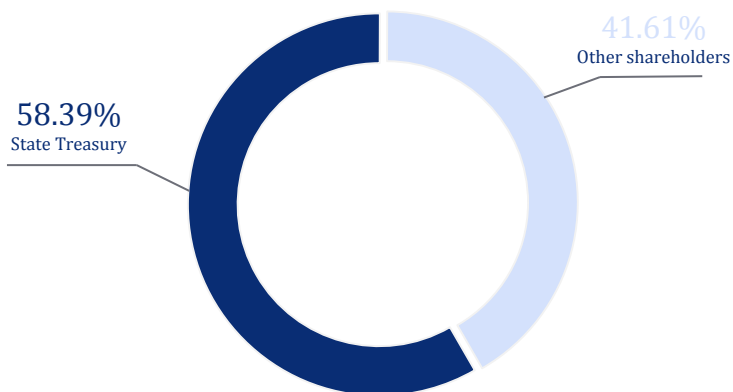
#### 4.1 PGE S.A. shares

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

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

Source: GPWinfostrefa.pl

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



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

## 4.2 PGE Investor Relations

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

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

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

## 4.3 PGE S.A. reporting calendar.

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



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

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

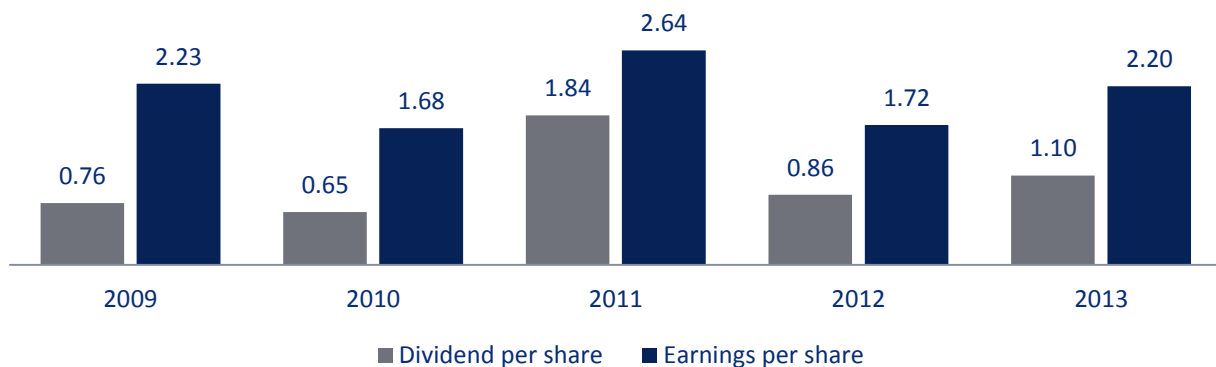
In the medium term, the Management Board intends to make a recommendation to the Shareholders' Meeting on dividends to be paid in accordance with power industry standards. The Management Board currently believes that a distribution of nearly 40-50 per cent of the consolidated net profit will be attributable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

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

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

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

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



## 5 Statement on implementation of Corporate Governance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Basic regulations applicable to preparation of financial statements include:

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

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

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

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

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

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

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

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

### 5.4 Shareholders with a significant stake

Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at Company's General Meeting are presented in p. 4.1 of the foregoing report.

### 5.5 Shareholders with special control powers

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

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

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

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

## 5.6 Limitations regarding exercise of the voting rights from the existing shares

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

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

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

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

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

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

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

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

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

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

## 5.7 Limitations regarding the transfer of ownership of the Company's securities

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

## 5.8 Rules for amendments to the Company's Statutes

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

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

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

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

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

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

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

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

Materials issued to shareholders in connection with the General Meeting, in particular draft resolutions proposed for voting by the General Meeting and other essential materials are provided by the Company in the time sufficient to evaluate such materials, on the corporate website [www.gkpge.pl](http://www.gkpge.pl).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

### 5.10.1 Management Board

#### I. Members of the Management Board

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

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



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

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

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



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

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

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





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

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

Graduate of Faculty of Electrical Engineering and School of Business (program of leading European Universities: London Business School, HEC in Paris, Norwegian School of Economics and Business Administration in Bergen) at the Warsaw University of Technology. From the beginning of the professional career associated with the power sector. Participated in the largest modernization projects in the Polish energy sector in the 90 and privatization and restructuring projects in the energy sector in Poland and abroad. Gained wide experience in international environment working for Westinghouse, Apache Corp., New York State Electric&Gas Corp., Arthur Andersen and Vertis Environmental Finance. Traded electricity and CO2 on markets of California, PJM (Pennsylvania-Jersey-Maryland) and New England. Manager in Elektrim Energy Group, responsible among other for financing arrangements and construction of Pątnów II power plant, acquisitions of energy assets, elaboration and implementation of restructuring processes of the group's companies and management of energy assets portfolio.



