

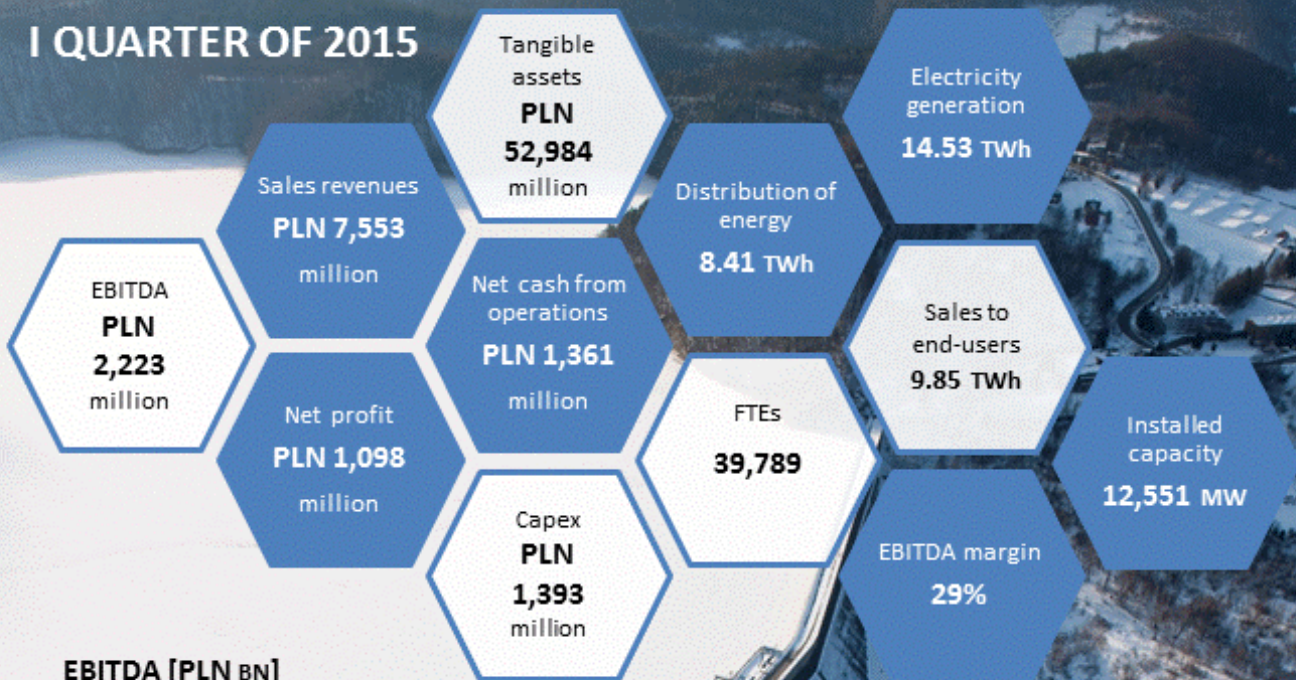
**Management Board's report on
activities of the Capital Group of
PGE Polska Grupa Energetyczna S.A.
for the 3-month period**

ended March 31, 2015

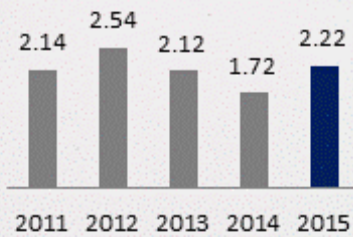
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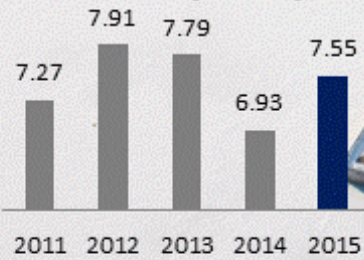
I QUARTER OF 2015



EBITDA [PLN BN]



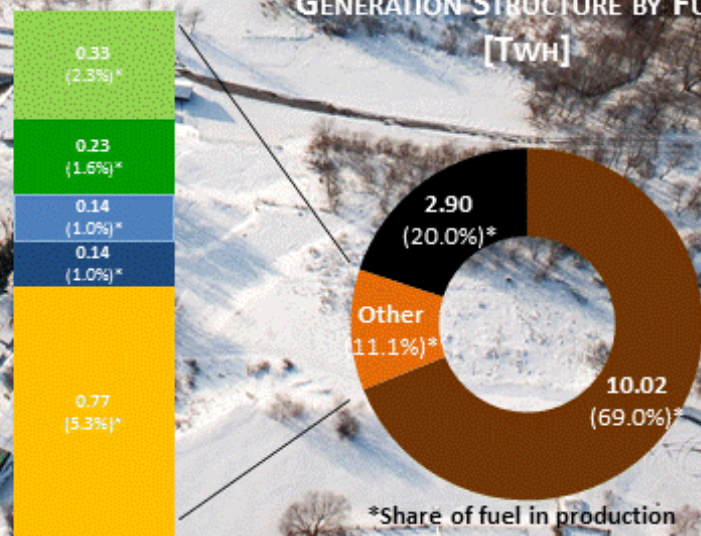
REVENUES [PLN BN]



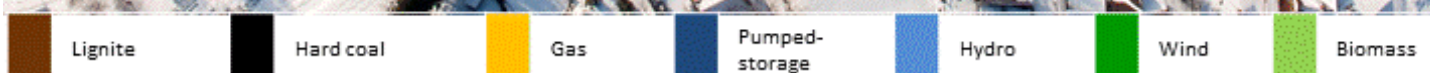
NET ELECTRICITY PRODUCTION [TWh]



GENERATION STRUCTURE BY FUELS [TWh]



*Share of fuel in production





CONVENTIONAL GENERATION



Operations

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

Key assets of the segment

4 conventional power plants
8 CHPs
2 lignite mines

RENEWABLE ENERGY



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

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

SUPPLY



Operations

Trading of electricity, related products and fuels on wholesale market.
Sale and supply of electricity to final off-takers.

Key assets of the segment

DISTRIBUTION



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

281,777 km of distribution lines

* Including hydro power plants Debe, Nielisz, Smardzewice

1 Description of activity of the Capital Group

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

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

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

- Conventional Generation
- Renewable Energy
- Supply
- Distribution

With view to ensure greater transparency of reporting of companies operations in particular segments, the following changes have been made in their structure from the first quarter:

- Previous segments of Wholesale Trading and Supply were merged and created Supply segment

Implementation of this change will enable elimination of flows between previous segments, allowing for clearer presentation and more effective valuation of the results achieved by the PGE Capital Group. Within this adjustment, data for the first quarter of 2014 were restated for comparability.

- Company ENESTA S. A. was shifted from Other Operations to Supply segment

Implementation of this change enables presentation of operational results of the above company according to the character of its activities ensuring more consistent view of the Group’s operations in the Supply segment. In the first quarter of 2014, the company is presented in Other Operations segment.

- Companies which run their operations for Conventional Generation segment were shifted from Other Operations to Conventional Generation segment

Above adjustment provides more comparability between the periods through elimination of volatility in settling of services rendered by the ancillary companies. The companies added to the Conventional Generation segment run the following activities:

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

In the comparable period, the ancillary companies are presented in the Other Operations segment.


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

In addition, the Other Operations segment comprises of companies providing IT and telecommunication services, accounting, HR services, transport and other services.

1.1 Factors important for the development of the PGE Capital Group

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

		Description in p.
Market environment		
Demand	<ul style="list-style-type: none"> ● demand for electricity and heat ● seasonality and weather conditions 	1.2.1
Electricity market	<ul style="list-style-type: none"> ● wholesale electricity prices ● prices and tariffs on electricity and heat retail sale markets ● tariffs for transmission and distribution of heat and tariffs for electricity distribution 	1.2.4 1.2.3 1.2.3
Related markets	<ul style="list-style-type: none"> ● prices of property rights (certificates of origin of electricity) ● availability and prices of fuels used in generation of electricity and heat, in particular prices of hard coal, fuel gas and biomass, as well as costs of fuels transportation to the generating units ● prices of CO2 emission rights 	1.2.5 1.2.2 1.2.6
Power infrastructure	<ul style="list-style-type: none"> ● availability of cross-border transmission capacities ● growth of generating capacity in national electro-energy system, including renewable energy and cogeneration ● development and modernisation of energy grid 	1.2.4 1.2.4
Macroeconomic environment	<ul style="list-style-type: none"> ● GDP dynamics, particularly in industrial production ● interest rates and exchange rates, values of which affect evaluation of assets and liabilities shown by the Group 	1.2.1
Regulatory environment		
Domestic	<ul style="list-style-type: none"> ● implementation and possible changes to the Poland's energy policy ● changes in scope of services like: <ul style="list-style-type: none"> ▪ modification of current Operational Reserve mechanism ▪ implementation of cold reserve mechanism ▪ implementation of further packages for demand reduction services ● new Law on Renewable Energy Sources, changing support scheme for energy generation in renewables ● 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 CO₂ derogations. ● 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.12 to the consolidated financial statements 	
International	<ul style="list-style-type: none"> ● regulations of 2030 climate and energy package – including EU climate summit decisions from October 2014 particularly: at least 40% CO₂ reduction targets, 27% RES share target, 27% efficiency improvement target; , possibility of granting free CO₂ 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 ● works on introduction of Market Stability Reserve on allowances market 	