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

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

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

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

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

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

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

**III. Competencies of the Management Board**

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

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

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

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

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

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

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

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

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

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

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

#### 5.10.2 Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

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

#### Jacek Barylski - Supervisory Board Member

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

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

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

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

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

#### **Jarosław Gołębiewski - Supervisory Board Member**

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

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

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

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

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

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

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

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

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

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

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

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

## III. Activities and organisation of the Supervisory Board

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

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

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

## IV. Competencies of the Supervisory Board

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

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

## V. Committees

In accordance with the Company's Statutes, the Rules of the Supervisory Board or a resolution of the General Meeting may provide for establishment of committees within the Supervisory Board, in particular the audit committee and the appointment and remuneration committee. The current Rules of the Supervisory Board provide that the Supervisory Board may appoint standing or ad hoc committees, acting as collective advisory and opinion-making bodies of the Supervisory Board. The particular goal of the committees is to provide the Supervisory Board with opinions and recommendations on



matters within the competencies of the committees. The committees are established by the Supervisory Board out of its members. The committee consists of 2 to 5 persons. The committee appoints a chairman out of its members. The chairman convenes meetings of the committee, manages works of the committee and represents the committee in relations with the authorities and employees of the Company. The mandate of a committee member expires with the expiry of the mandate of the member of the Supervisory Board, resignation from membership in the committee or recalling from the committee by the Supervisory Board. Each Member of the Supervisory Board may participate in committee meetings. The committee chairman may invite to the meetings members of the Management Board, Company employees and other persons whose participation is advisable. Decisions of the committee are made on a consensus basis.

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

Table: Composition of the committees in 2014.

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

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

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

#### The Audit Committee

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

#### The Corporate Governance Committee

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

#### Strategy and Development Committee

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

## Appointment and Remuneration Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

## 5.12 Information about shares and other securities

### 5.12.1 Share capital and ownership structure

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

Table: Share capital of the Company.

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

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

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

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

All of the Company shares have been paid.

Although the Company's shares are not privileged, the Statutes of the Company provide for special rights of the State Treasury until it remains a shareholder of the Company (see Note 12.1 to the financial statements of PGE S.A. for 2014).

### 5.12.2 Shareholders with a significant stake

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

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

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

### 5.12.3 Treasury shares

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

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

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

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

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

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

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

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

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

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

#### 5.12.5 Control system of employees share scheme

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

#### 5.12.6 Use of proceeds from issues

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

Proceeds from the issue of bonds were used for financing of the on-going activities as well as for financing of the investments conducted by PGE Group companies (see p. 2.6.3 *Bonds issued*).

## 6 Description of the organisation of PGE S.A. and the PGE Capital Group

PGE S.A. held shares in direct and indirect subsidiaries with a value of PLN 29,046 thousand in comparison to PLN 24,165 thousand in 2013. Shares in subsidiaries are described in Note B.6 of the financial statements of PGE S.A. for 2014. PGE Group currently organizes its activities in five main business segments. The Company is included in the Wholesale trading segments due to the character of its operations.

Table: PGE S.A. and companies comprising the main business segments of PGE Group as at December 31, 2014.

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

### 6.1 Changes in organisation of PGE S.A.

The changes, which occurred in the PGE Capital Group's structure year 2014 are presented in Note B.6 to the financial statements of PGE S.A. for 2014 and described below.

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

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

constitutes 20.55% of the nominal value of the shares held by PGE S.A. The contribution was made on April 11, 2014.

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

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

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

- On October 8, 2014 PGE S.A. set up a limited company with the following name: PGE Inwest 16 sp. z o.o. On October 29, 2014 the company was registered in the National Court Register.
- On November 6, 2014 PGE S.A. and Polskie Towarzystwo Przesyłu i Rozdziału Energii Elektrycznej with its seat in Poznań concluded an agreement for sale of 1,300 shares of Exatel S.A. held by Polskie Towarzystwo Przesyłu i Rozdziału Energii Elektrycznej, representing 0.02% of the company's share capital. The ownership of shares was transferred to PGE S.A. on November 6, 2014. As a result of the transaction PGE S.A. became the sole shareholder of the company.
- In 2014 PGE S.A. purchased from minority shareholders – on ground of share sale agreements - a total of 4,414,276 shares of PGE GiEK S.A. (constituting 0.6338% in the share capital of PGE GiEK S.A.). Currently PGE S.A. holds 99.21% of shares in the share capital of PGE GiEK S.A. (share including treasury shares held by PGE GiEK S.A.)

In 2014 the Company did not discontinue any of its substantial operations.

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

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

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

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

A distinct advantage of having introduced the PGE Group Code is that it clearly defines the requirement for all PGE Group companies to act in the Group's interest, implement Group strategy and apply the Management System Documents issued by the Corporate Centre. The PGE Group Code also makes it possible to achieve the key objectives outlined in the Operational Model (i.e. the functioning of all PGE Group companies as one effective business organism) and constitutes an effective tool for implementing the processes outlined in the Model.

## 7 Commitment



### 7.1 PGE Foundation "Energy from Heart"

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

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

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

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

#### RESPECT Index

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

#### Global Compact

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

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

### 7.2 PGE and work environment

#### 7.2.1 Employees

As at December 31, 2014, the employment in PGE S.A. amounted to **464.74 FTEs** and was higher in comparison to the end of 2013 by 46.05 FTEs, i.e. by 11 %.