- 
- revision of BAT (Best Available Techniques) – uncertainty with regard to future norms of SO₂, NO_x, dust and new pollutions (including mercury) emissions from 2020
 - draft NEC Directive with regard to national limits of emissions of pollution to the atmosphere and its impact on the power sector
 - works on connection of Poland to market coupling mechanisms (connection of markets)
-

1.2 Factors and events affecting results

1.2.1 Macroeconomic situation

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

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

Data on Poland's gross domestic product (GDP) shows continuingly stable economic growth. GDP went up by 3.4% in 2014, as compared with an earlier estimate of 3.3%. According to forecasts from the Ministry of Economy and the National Bank of Poland, GDP is expected to grow at a similar pace in 2015.

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). In the first quarter of 2015, industrial production grew by 5.3%, confirming a sustainable positive trend in this segment of the economy, which should have a positive impact on industrial demand for energy.

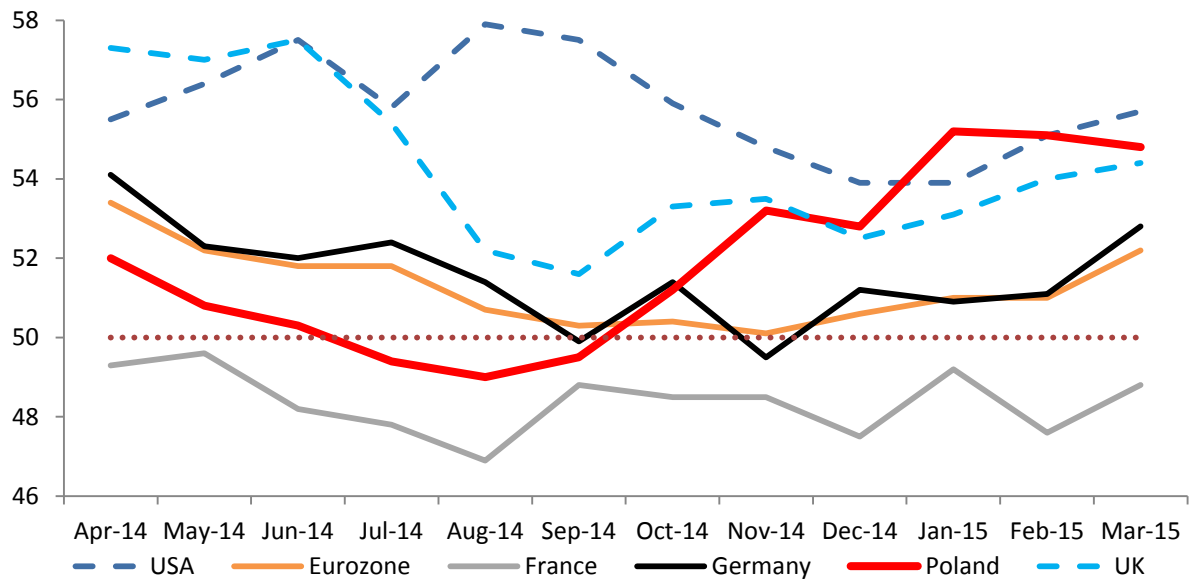
Diagram: Sold industrial production dynamics in Poland (y-o-y).



Source: Central Statistical Office of Poland

The increasingly positive conditions in Polish industry had been signalled by leading indicator PMI, which has remained above 50 points for the past six months and reached a two-year high in the fourth quarter of 2014. Surveyed enterprises point to a growing number of orders, including exports, as well as a higher level of employment and an increase in prices of imported commodities and goods due to a stronger dollar. PMI for the Eurozone also grew, in March reaching its highest level since June 2014.

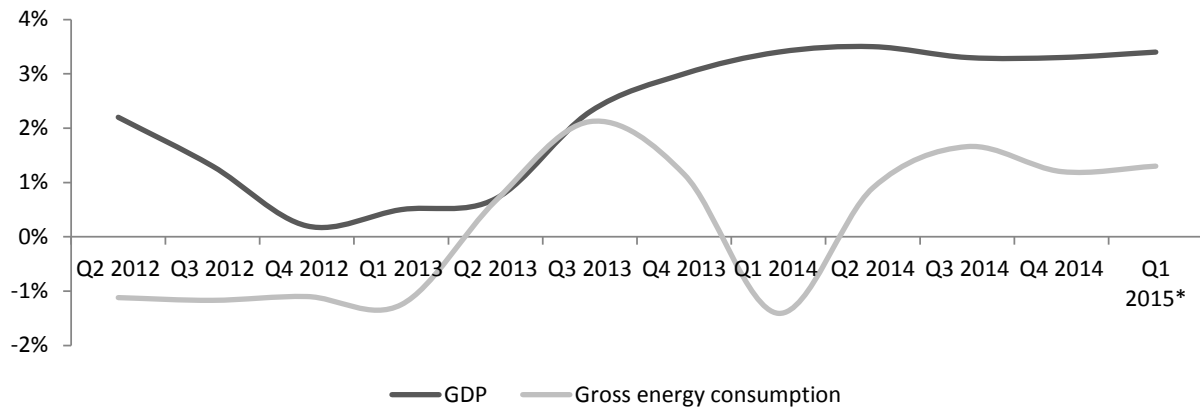
Diagram: Manufacturing PMI in particular countries (in points).



Source: Markit Economics

Gross electricity consumption growth of 1.3% y/y was recorded in the first quarter of 2015, while in the same period of 2014 consumption declined by 1.41% y/y.

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



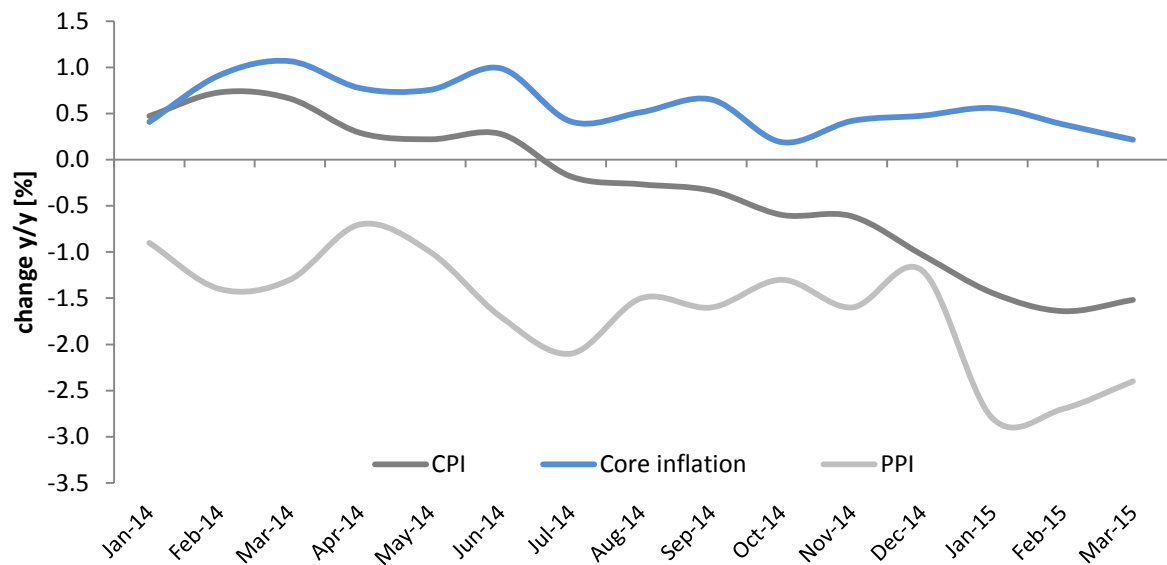
Source: Central Statistical Office of Poland, PSE S.A.