Table: Employment level \*

In FTEs	Dec 31, 2014	Dec 31, 2013	% change
Total employment in FTEs (excluding managers hired on the basis of contracts)	464.74	418.69	11 %
Average annual employment in FTEs	439.26	402.57	9 %

\* without suspended employees



The increase in employment by **46.05** FTEs as at the end of 2014 as compared to the end of 2013 is a result of organisational changes in the structure of PGE S.A. Works on target structure of PGE S.A. organisation have commenced within the Operating Model project. Until the end of 2013 the works were not completed. Under the Operating Model the responsibility for the processes pursued in the Capital Group is being arranged what - inter alia – is connected with the building up competencies in the Corporate Center. The process of employment restructuring will be continued in 2015 and 2016.

### 7.2.2 Freedom of association

The following organisations were active in 2014 in PGE S.A.: Intercompany Organisation no. NSZZ "Solidarity" in PGE S.A. and Trade Union of Continuous Operations Workers of the National Power System. Total number of persons associated in both trade unions amounted to 131 as at the end of December 31, 2014.

### 7.2.3 Health and Safety at Work

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

PGE S.A. organizes workshops on first aid and trainings in the field of fire protection. Acting in accordance with the law PGE S.A. established Health and Safety at Work Service which fulfills advisory and monitoring functions within the scope of health and safety at work.

### 7.2.4 Managing human capital

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

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

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

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

Level of education	Employees	(%) share
<b>University education</b> <i>(bachelor's degree, master's degree, postgraduate studies, PhD, professors)</i>	444	93%
<b>Secondary education</b> <i>(general upper secondary school, technical upper secondary school, post-secondary non-tertiary schools)</i>	30	6%
<b>Vocational education</b> <i>(basic vocational, vocational training)</i>	2	0,4%
<b>Elementary education</b> <i>(primary school, lower secondary school)</i>	1	0,2%
<b>TOTAL</b>	<b>477</b>	<b>100%</b>

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

Gender/Age	Female	Male	Total
under 30 years of age	34	40	74
31-40 years of age	115	87	202
41-45 years of age	42	41	83
46-50 years of age	8	19	27
51-55 years of age	13	10	23
56-60 years of age	35	20	55
over 60 years	1	12	13
<b>TOTAL</b>	<b>248</b>	<b>229</b>	<b>477</b>

### 7.3 PGE and the natural environment

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

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

- regular performance of all obligations imposed on the Group's companies under environmental regulations and administrative decisions, including proper reporting, measurements and monitoring of the environment as required by law;
- settlement and balancing of CO<sub>2</sub> emissions and allocated allowances for 2013; purchase of emission rights in order to balance the rights in 2013 and partly in 2014;
- use of the best available technological solutions and specialized equipment in order to limit pollution emissions to the atmosphere;
- modernisations, replacement or deployment of safety equipment (electrostatic precipitators, flue-gas desulphurisation and denitrogenation installations);
- modernisation of generating equipment and replacement of older, worn-down boilers with new high-efficiency units;

- power generation performance improvements and optimisation of combustion processes;
- activities aimed at limiting the volume of waste produced and maximisation of the economic use of post-combustion waste;
- further implementation of the programme for the reduction of noise emission to the environment – covering branches KWB Turów and Turów Power Plant which made investments to modernise coal conveyers and noise damping technological systems in their installations in order to improve acoustics conditions and reduce noise emissions below the stipulated levels. At the Branch Turów Power Plant, an initiative entitled “Noise reduction at the six-flue chimney” was carried out”.

#### 7.4 PGE S.A. and research and development

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

Starting from 2015, PGE S.A. plans to commit at least 1.5% of its annual consolidated net profit to research and development activities, at the same time relying on public assistance – both Polish and EU. To improve the effects of its R&D projects, PGE Group collaborates with external partners from Poland and abroad, whose know-how and experience are complementary to PGE's competences.

Moreover, in order to use the synergies between the main entities of Poland's power sector, competences of R&D centres and state financing, PGE Group together with Enea, Energa and Tauron worked out an arrangement in the area of R&D projects under the auspices of the Polish Electricity Association (PKEE). A joint plan (Feasibility Study) for the Power Sector Programme has been developed.

To effectively manage R&D activities at group-level, PGE has developed the principles for a harmonised approach to identifying, selecting and carrying out projects, and the relevant structures responsible for R&D have been appointed at PGE S.A. and across specific business lines.

#### 7.5 PGE and customer relations

##### Code of Best Practice

On April 16, 2014, PGE S.A. signed the Code of Best Practice. The document was also signed by the other major electricity sellers in Poland: TAURON Polska Energia, ENEA, Energa and RWE Polska.

The Code of Best Practice marked the starting point for a social campaign to promote fair competition on the electricity market. It is an initiative of the Energy Trading Association (TOE). The campaign is meant as a response to the increasing numbers of client complaints relating to unfair practices of sales representatives at some of the companies selling electricity. The victims of unfair salespeople, who claim to be “representatives of an electricity company” and visit clients at their homes, are most often the elderly and those living by themselves. As part of the campaign, both the TOE and the signatories of the Code of Best Practice encourage clients to ask sales reps which seller they represent, request that they show identification, and carefully analyse any proposals that they receive, as well as remember that in the event they make a decision without due consideration they have 14 days to terminate any such agreement signed outside the seller's headquarters without stating a reason.

As a participant in the programme, PGE Obrót S.A. has received the certificate “Energy Trading Association's Best Practices for Electricity Sellers.” The certificate of a fair electricity provider is issued on the basis of audits. It is a guarantee of the high quality of service.

#### 7.6 PGE S.A. and education

##### Proprietary educational programmes

In 2014 PGE S.A. introduced rules binding in the Capital Group with regard to activities in the field of corporate social responsibility, in which education plays an important role. Pursuing the educational programs for children and youth, PGE S.A. carried out two educational film projects: “Mr Thunder” for kids from classes I-III and “Experiments” for middle-school children. The goal of these projects is raising the kids' awareness of the dangers stemming from incorrectly using electrical equipment and the transfer of knowledge about how to easily prevent any potential accidents. One example of educational initiatives for the youngest children is the Club of Four Elements programme implemented in the 2013/2014 school year in cooperation with the educational publisher Nowa Era. The project was addressed to primary school students in grades 1-3. These workshops were intended to develop the students' interest in nature and to promote eco-friendly behaviours,

environmental knowledge and familiarity with mechanisms relating to energy. Moreover, in February 2014, a website ([www.klubczterechzywioLOW.pl](http://www.klubczterechzywioLOW.pl)) was launched, which provides teaching materials as well as exercises and games for students.

As part of its educational efforts focused on sustainable growth, PGE executed a project aimed at showcasing beautiful but little-known nature locations in Poland. The "Vacations against the Current" film cycle presented PGE's activities in the area of site reclamation through which the company contributes to the development of attractive tourist destinations.

## 7.7 PGE S.A. and human rights

PGE S.A. undertakes activities that go beyond the legislative requirements. PGE Capital Group acts in accordance with the applicable standards and recognises them as obvious. The Company activities are based on principles and values which definitively exclude any form of compulsory work or employment of minors.

## 7.8 PGE S.A. and promotion of other social goals

### Sport

Through its commitment in development of the Polish sport, PGE S.A. tries to share the energy with those who use it properly. PGE supports teams in various sport disciplines which attract the most of the fans: volleyball (PGE Skra Bełchatów and Atom Trefl Sopot), football (PGE GKS Bełchatów), basketball (PGE Turów Zgorzelec), speedway racing (PGE Marma Rzeszów) and handball (PGE Stal Mielec i MKS Lublin). Among teams sponsored by the Group, there are both famous clubs with rich traditions and new teams which have just started building their position in the world of sport. All of them are eager to win and demonstrate vigorous energy which stimulates action and development. The Group actively supports the most talented sportsmen, like bronze medalist of the 2012 Olympics - Zofia Klepacka, and promotes sports by engaging in major sporting events.

PGE S.A. also supports initiatives in the area of amateur sport, thus activating young people to continuous development.

### Culture

PGE S.A. shares the positive energy that stems from culture and art – supporting them also contributes to the development of local communities, promotes outstanding personalities and gives creative inspiration. Significant and valuable cultural events in the world of music, theatre and film are held under the patronage of the PGE Group.

In 2014, PGE S.A. became the Patron of the Music Festival in Łańcut for the successive time. Furthermore, the company supports classical music working with the National Philharmonic in Warsaw.

As a sponsor, PGE S.A. was also involved in the next edition of the OFF Festival in Katowice. For many years, the event has been associated with music at its best. During a few days, guests have the opportunity to see over 90 artists from all over the world. The festival is accompanied by a number of events promoting other art disciplines as well. The OFF Festival was awarded the Green'n'Clean international prize and therefore has been considered as an environmentally friendly festival.

For many years, PGE S.A. has been actively involved in the organization of the "Dwa Brzegi" (Two RiverSides) cult film festival taking place in Kazimierz Dolny by the Vistula River. "Polska Światłoczuła" (Photosensitive Poland) is another project which was joined by PGE as a Sponsor in 2013. It is a series of film screenings which reaches the smallest towns in Poland and allows their residents to meet actors and creators.

In 2014, PGE S.A. once again supported the Different Sounds Art'n'Music Festival in Lublin, the Independence Concert at the Warsaw Uprising Museum, as well as other local initiatives.

2014 also saw the premiere – and the subsequent enormous success – of Jan Komasa's movie Warsaw '44, sponsored in part by PGE.

PGE S.A. did not forget about children. On 5 December 2014, the "Perfect St Nicholas Day with PGE" took place at the Brant hotel near Warsaw. This is a charity event for children from orphanages who get to meet numerous celebrities, and all funds raised on that day are given to orphanages.

At the end of the year, PGE S.A. supported two public New Year's Eve events – in Warsaw and Lublin.

Like every year, PGE S.A. supported local cultural events, which was recognised when we received the title Patron of Culture in the Lublin Province.

## Social initiatives

PGE S.A. is involved in supporting important social initiatives. In the ranking Leaders of Philanthropy 2014, organised by the Polish Donors Forum, PGE Group placed 4<sup>th</sup> in the category "Companies that donated the most to social causes".