* Average from forecasts for 2015

Inflationary pressure in domestic and European economy continued to decline in both the first quarter of 2015 and throughout 2014, which to a large extent determined the actions taken by central banks and bodies responsible for monetary policy. Eurozone inflation stayed considerably below the European Central Bank's (ECB) target, and moved into negative territory around the end of the year. Eurostat estimates that HICP inflation in the Eurozone in March was -0.1% y/y (-0.3% in February 2015 and -0.6% in January 2015), resulting largely from a strong drop in oil prices. These record lows are expected to be maintained in the upcoming months, and forecasts from the 2014 year-end have been adjusted downward.

The continuing low inflation pushed the ECB to expand its existing programme for purchasing certain bonds and securities from the private sector by including bonds issued by sovereign governments, among others. The programme is to run until at least September 2016 or until inflation hits the target of below, but close to, 2% over the medium term. These activities have an impact on interest rates in Europe, which are approaching negative levels.

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



Source: National Bank of Poland, Central Statistical Office of Poland

Inflation remaining below the NBP's target for a long time has an impact on the Monetary Policy Council's (MPC) interest rate decisions. According to the National Bank of Poland's base forecast, updated in March 2015, inflation will reach -0.5% in 2015 (the previous projection said 1.0%) and will return to the 2.5% inflation target after 2017. The present deflation in Poland results largely from lower fuel and food prices. Core inflation, adjusted for these factors, is lower but still positive, which confirms the supply nature of this deflation period.

At its March meeting, the MPC decided to cut the reference rate by an additional 50 basis points, at the same time announcing that this move puts an end to the policy easing cycle. The reference interest rate is at 1.5%, lombard rate at 2.5% and deposit rate at 0.5%.

Table: Key economic indicators for Poland.

Key economic indicators (% change y-o-y)	Q1 2015	Q1 2014
GDP ¹	3.40	3.40
CPI ²	-1.50	0.60
PPI ²	-2.60	-1.20
Sold industrial production ²	5.30	4.80
Sold production – manufacturing ²	6.80	6.90
Sold production – energy ³	-3.50	-5.40
Gross domestic electricity consumption ⁴	1.30	-1.41
Gross domestic electricity consumption (TWh) ⁴	41.76	41.23

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

1.2.2 Fuel purchase costs

Table: Volume and cost of purchase of fuels from third party suppliers in the first quarter of 2015 and 2014.

Type of fuel	Q1 2015		Q1 2014	
	Volume (tons 000')	Cost (PLNm)	Volume (tons 000')	Cost (PLNm)
Hard coal	1,119	277	1,397	355
Gas (cubic metres ths)	206,219	196	66,683	20
Biomass	379	105	326	89
Fuel oil (heavy and light)	8	10	10	18
TOTAL		588		482

In the first quarter of 2015 the costs of purchasing primary fuels from providers outside the Group amounted to PLN 588 million and increased by 22% compared to the first quarter of 2014.

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

- The average gas purchase price higher by 217% combined with the volume higher by 209% resulted in the increase of gas purchase costs by PLN 176 million compared to the first quarter of 2014;

The increase of gas purchase volume in the first quarter of 2015 was caused by the reinstated support for gas-fuelled cogeneration units. In the first quarter of 2014 production in gas-fired CHPs was very low due to lack of support for highly efficient cogeneration.

The support for CHP plants which generate electricity and heat in gas-fired installations improves efficiency of these producers and contributes to the increase in the consumption of this type of fuel. Such situation has been in place since the second half of 2014 following the novelization of Energy Law, which came into force on April 30, 2014. Cogeneration support scheme was prolonged until June 30, 2019.

The increase of average gas purchase price in first quarter of 2015 was caused by utilization of units fuelled with methane-rich gas derived from international dispatch, which is priced considerably higher compared to the gas from local sources.

- Higher volume of biomass purchase by 16% and the average price higher by 1% caused the increase of purchase costs by PLN 16 million as compared to the first quarter of 2014;
- The volume of hard coal purchase lowered by 20% resulted in purchase costs decreased by PLN 71 million. In addition, the average purchase price lower by 3% compared to the first quarter of 2014 decreased costs by PLN 7 million;
- The average oil purchase price lower by 31% compared to the first quarter of 2014 decreased the costs by PLN 4 million. Lower prices of crude oil and refinery products on international markets attributed to the above. The volume contracted lower by 20% reduced purchase costs by another PLN 4 million.

In the first quarter of 2015 approximately 69% of the electricity was produced from internally sourced lignite, whose extraction price is fully controlled by PGE Capital Group.

1.2.3 Tariffs

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

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

Sales of electricity

In the first quarter of 2015 tariffs for sales of energy to the corporate customers (key and business) and to individuals (other than G tariff customers connected to the distribution network of PGE Dystrybucja S.A.) were not subject to approval of the President of the Energy Regulatory Office.

In the first quarter of 2015 sales of electricity to off-takers from the G tariff group, connected to the distribution network of PGE Dystrybucja S.A., was conducted on the basis of electricity Tariff for PGE Obrót S.A. approved by the decision of the

President of the Energy Regulatory Office for the period from January 21, 2015 till December 31, 2015. In comparison to the analogical period of 2014 tariffs in G tariff group increased by approximately 0.4%.

Distribution of electricity

Methodology of and assumptions for tariffs determination were published in the document "Tariffs for the DSO for the year 2015", which was prepared and published by the President of the Energy Regulatory Office.

Tariff of PGE Dystrybucja S.A. for 2015 was approved by the President of the Energy Regulatory Office on December 16, 2014 and came into force on January 1, 2015.

Distribution tariffs for 2015 approved by the President of the Energy Regulatory Office, contributed to changes in average payments for customers in particular tariff groups in comparison to year 2014:

- A tariff group – increase by 0.88%;
- B tariff group – increase by 1.29%;
- C+R tariff group – increase by 2.85%;
- G tariff group – increase by 2.61%.

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

Tariff for heat

Production and sale of heat are subject to regulations, what is connected with approval of tariffs by the President of the Energy Regulatory Office.

Detailed rules for tariffs determination are defined in the Regulation of the Polish Minister of Economy of September 17, 2010 on detailed rules for calculation of tariffs and on settlements with regard to heat supply. Conduction of proceedings concerning heat tariffs approval lies within the competence of regional Branches of the Energy Regulatory Office.

Average sale price of heat in PGE increased by approx. 5.3% in comparison to the prices binding in the first quarter 2014.

1.2.4 Electricity prices

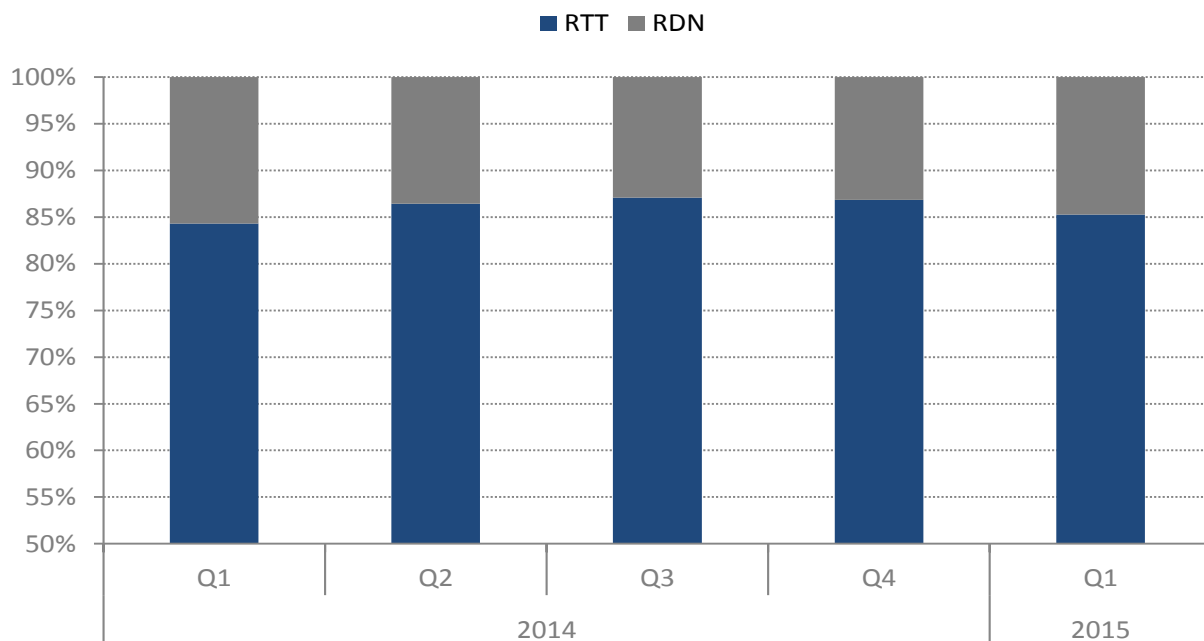
Domestic market – trading volumes

Liquidity on the day-ahead market of Towarowa Giełda Energii S.A. (TGE) in the first quarter of 2015 increased by 8%, as compared with the first quarter of 2014, and by 16%, comparing with the fourth quarter of 2014.

The positive trend in trading volumes on the futures market that prevailed throughout 2014 continued in the first quarter of 2015, generating 17% growth y/y. Trading volume of PEAK products in relation to BASE products constitutes 10%, meaning that the trend from 2014 remained valid. Total combined trading volume for the day-ahead market and the futures market was up by 15% y/y, reaching 47.91 TWh in the first quarter of 2015. This means that TGE trading volumes exceeded domestic electricity consumption, which amounted to 41.76 TWh from January to March 2015 (according to Polskie Sieci Elektroenergetyczne S.A.).

The excess of electricity trading volumes over domestic consumption suggests an increasing share of speculative trading and stronger dynamics in power portfolio management, both of which are having a positive impact on market liquidity.

Chart: Quarterly trading volumes on the day ahead market (RDN) and futures market (RTT) in 2014-2015.



Domestic market - Prices

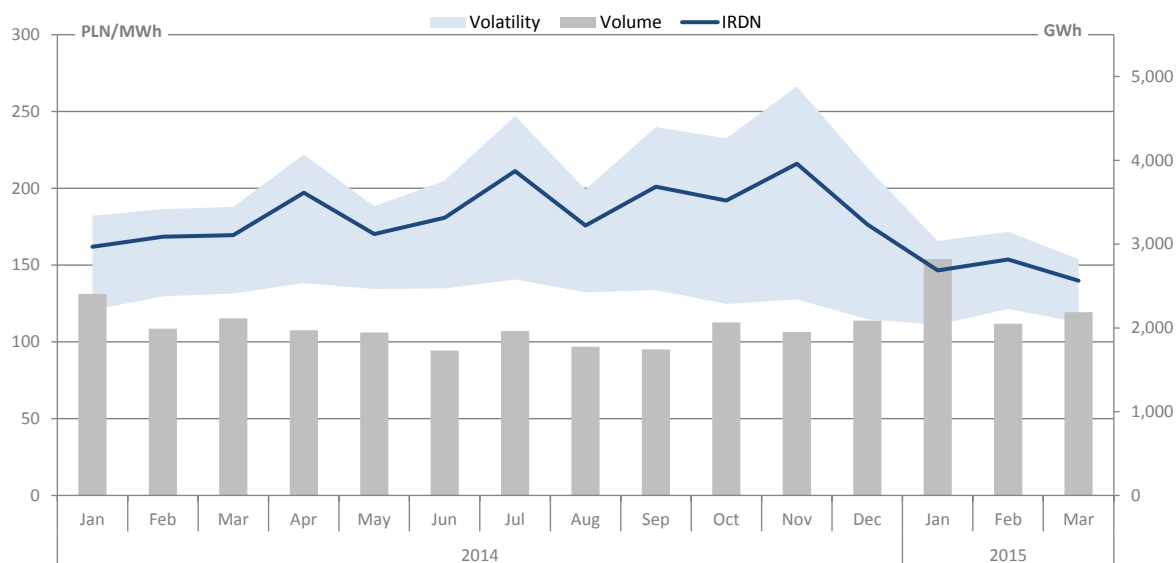
Day-ahead market

Prices on the day-ahead market tended to decline throughout the first quarter of 2015. The average day-ahead price (IRDN index) was PLN 146.39/MWh, as compared with PLN 166.36/MWh in the same period of 2014, denoting a 12% decrease. This was the lowest average monthly price observed on the day-ahead market since the fourth quarter of 2013.

From January to March 2015, prices were subject to nearly the same level of volatility as in the first quarter of 2014. Declines were observed in peak hour prices (sIRDN index down 12% y/y) and off-peak hours (offIRDN index down 10% y/y). The sIRDN index represented 112% of the IRDN index, identical to the first quarter of 2014. The decline in electricity prices resulted from, among others:

- high level of operational capacity reserve;
- low level of planned and unplanned shutdowns of units;
- strong output at wind farms (improved wind conditions and higher installed capacity);
- low level of price changes in neighbouring markets (particularly Sweden).

Chart: Monthly prices and price volatility at the day ahead market in 2014–2015 (TGE)*.



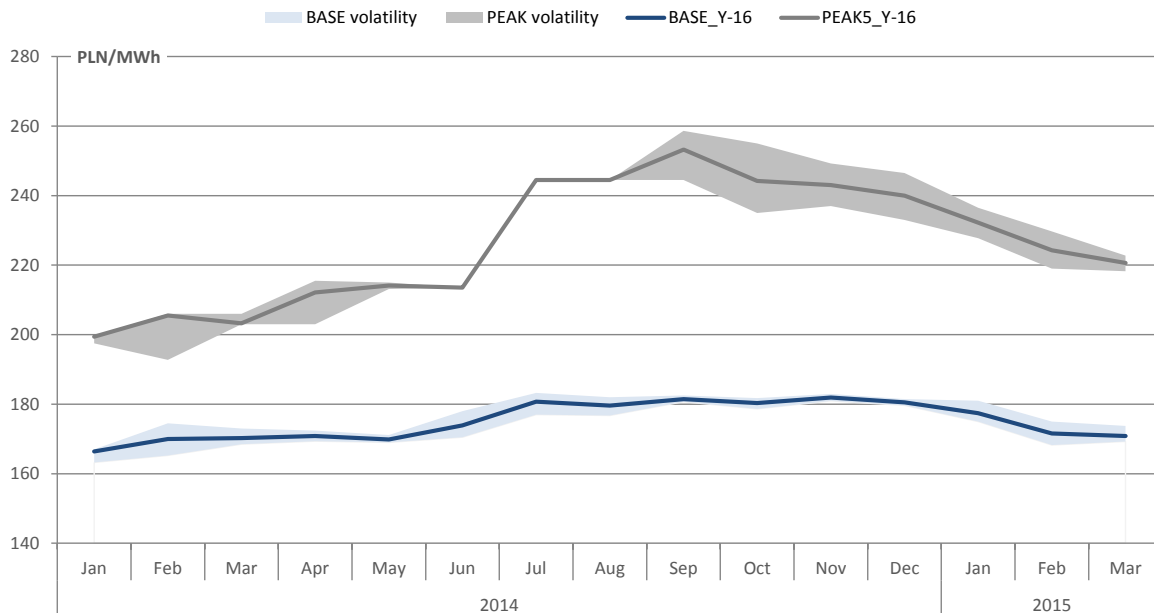
* arithmetic average price from all power exchange transactions concluded at the session (IRDN) and prices spread (sIRDN, offIRDN)

Futures market

The first quarter of 2015 saw lower prices of both BASE and PEAK contracts. The overall fall in prices on the futures market was the result of low electricity prices on the day-ahead market and falling prices of bituminous coal.

Valuations of BASE_Y-16 and PEAK5_Y-16 instruments have been falling since the start of this year. As compared with the fourth quarter of 2014, the price of these products declined by 5% and 8% respectively. Average quarterly price for BASE_Y-16 was PLN 172.67/MWh, having previously reached a minimum of PLN 168.25/MWh and maximum of PLN 181.00/MWh.

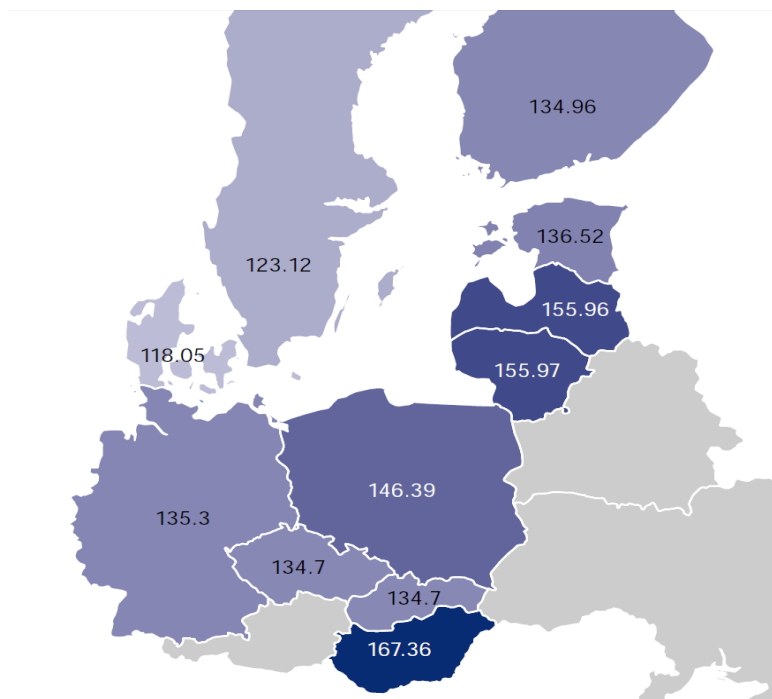
Chart: Monthly prices and price volatility on the futures market in 2014-2015 (TGE).