Thanks to the involvement of staff from PGE S.A., companies from the Group and PGE's Foundation – Energy from the Heart, kids and those less fortunate once again received Christmas gift packs. The company was also involved in nationwide campaigns: the Noble Box and "Help children survive the winter," as well as other local initiatives. As part of its Christmas involvement, PGE provided Christmas trees in more than a dozen cities, with the motto "Discover the magic of Christmas in full light." The trees were located in Bełchatów, Zamość, Lublin, Rzeszów, Łódź, Zakopane, Opole, Kielce, Radom and Białystok. At some locations, Christmas fairs were organised, thanks to which we supported, among others, the Social Assistance Centre in Nowy Czarnów and the Association for People with Intellectual and Developmental Disabilities near Gryfino.

PGE Santa Clauses visited orphanages in Falbogi, Pawłówka, Grotniki, Lublin, Krasne near Białystok, Zamość, Gorzów Wielkopolski and Łabunie. Donations for gifts were given to: the Children Friends Association, the Krwinka Foundation for Children with Cancer as well as patients of hospitals for children, including the Maria Konopnicka Hospital in Łódź and hospitals in Szczecin.

The PGE "We Help" employee volunteering programme was established in 2014 and is being implemented in cooperation with PGE S.A.'s Corporate Communications Department and the PGE Foundation – Energy from the Heart. The programme provides financing, in the form of grants, for projects prepared by employees in order to assist those in need. Its aim is first of all to integrate PGE Group's employees and partners around a common social cause as well as to involve employees in social activities and develop collaboration with local communities. Under the first edition of the programme, 30 projects were selected, which were then carried out by the firm's employees, their families and friends. All in all, 109 volunteers from PGE Group became involved in the programme in 2014. The programme is expected to be continued in the years to come.

## 8 Other significant events of the reporting period and subsequent events

### 8.1 Activities related to nuclear energy – Business partnership

On September 3, 2014 PGE S.A., TAURON Polska Energia S.A., ENEA S.A. and KGHM Polska Miedź S.A. concluded a Partners' Agreement. In accordance with the Partners' Agreement TAURON Polska Energia S.A., ENEA S.A. and KGHM Polska Miedź S.A., as Business Partners, will acquire from PGE, under a separate agreement, a total of 30% of shares (each Business Partner will acquire 10% of shares) in special purpose company - PGE EJ 1 sp. z o.o., which is responsible for preparation and execution of investment of construction and operating of the first nuclear power plant in Poland.

On September 25, 2014 parties signed an Appendix no 1 to the Partners' Agreement. The Annex no 1 prolonged the term of agreement validity in order to complete the proceeding for the approval for concentration in front of the President of the Polish Office of Competition and Consumer Protection. On October 7, 2014 the President of the Polish Office of Competition and Consumer Protection issued unconditional concentration approval for creation by the Applicants of a joint enterprise under the name PGE EJ 1 sp. z o.o. Obtaining of concentration approval is the condition precedent for conclusion of agreement for the acquisition of shares in PGE EJ 1 sp. z o.o., that was specified in the Partners' Agreement.

It is assumed that the Business Partners will purchase shares of PGE EJ 1 sp. z o.o. and enter into PGE EJ 1 sp. z o.o. in the first quarter of 2015.

As a result of the planned sale of 30% of shares in PGE EJ 1 sp. z o.o. to Business Partners:

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

According to assumptions, PGE Group will be the leader of the Project and PGE EJ 1 sp. z o.o. will be a future operator of the power plant.

According to the Partners' Agreement, the Parties jointly undertake to finance operations under the initial phase of the Project (the "Development Stage"), proportionally to their shareholdings. The Development Stage is to determine such elements as potential partners, including strategic partner, technology providers, EPC contractor (Engineering, Procurement, Construction), a provider of nuclear fuel and obtaining financing for the Project, as well as organizational and competence preparation of PGE EJ 1 sp. z o.o. to the future role of nuclear power plant operator, responsible for its safe and efficient operation (the "Integrated Proceeding"). PGE's financial commitment in the Development Stage will not exceed amount of approx. PLN 700 million.

The Parties of the Partners' Agreement anticipate that further decision on the Project, including decision on declaration of further participation of particular Parties in the next stage of the Project, will be made after the completion of the Development Stage, directly before the settlement of the Integrated Proceeding, which is expected in 2018 according to the current assumptions.

### 8.2 Legal aspects

#### Claims for annulment of the resolutions of the General Shareholders Meetings

On April 1, 2014 and on September 17, 2014 PGE S.A. received a copies of lawsuits filed to the District Court of Warsaw by one of the shareholders. In the lawsuits, the shareholder is seeking for annulment of the resolutions 1, 2 and 4 of the Extraordinary General Shareholders Meeting of the Company held on February 6, 2014 and for annulment of the resolution 4 of the Ordinary General Shareholders Meeting of the Company held on June 6, 2014. The Company filed responses to the claims.

Other important events impacting the activity and financial results of PGE S.A. are described in Note B.21 to the financial statement of PGE S.A. for 2014.



### 8.3 Description of material agreements

#### 8.3.1 Conclusion of an agreement for establishment by Bank Powszechna Kasa Oszczędności Bank Polski S.A. of a guarantee limit for PGE GiEK S.A.