International markets

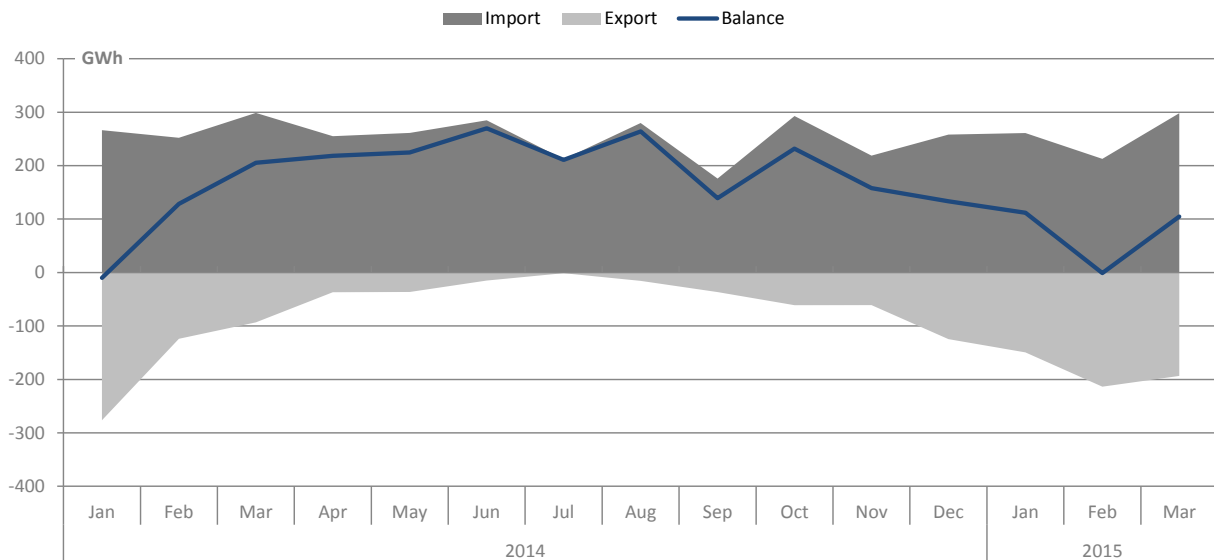
During the first quarter of 2015, wholesale prices on the Polish market were higher than those in Sweden, Germany, Czech Republic and Slovakia. The average price on the German market declined by 4% from the same period the year prior, resulting from higher wind and photovoltaics generation. A similar 4% decrease was reported in Sweden, driven by hydrological conditions. A strong decline in prices on the Polish market in the first quarter of 2015 nearly brought them to the levels found in Poland's neighbouring markets. The average monthly price was still one of the highest in the region, however there were some days where average daily prices on the German market were higher than in Poland. The highest prices in the region were reported in Hungary.

Chart: Comparison of average prices on Polish market and on European markets in the first quarter of 2015.



Cross-border exchange volumes were a reflection of the shifting price relations between Poland and the surrounding markets. In the first quarter of 2015, a 30% y/y decline in imports was observed, resulting from price levels as well as a lack of imports from Ukraine. Sweden remained the largest source of imports. Exports grew by 13% from the first quarter of 2014, which was caused by higher volumes transmitted to Poland's southern neighbours – Czech Republic and Slovakia. In consequence lower import and higher export affected the balance of the cross-border exchange in Poland, that amounted to 0.21 TWh in the first quarter of 2015 and was lower by 65 % y/y.

Chart: Monthly imports, exports and cross-border exchange balance in 2014-2015.

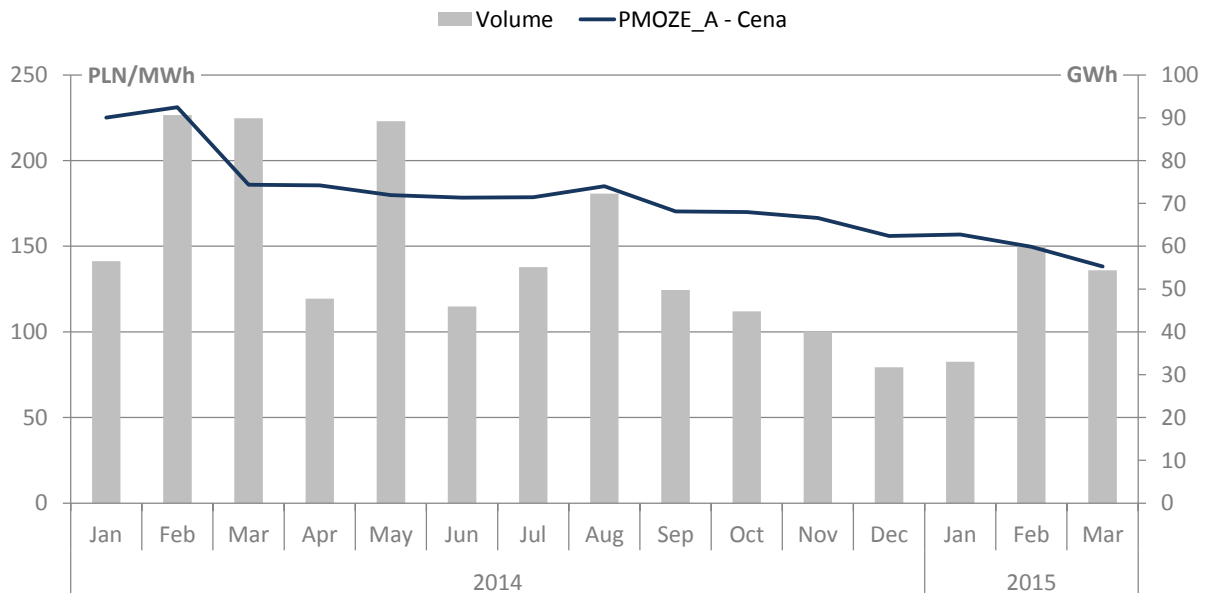


1.2.5 Prices of property rights

Green certificates – Renewable Energy Sources

A decline in the value of property rights deriving from renewable energy sources (PMOZE_A) was observed in the first quarter of 2015. The downtrend initiated in March 2014 continued, as a result of which the average quarterly price for property rights reached PLN 147.06/MWh. This marks an 11% drop in the value of allowances from the previous quarter and a 31% decline year-on-year. The lower prices resulted from a continuing surplus of allowances available on the market.

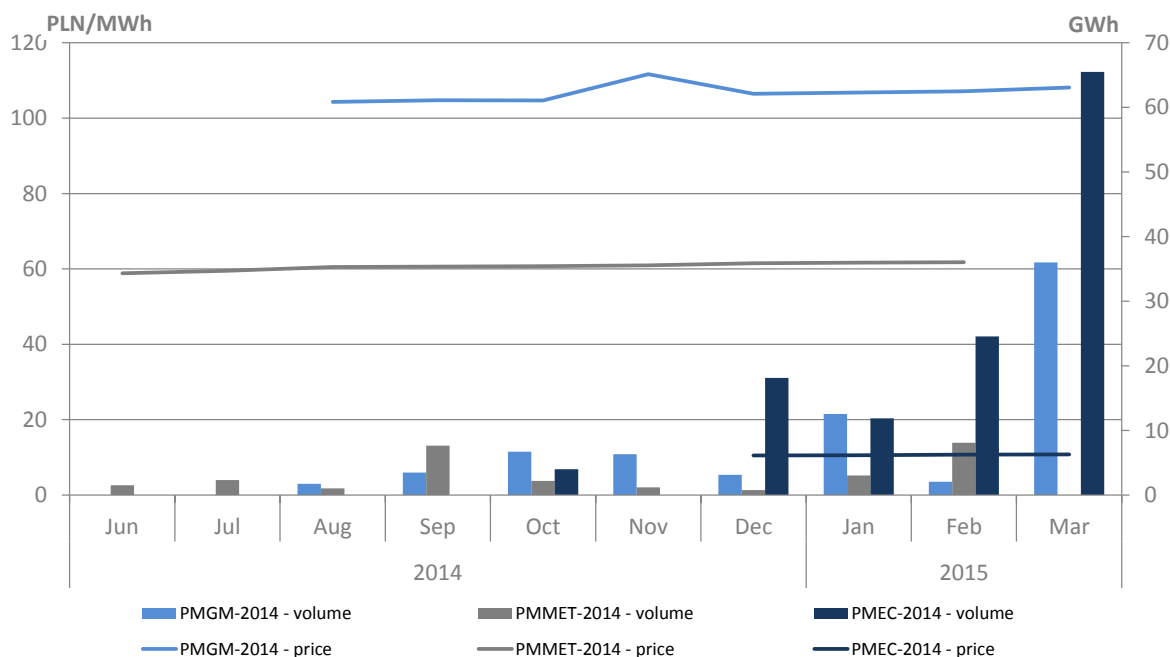
Chart: Monthly prices and trading volumes of green certificates in 2014-2015



Yellow, red and violet certificates - cogeneration

The prices of yellow (PMGM-2014), purple (PMMET-2014) and red (PMEC-2014) cogeneration certificates in the first quarter of 2015 remained at levels approximating unit substitute fees. The average price for yellow certificates in the first quarter of 2015 reached PLN 107.76/MWh (substitute fee PLN 110.00/MWh), purple certificates PLN 61.72/MWh (substitute fee PLN 63.26/MWh) and red property rights PLN 10.74/MWh (substitute fee PLN 11.00/MWh). The high prices resulted from a supply-side shortfall as compared with demand.

Chart: Prices and trading volumes of cogeneration certificates in 2014 – 2015

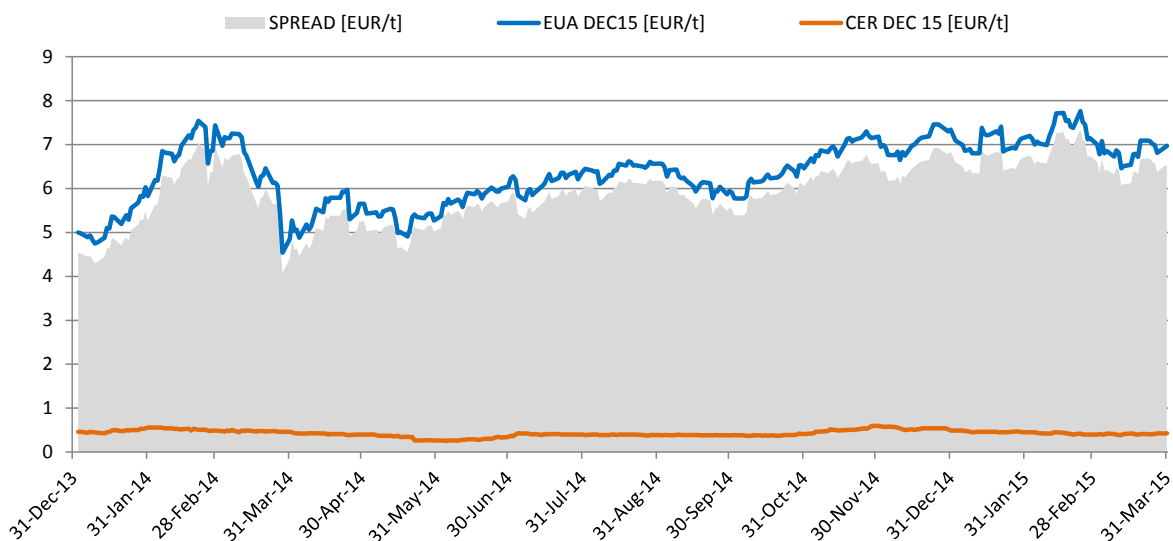


1.2.6 Prices of CO₂ emission rights

Three types of emission rights are available on the market – European Union Allowances (EUA), Certified Emission Reductions (CER) and Emission Reduction Units (ERU). 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.

Significant factor, which affected the volatility of prices of CO₂ emission rights in the first quarter of 2015, was the legislative activities connected with the implementation of the Market Stability Reserve (MSR). MSR was projected by the European Commission as a mechanism aimed at consuming the existing surplus and leading to a balance between demand and supply.

Chart: Prices of CO₂ emission rights in 2014-2015, for EUA DEC15.



Source: own work based on the data from Intercontinental Exchange (ICE) - closing prices

Impact of changes in prices of CO₂ allowances in the first quarter of 2015

January	<ul style="list-style-type: none">● The start to the month featured a downtrend, which was broken following announcement of information that implementing the MSR reserve could possibly take place as soon as 2017. The decline in prices in the second half of January was a result of a lack of decision by ITRE regarding the stabilisation reserve project.
February	<ul style="list-style-type: none">● Mid-way through February strong growth was reported in the value of EUAs because all market participants expected the ENVI to establish an earlier date for introduction of the MSR. At the meeting, the date for implementing the MSR was established as 2018 year-end. At the end of the month, EUAs substantially decreased in value on the back of information that eight EU members oppose creation of the MSR before 2021.
March	<ul style="list-style-type: none">● Latvia's proposal to launch the structural market reform in line with the EC proposal, i.e. in 2021, caused prices of CO₂ emission allowances to go down. The increase in allowance prices in the second half of March followed disclosure of information regarding Germany's plans to impose a so called climate fee on its older coal-fired power plants.

In the first quarter of 2015, prices of CER units and ERU units (spot) were priced in range EUR 0.02-0.03/tonne. Prices of emission reduction units were substantially falling due to the fact that they cannot be used after March 31, 2015. In the analysed period, CERs in future contracts with delivery in December 2015 („DEC'15") were priced in range EUR 0.39-0.49/tonne.

In the short-term, the volatility of prices of CO₂ emission allowances will continue to be driven by activities relating to implementing a stabilisation reserve for the MSR market and publication of data concerning levels of greenhouse gas emissions at installations covered by the EU ETS system in 2014.

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

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

PGE's installations accounts were credited with free allowances for heat for 2015 and energy for 2014, while free allowances for electricity for 2015 will be received by the Group by the end of April 2016, after verification of reports from investments submitted to the National Investment Plan

At the same time, redemption of emission rights resulting from CO₂ emissions in 2014 was completed in April 2015.

The following table presents data concerning CO₂ emission from major Group installations in the first quarter of 2015 in comparison to the allocations.

Table: Emission of CO₂ from major Group installations in the first quarter of 2015 in comparison to allocation of CO₂ emission rights for 2015 (in Mg).

Operator	CO ₂ emissions in Q1 2015*	Allocation of CO ₂ emission rights for 2015**
Bełchatów Power Plant	9,597,305	13,501,970
Turów Power Plant	1,992,916	5,431,204
Opole Power Plant	1,368,685	3,118,922
ZEDO	1,323,016	2,543,421
Bydgoszcz CHPs	283,548	608,949
Lublin Wrotków CHP	188,080	328,762
Gorzów CHP	139,785	255,812
Rzeszów CHP	123,677	141,729
Kielce CHP	73,446	105,552
Zgierz CHP	52,624	40,830
TOTAL	15,143,082	26,077,151

* estimates, emissions not verified - the data will be settled and certified by the authorised verifier of CO₂ emission on the ground of yearly reports of volume of CO₂ emissions

** amount of granted CO₂ emission rights will be confirmed in the Regulation of the Council of Ministers at the beginning of 2016

1.2.8 Termination of long-term contracts (LTC)

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

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

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

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

The impact of LTC compensations on results achieved by the PGE Group is described in Note B.15.1 to the consolidated financial statements and in p. 5.4 of this report.

2 Strategy of the PGE Capital Group for years 2014 - 2020 and key activities in the first quarter of 2015

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:

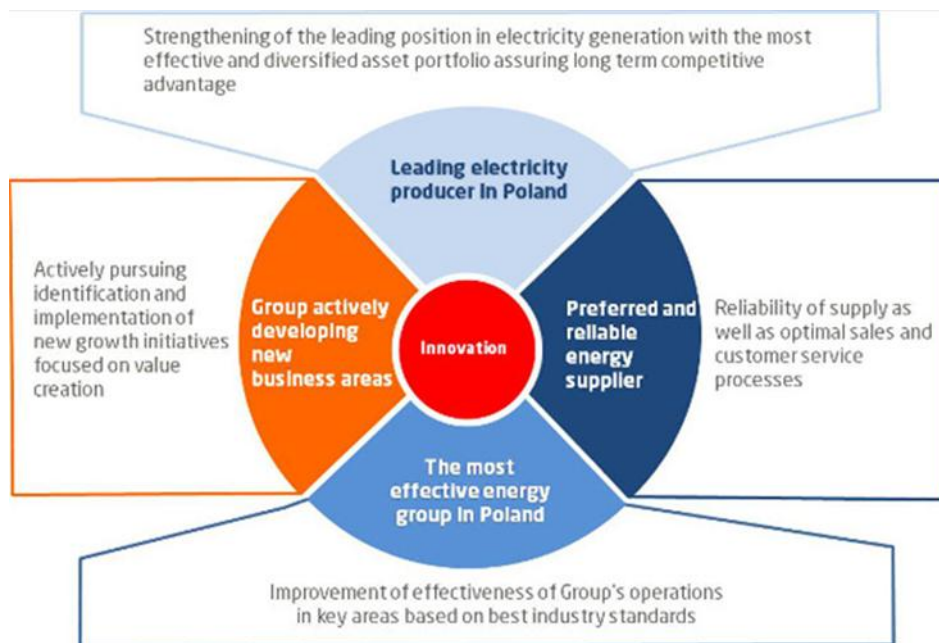
- PGE is the largest vertically integrated power utility in Poland with regard to energy production and installed capacity;
- PGE is leading in the cost efficient, base-load generation technologies in Poland and has the youngest generation asset base.