On January 20, 2014 PGE S.A. and PGE GiEK S.A. concluded an agreement with Powszechna Kasa Oszczędności Bank Polski S.A. („PKO BP”). Subject matter of the Agreement is the establishment by PKO BP of a guarantee limit for PGE GiEK S.A. to a maximum value of PLN 2,548,607,358. The beneficiary of the guarantee will be the general contractor of works associated with the construction of power units No. 5 and 6 in Opole Power Plant.

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

- guarantee of payment to a maximum value of PLN 1,300,309,875 (PGE GiEK was obliged to submit to the general contractor of units 5 and 6 at the Opole power plant guarantees of payment representing 15% of the total price of the construction of units - a guarantee from PKO BP fulfilled 75% of the obligation, the remaining amount of the payment guarantee has been provided through arrangements with other banks);
- guarantee of payment for construction works up to 100% of the guarantee line.

The agreement is valid for a period of 67 months from the date of its conclusion.

The agreement provides securities in form of:

- a guarantee by PGE to 120% of the current amount of the guarantee;
- a statement of execution by PGE GiEK S.A. (up to 120% of the guarantee limit);
- a statement of execution by PGE S.A., as a guarantor (up to 120% of the current amount of the guarantee).

The agreement does not provide for contractual penalties.

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

#### 8.3.2 Conclusion of agreements for guarantee lines and guarantees for Opole II Project

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

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

The agreements provide three guarantee limits for the aggregate amount of PLN 3,398,143,144, under which PGE GiEK S.A. is entitled to order bank guarantees of payments. The beneficiary of the guarantees will be the general contractor of works associated with the construction of power units No. 5 and 6 in Opole Power Plant.

Table: Guarantee lines for the Opole II Project.

Bank	Date of the agreement (yyyy-mm-dd)	Agreement maturity date (yyyy-mm-dd)	Available guarantee limit in PLN as at the agreement date	Available guarantee limit in PLN as at December 31, 2014
Powszechna Kasa Oszczędności Bank Polski S.A.	2014-01-20	2019-08-20	2,548,607,358	2,266,960,239.1
Bank Polska Kasa Opieki S.A.	2014-01-20	2019-08-20	424,767,893	377,826,706.5
BNP Paribas Bank Polska S.A.	2014-01-20	2019-08-20	424,767,893	377,826,706.5
<b>TOTAL</b>			<b>3,398,143,144</b>	<b>3,022,613,652.1</b>

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

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



Table: Guarantees issued for the Opole II Project.

Guarant or	Type of security	Security for	Beneficiary of the guarantee	Guarantee issued for the liability of	Issue date	Guarantee period		Total value of the guaranteed instrument as at December 31, 2014 in PLN	Value of the guarantee as at December 31, 2014 in PLN
						from	to		
PGE S.A.	Guarantee	bank guarantee of payment	Bank Polska Kasa Opieki S.A.	PGE GiEK S.A.	2014-01-22	2014-01-29	2020-03-31	205.340.601	246.408.721
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	1.232.043.607	1.478.452.328
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	205.340.601	246.408.721
<b>Total</b>								<b>1.642.724.809</b>	<b>1.971.269.770</b>

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

As at December 31, 2014 PGE S.A. and its subsidiaries were not a party of any proceedings concerning payables or debts whose total value would constitute at least 10% of the Company's equity.

##### The issue of compensation regarding the conversion of shares

Former shareholders of PGE Górnictwo i Energetyka S.A. filed petitions calling PGE S.A. for a pre-trial settlement with respect of the payment of damages for incorrectly set – as they claim – share exchange ratio of PGE Górnictwo i Energetyka S.A. shares for the shares of PGE S.A. in the consolidation process which took place in 2010. The total value of claims resulting from petitions for pre-trial settlements by former shareholders of PGE Górnictwo i Energetyka S.A. is almost PLN 8 million. PGE S.A. does not accept the claims of Socrates Investment S.A. and of the other shareholders filing for a pre-trial settlement. The Company did not raise provision for the claims. The dispute is described in Note B.16.3 to the financial statements of PGE S.A. for 2014.

#### 8.5 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 p. 6 of the foregoing report.

## 9 Statements of the Management Board

### 9.1 Statement on the reliable preparation of the financial statements

To the best knowledge of the Management Board of PGE S.A., the annual financial statements of PGE Polska Grupa Energetyczna S.A. for 2014 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 its financial result.

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

### 9.2 Statement on the entity authorised to audit the financial statements

The Management Board of PGE S.A. declares that the entity authorised to audit the financial statements, which audits the annual financial statements of PGE Polska Grupa Energetyczna S.A. for 2014, has been appointed in accordance with provisions of the law. The entity and the statutory auditors fulfilled all the requirements for issuing an unbiased and independent opinion on the audit, in accordance with the governing provisions and professional standards.

## 10 Approval of the Management Board's Report

The foregoing Niniejsze Management Board's Report on activities of PGE Polska Grupa Energetyczna S.A. was approved for publication by the Management Board on February 17, 2015.