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 2018.

Key actions in this field include:

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

Key projects in the first quarter of 2015

Construction of new units in Opole power plant	<ul style="list-style-type: none"> ● construction of two power units of 900 MW each ● budget: approx. PLN 11 billion (net, without costs of financing) ● fuel: hard coal ● efficiency: 45.5% ● contractor: syndicate of companies: Rafako, Polimex-Mostostal and Mostostal Warszawa; main subcontractor: Alstom ● commissioning: unit 5 – Q3 2018; unit 6 – Q2 2019 ● January 31, 2014 – issue of Notice to Proceed ● status: Work continues on boiler room and turbine hall foundations at both units; preparations for commencement of constructing a concrete coating for cooling tower no. 5; earth works for cooling tower no. 6 and other ancillary facilities are on schedule
Construction of new unit in Turów power plant	<ul style="list-style-type: none"> ● construction of power unit with a capacity of 490 MW ● budget: approx. PLN 3.65 billion (net, without costs of financing) ● fuel: lignite ● efficiency: 43.4% ● contractor: syndicate of companies: Mitsubishi-Hitachi Power Systems Europe, Budimex and Tecnicas Reunidas ● commissioning: Q3 2019 ● December 1, 2014 - issue of Notice to Proceed ● status: project documentation development stage; commencement of demolition of basins and foundations of old cooling towers

Construction of new unit in Gorzów CHP

- construction of cogeneration CCGT unit with a capacity of 138 MWe and 88 MWt
- budget: approx. PLN 625 million (net, without costs of financing)
- **fuel:** local nitrogen-rich gas or methane-rich gas (Group E)
- **general efficiency:** 84%
- **contractor:** Siemens
- commissioning: Q1 2016
- October 3, 2013 - issue of Notice to Proceed
- status: project in advanced stage; assembly of the steel structure of the main building completed, as well as supply of the main equipment (turbines, generators, condenser, heat exchanger)

Investments in renewable energy sources

Karwice wind farm

- budget: ok. PLN 256 million (net, without costs of financing)
- capacity: 40 MW (16 turbines with a capacity of 2.5 MW)
- May 2014 – turnkey contract for construction of the wind farm (Aldesa)
- Q3 2015 – projected obtaining of occupancy permit
- status: project in advanced stage; all foundations completed, towers and wind turbines assembled

Gniewino Lotnisko wind farm

- budget: approx. PLN 530 million (net, without costs of financing)
- capacity: 90 MW (30 turbines with a capacity of 3 MW)
- June 2014 – contract for supply of wind turbines (Alstom)
- August 2014 – contract for construction works (CJR)
- Q4 2015 - projected obtaining of occupancy permit
- status: construction of foundations for turbines continues; works on constructing a high-voltage power connection line commenced

Resko II wind farm

- budget: approx. PLN 386 million (net, without costs of financing)
- capacity: 76 MW (38 turbines with a capacity of 2 MW)
- October 2014 - contract for supply of wind turbines (Vestas)
- November 2014 - contract for construction works (Mega, Elektrobudowa)
- Q4 2015 - projected obtaining of occupancy permit
- status: construction of internal roads and assembly squares commenced; foundation piling

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
- status: construction of internal roads and assembly squares commenced

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

Modernisation and replacement projects

Comprehensive modernization of units 7-12 - Bełchatów power plant

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

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

- **project's objective:** to decrease the SO₂ emission level to the level required in IED (≤ 200 mg/Nm³)
- budget: ca. PLN 162 million (net, without costs of financing)
- fuel: lignite
- completion: 2015

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

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

Reduction of NO_x emission - units 1, 2 and 4 Opole power plant

- **project's objective:** to decrease the NO_x emission level to standard required in IED (≤ 200 mg/Nm³).
- budget: ca. PLN 148 million (net, without costs of financing)
- fuel: hard coal
- completion: 2016

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

- **project's objective:** to decrease the SO₂ emission level to standard required in IED (≤ 200 mg/Nm³).
- budget: ca. PLN 530 million (net, without costs of financing)
- fuel: lignite
- completion: 2016

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

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

Preferred and reliable energy supplier

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

- In corporate customers segment, PGE Group intends to focus on effective margin management at the Group level and on securing optimal contracts of generating units 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 the first quarter of 2015

Trading strategy update	<p>The following will be developed in the course of the project:</p> <ul style="list-style-type: none"> ● value chain management strategy, including: <ul style="list-style-type: none"> ■ defined commercial process for managing the value chain ■ developed decision-making mechanisms and operating procedures for processes that ensure the direct margin optimisation ● wholesale trading strategy, including: <ul style="list-style-type: none"> ■ developed operational model for wholesale trading ■ specification of the scope of IT support tools ■ developed overall wholesale trading strategy and contracting strategy ● supply strategy, including: <ul style="list-style-type: none"> ■ developed strategy for the retail sales area and customer service ● risk management strategy, including: <ul style="list-style-type: none"> ■ identification of risks ■ developed recommendation for a risk management model and methodology with regard to wholesale trade in electricity and related products
Project of network losses reduction	<ul style="list-style-type: none"> ● the project is intended to reduce electricity procurement costs for balancing differences ● activities undertaken: <ul style="list-style-type: none"> ■ replacement of transformers with low-loss units ■ Grid conversion and modernisation: construction of HV/MV stations, increase of cable cross-sections for HV, MV and LV lines, reduction of MV and LV lines ■ Maintenance of optimal grid workload, elimination of adverse energy transit in HV lines, optimisation of MV line partitions, reduction of load asymmetries in LV lines ■ Management of reactive power, adjustment of transformer voltage ● effects 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
CRM Billing	<ul style="list-style-type: none"> ● the aim of the project is deployment of support systems for settlements and customer service at PGE Obrót S.A. and PGE Dystrybucja S.A. ● the project will yield: <ul style="list-style-type: none"> ■ improved operational performance and support tools for processes dealing with settlements and customer service ■ stronger competitive position on the back of an expanded product offering ■ higher customer service quality ● the above objectives will be attained through the deployment of IT tools 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

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 the first quarter of 2015

Optimisation of Conventional Generation business line	<ul style="list-style-type: none"> ● the project is intended to prepare Conventional Generation segment for operating under changing market conditions and while facing challenges connected with new investments ● the first quarter of 2015 saw the continuation of the programme's implementation, commenced in 2014, which covers: <ul style="list-style-type: none"> ■ a number of initiatives aimed at restructuring the organisation and re-modelling its business processes ■ cost optimisation ■ revenue growth <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	<ul style="list-style-type: none"> ● the aim of this programme was to reduce the SAIDI quality factor and facilitate operational cost optimisation in respect of the power network. ● main tasks: <ul style="list-style-type: none"> ■ increase the number of operational tasks, in particular step up the felling of trees and shrubs krzewów ■ improve the operation of remote-controlled connectors ■ introduce prioritisation for MV lines ■ Implementation of an integrated management system for wiremen who have a direct impact on improving the operational performance of their own teams <p>The first effects of the programme's implementation are expected in 2015.</p>
Operating model	<ul style="list-style-type: none"> ● the aim of this project is organisational performance improvement across PGE Group, which will be achieved through the following <ul style="list-style-type: none"> ■ 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 ● Defines the structure of interdependencies between Group companies, with details on their competences, scopes of responsibility and operational objectives, understood as interconnected elements of the strategic business goals of the entire Group. The key product of having implemented the Operational Model will be new management processes. ● 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.