Warsaw, February 17, 2015

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

President of the Management Board

Marek Woszczyk

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Vice-President of the Management Board

Jacek Drozd

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Vice-President of the Management Board

Grzegorz Krystek

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Vice-President of the Management Board

Dariusz Marzec

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## 11 Glossary

Ancillary control services (ACS)	services provided to the transmission system operator, which are indispensable for the proper functioning of the national power system and ensure the keeping of required reliability and quality standards.
Achievable capacity	the maximum sustained capacity of a generating unit or generator, maintained continuously by a thermal generator for at least 15 hours or by a hydroelectric generator for at least five hours, at standardized operating conditions, as confirmed by tests.
Balancing market	a technical platform for balancing electricity supply and demand on the market. The differences between the planned (announced supply schedules) and the actually delivered/offtaken volumes of electricity are settled here. The purpose of the balancing market is to balance transactions concluded between individual market participants and actual electricity demand. The participants of the balancing market can be the generators, customers for electricity understood as entities connected to a network located in the balancing market area (including offtakers and network customers), trading companies, electricity exchanges and the TSO as the balancing company.
Base, baseload	standard product on the electricity market: a constant hourly power supply per day in a given period, for example week, month, quarter or year.
Biomass	solid or liquid substances of plant or animal origin, subject to biodegradation, obtained from agricultural or forestry products, waste and remains or industries processing their products as well as certain other biodegradable waste in particular agricultural raw materials.
Black energy	popular name for energy generated as a result of combustion of black coal or lignite.
CCS	Carbon Capture and Storage Technology used to capture CO <sub>2</sub> from the emissions of fossil fuel power plants followed by its underground storage.
CDM	Clean Development Mechanisms, one of the flexible mechanisms introduced under Article 12 of the Kyoto Protocol.
CER	Certified Emission Reduction.
Co-combustion	the generation of electricity or heat based on a process of combined, simultaneous combustion in one device of biomass or biogas together with other fuels; part of the energy thus generated can be deemed to be energy generated with the use of renewable sources.
Co-generation	the simultaneous generation of heat and electricity or mechanical energy in the course of one and the same technological process.
Constrained generation	the generation of electricity to ensure the quality and reliability of the national power system; this applies to generating units in which generation must continue due to the technical limitations of the operation of the power system and the necessity of ensuring its adequate reliability.
Distribution	transport of energy through distribution grid of high (110 kV), medium (15kV) and low (400V) voltage in order to supply the customers.
Distribution System Operator (DSO)	a power company engaging in the distribution of gaseous fuels or electricity, responsible for traffic in the gas or electricity distribution systems, current and long-term security of operation of the system, the operation, maintenance, repairs and indispensable expansion of the distribution network, including connections to other gas or power systems.
ERO	Energy Regulatory Office (pol. URE).
ERU	Emission Reduction Units.
EUA	European Union Allowances: transferable CO <sub>2</sub> emission allowances; one EUA allows an operator to release one tonne of CO <sub>2</sub> .
EU ETS	European Union Greenhouse Gas Emission Trading Scheme) EU emission trading scheme. Its operating rules are set out in the ETS Directive, amended by the Directive 2009/29/EC of the European Parliament and of the Council of April 23, 2009 (OJ EU L. of 2009, No. 140, p. 63–87).
Generating unit	a technically and commercially defined set of equipment belonging to a power company and used to generate electricity or heat and to transmit power.
GJ	Gigajoule, a unit of work/heat in the SI system, 1 GJ = 1000/3.6 kWh = approximately 278 kWh.
GPZ	main power supply point, a type of transformer station used for the processing or distribution of electricity or solely for the distribution of electricity.
Green certificate	popular name for energy generated from renewable energy sources.
GW	gigawatt, a unit of capacity in the SI system, 1 GW = 109 W.
Gwe	one gigawatt of electric capacity.
GWt	one gigawatt of heat capacity.
High Voltage Network (HV)	a network with a nominal voltage of 110 kV.
Highly efficient co-generation	the generation of electric or mechanical power and useful heat through co-generation, in such a way as to ensure savings of primary energy used in: (i) a co-generation unit in the amount not lower than 10 per cent. as compared to generation of electric power and heat in separated systems with reference efficiency for separated generation; or (ii) co-generation unit with an installed capacity under 1 MW as compared to generation of electric power and heat in separated systems with reference efficiency for separated generation.

IGCC	Integrated Gasification Combined Cycle.
Installed capacity	the formal value of active power recorded in the design documentation of a generating system as being the maximum achievable capacity of that system, confirmed by the acceptance protocols of that system (a historical value, it does not change over time).
IRiESP	the Transmission Network Operation and Maintenance Manual required to be prepared by a transmission system operator pursuant to the Energy Law; instructions prepared for power networks that specify in detail the terms and conditions of using these networks by system users as well as terms and conditions for traffic handling, operation and planning the development of these networks; sections on transmission system balancing and system limitation management, including information on comments received from system users and their consideration, are submitted to the ERO President for approval by way of a decision.
Jl	Joint Implementation: one of the flexibility mechanisms introduced under Article 6 of the Kyoto Protocol.
Kyoto Protocol	the Kyoto Protocol to the United Nations Framework Convention on Climate Change of December 11, 1997 (Dz.U. of 2005, No. 203, Item 1684), in force since February 16, 2005.
KSE	the National Power System, a set of equipment for the distribution, transmission and generation of electricity, forming a system to allow the supply of electricity in the territory of Poland.
KSP	the National Transmission System, a set of equipment for the transmission of electricity in the territory of Poland.
kV	kilo volt, an SI unit of electric potential difference, current and electromotive force; 1kV= 103 V.
kWh	kilowatt-hour, a unit of electric energy in the SI system defined as the volume of electricity used by the 1 kW equipment over one hour. 1 kWh = 3,600,000 J = 3.6 MJ.
Low Voltage Network (LV)	a network with a nominal voltage not exceeding 1 kV.
LTC	Long-term contracts on the purchase of capacity and electricity entered into between Polskie Sieci Elektroenergetyczne S.A. and electricity generators in the years 1994-2001.
Medium-voltage network (MV)	an energy network with a nominal voltage higher than 1 kV but lower than 110 kV.
MEV	Minimum Energy Volumes.
MW	a unit of capacity in the SI system, 1 MW = 106 W.
Mwe	one megawatt of electric power.
MWt	one megawatt of heat power.
NAP	National emissions Allocation Plan, prepared separately for the national emission trading system and for the EU emission trading system by the National Administrator of the Emission Trading System.
NAP II	National CO2 emissions Allocation Plan for the years 2008-2012 prepared for the EU emission trading system adopted by the Ordinance of the Council of Ministers of July 1, 2008 (Dz. U. of 2008, No. 202, item 1248).
Nm <sup>3</sup>	normal cubic meter; a unit of volume from outside the SI system signifying the quantity of dry gas in 1 m3 of space at a pressure of 101.325 Pa and a temperature of 0°C.
No <sub>x</sub>	nitrogen oxides.
Peak, peakload	a standard product on the electricity market; a constant power supply from Monday to Friday, each hour between 7:00 a.m. and 10:00 p.m. (15-hour standard for the Polish market) or between 8:00 a.m. and 8:00 p.m. (12-hour standard for the German market) in a given period, for example week, month, quarter or year.
Peak power pumped storage plants	a special kind of hydroelectric power plants. In addition to river flow and the difference in the water table levels they need two bodies of water connected with a channel or a pipeline. The power station is situated next to the lower lake or at the dam of the upper lake. The pumped storage facilities provide ancillary control services for the national power system. Their functions are to secure stability, provide passive energy, store excessive power in the system and supply power to the system in peak time. The pumped storage plants that have a natural inflow of water to the upper lake also generate electricity from renewable sources. The main offtaker of electricity produced by the peak power pumped storage power stations and their services is the TSO.
Property rights	negotiable exchange-traded rights under green and co-generation certificates.
RAB	Regulatory Asset Base.
Red certificate	a certificate confirming generation of electricity in co-generation with heat.
Red energy	popular name for electricity co-generated with heat.
Regulator	the President of ERO, fulfilling the tasks assigned to him in the energy law. The regulator is responsible for, among others, giving out licenses for energy companies, approval of energy tariffs, appointing Transmission System Operators and Distribution System Operators.
Renewable Energy Source (RES)	a source of generation using wind power, solar radiation, geothermal energy, waves, sea currents and tides, flow of rivers and energy obtained from biomass, landfill biogas as well as biogas generated in sewage collection or treatment processes or the disintegration of stored plant or animal remains.
Tariff	the list of prices and rates and terms of application of the same, devised by an energy enterprise and introduced as binding on the customers specified therein in the manner defined by an act of parliament.

Tariff group	a group of customers offtaking electricity or heat or using services related to electricity or heat supply to whom a single set of prices or charges and terms are applied.
TFS	Tradition Financial Services, an electricity trading platform used for concluding various transactions, purchase and sale of conventional energy, property rights, renewable energy and CO2 emission allowances.
TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange), a commodity exchange on which trading can take place in electricity, liquid or gas fuels, extraction gas, emission allowances and property rights whose price depends directly or indirectly on electric energy, liquid or gas fuels and emission allowances, admitted to commodity exchange trading.
TPA, TPA rule	Third Party Access, the owner or operator of the network infrastructure to third parties in order to supply goods/services to third party customers.
Transmission	transport of electricity through high voltage (220 and 400 kV) transmission network from generators to distributors.
Transmission System Operator (TSO)	a power company engaging in the transmission of gaseous fuels or electric energy, responsible for traffic in a gas or power transmission system, current and long-term security of operation of that system, the operation, maintenance, repair and indispensable expansion of the transmission system, including connections with other gas or power systems. In Poland, for the period from July 2, 2014 till December 31, 2030 Polskie Sieci Elektroenergetyczne S.A. was chosen as a TSO in the field of energy transmission.
TWh	terawatt hour, a multiple unit for measuring of electricity unit in the system SI. 1 TWh is 109 kWh.
Ultra high-voltage network (UHV)	an energy network with a voltage equal to 220 kV or higher.
V (volt)	electrical potential unit, electric voltage and electromotive force in the International System of Units (SI), $1 V = 1J/1C = (1 kg \times m^2) / (A \times s^3)$ .
W (watt)	a unit of power in the International Systems of Units (SI), $1 W = 1J/1s = 1 kg \times m^2 \times s^{-3}$ .
Yellow certificate	a certificate confirming generation of energy in gas-fired power plants and CCGT power plants.
Yellow energy	popular name for energy generated in gas-fired power plants and CCGT power plants.