Cash Management	<ul style="list-style-type: none">● the aim of this project is centralisation of liquidity management in PGE Group through implementation of one-way real cash pooling● The project will result in:<ul style="list-style-type: none">▪ optimisation of the cash flows and improved liquidity management in the Group,▪ limited use of external financing thanks to use of the Group's own funds,▪ security of short-term financing of the Group entities,▪ lower bank fees. <p>Cash pooling agreements were concluded on December 22, 2014 between 16 companies from the PGE Capital Group and banks: Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A.</p>
Human Capital Management Strategy („HCM Strategy”)	<ul style="list-style-type: none">● the aim of this project is supporting the business strategy goals through:<ul style="list-style-type: none">▪ enhancing the effectiveness of human resources management▪ reinforcing strategic HR management▪ optimisation and standardisation of HR processes in terms of: maximising the benefits through operational scale and specialisation (integration of IT tools and systems), harmonised operating standards, optimal use of resources,● In the first quarter of 2015, activities were carried out relating to widely communicating the Human Capital Management Strategy at PGE Group, and preparatory works began on implementing strategic initiatives
Creation of Shared Services Center („SSC”)	<ul style="list-style-type: none">● the aim of the project of SSC creation in fields of accounting, payroll and HR is:<ul style="list-style-type: none">▪ standardization, improvement of processes efficiency,▪ implementation of organisation management focused on processes and services to internal client,▪ efficient use of uniform IT tools,▪ better utilisation of in-house competencies and knowledge. <p>As of January 1, 2015 PGE Obsługa Księgowo-Kadrowa sp. z o.o. has commenced providing the finance and accounting services to the selected entities of the PGE Capital Group.</p>
Program SAP	<ul style="list-style-type: none">● the aim of the project is:<ul style="list-style-type: none">▪ 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▪ 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▪ base creation for: creation of SSC within PGE Group, procurement system integration, maintaining a dominant market position while facing the growing competition <p>Implementation process of modules: Accounting and Logistics, HCM Strategy, Procurement Management and Asset Management will be continued in 2015 in the major companies of the PGE Capital Group.</p>
RES consolidation	<ul style="list-style-type: none">● the aim of the project is:<ul style="list-style-type: none">▪ concentration of all activities related to the electricity generation from renewable energy sources (excluding co-combustion) in a single entity - PGE EO S.A..▪ synergy effects arising from the management of the RES Wind area, together with the area of RES Water and Pumped-storage Power Plants/Auxiliary Control Services▪ realization of investment projects and running the operations of the assets in the area of RES Wind with optimal usage of human and financial resources▪ savings in the operations of Renewable Energy segment <p>In the first quarter of 2015 we developed the concept of consolidation in the area of RES as well as the company Pelplin Sp. z o.o. was incorporated to PGE EO S.A.</p>

Group actively developing new business areas

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

Innovation

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

Key projects in the first quarter of 2015

Cooperation with the National Centre for Research and Development (the "NCBiR")	<ul style="list-style-type: none">● one of the key assumptions is the use by PGE Group of public funds available in the Intelligent Development Operational Programme (POIR), where NCBR is the implementing authority● main activities:<ul style="list-style-type: none">▪ works related to the signing of a Joint Venture memorandum and execution of a Joint Venture agreement▪ Works resulting from PGE Group's involvement in equity funding mechanisms supporting new technological solutions in the energy sector
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R&D projects portfolio	<ul style="list-style-type: none">● companies managing specific areas of PGE Group's business implemented, together with PGE S.A., R&D projects previously commenced as well as initiated new R&D projects in the Strategic Research and Development and New Business Areas identified in 2014;● key works are being conducted in the following areas:<ul style="list-style-type: none">▪ generation performance improvements▪ emission reduction▪ optimisation of mining processes and wind energy● also identified were new project initiatives; in total, ten new projects were prepared in the area of renewables, conventional generation and retail sales
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3 Results achieved in PGE Capital Group

3.1 Financial results of PGE Capital Group

Key financial data	Unit	Q1 2015	Q1 2014 <i>Data restated</i>	% change
Sales revenues	PLNm	7,553	6,929	9%
EBIT	PLNm	1,416	978	45%
EBITDA	PLNm	2,223	1,723	29%
Net profit attributable to equity holders of the parent company	PLNm	1,095	790	39%
LTC compensations	PLNm	162	131	24%
Capital expenditures	PLNm	1,393	1,001	39%
Net cash from operating activities	PLNm	1,361	889	53%
Net cash from investing activities	PLNm	-2,519	-1,876	-
Net cash from financial activities	PLNm	-150	160	-
Net earnings per share	PLN	0.59	0.42	40%
EBITDA margin	%	29%	25%	
Key financial data	Unit	As at March 31, 2015	As at December 31, 2014	% change
Working capital	PLNm	7.107	6.753	5%
Net debt/LTM EBITDA *	x	0.03x	-0.11x	

* LTM EBITDA - Last Twelve Months EBITDA

3.1.1 Consolidated statement of comprehensive income

In the first quarter of 2015 total sales revenues of the Group amounted to PLN 7,553 million compared to PLN 6,929 million in the first quarter of 2014, what means growth by approx. 9%.

Sales revenues – increase by PLN 624 million

Positive impact	<ul style="list-style-type: none">● increased revenues from sales of electricity by PLN 462 million● increase of revenues from sale of gas by PLN 101 million● increase of revenues from LTC compensations by PLN 31 million● increased revenues from sales of heat by PLN 16 million● increased revenues from ancillary control services by PLN 13 million
Negative impact	<ul style="list-style-type: none">● decreased revenues from sales of certificates of energy origin by PLN 24 million

Cost of goods sold in the first quarter of 2015 amounted to PLN 5,507 million, what means increase by approx. 1% compared to the first quarter of 2014.

Cost of goods sold – increase by PLN 64 million

Negative impact	<ul style="list-style-type: none">● higher merchandise and materials sold, mainly:<ul style="list-style-type: none">▪ gas purchased for resale by PLN 93 million▪ energy purchased for resale by PLN 75 million● higher costs of production fuel by PLN 154 million
Positive impact	<ul style="list-style-type: none">● lower personnel expenses by PLN 152 million due to provision for costs of Voluntary Leave Programs in the first quarter of 2014● decreased costs of fees for CO₂ emissions by PLN 100 million● lower value of certificates sold by PLN 79 million

Gross profit on sales in the first quarter of 2015 amounted to PLN 2,046 million compared to PLN 1,486 million in the first quarter of 2014, what means increase by approx. 38%.

In the first quarter of 2015 distribution and selling expenses of PGE Group amounted to PLN 395 million and were higher by approx. 9% in comparison to the first quarter of 2014. The increased selling and distribution expenses were mainly associated with higher costs of redemption of property rights incurred by PGE Obrót S.A.

In the first quarter of 2015 general and administrative expenses amounted to PLN 218 million, i.e. growth by approximately 19% in comparison to the first quarter of 2014.

Result on other operating activities in the first quarter of 2015 was negative and amounted to PLN (-)17 million in comparison to positive result of PLN 38 million in the first quarter of 2014.

Other operating revenues of the Group in the first quarter of 2015 amounted to PLN 82 million, what means decrease by approx. 16% in relation to PLN 98 million achieved in the comparable period of 2014. The decrease of other operating revenues was mainly caused by lower value of reversal of other provisions.

Other operating expenses of the Group in the period January-March 2015 amounted to PLN 99 million compared to PLN 60 million in the first quarter of 2014, what means increase by approx. 65%. Increase of other operating expenses by PLN 39 million was mainly caused by impairment allowance on other assets and receivables.

In the first quarter of 2015 result on financial activities was negative and amounted to PLN (-) 54 million, in comparison to positive result in amount of PLN 5 million in the comparable period of 2014.

The Group's financial revenues in the first quarter of 2015 amounted to PLN 51 million, what means decrease by approx. 36% in relation to PLN 80 million achieved in the first quarter of 2014.

Financial revenues - decrease by PLN 29 million

Negative impact on result	<ul style="list-style-type: none">● lower interest on financial instruments by PLN 20 million● lower level of provisions reversed by PLN 13 million
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Financial expenses of the Group in the period January-March 2015 amounted to PLN 105 million, what means increase by approx. 40% in comparison to the value of PLN 75 million achieved in the comparable period of 2014.

Financial expenses - increase by PLN 30 million

Negative impact on result

- higher exchange losses by PLN 23 million
- higher interest on financial instruments by PLN 11 million

As a result of the factors discussed above, the **gross profit** of the Group in the first quarter of 2015 amounted to PLN 1,362 million, compared to PLN 983 million in the first quarter of 2014, while **gross profit margin** of the Group (gross profit to total sales revenues) amounted to 18% in comparison to 14 % in the first quarter of 2014.

Net profit of the PGE Capital Group in the period January-March 2015 amounted to PLN 1,098 million compared to PLN 793 million in the comparable period of 2014.

Net profit attributable to the equity holders of the parent company in the first quarter of 2015 increased by PLN 305 million, in comparison to the first quarter of 2014 and amounted to PLN 1,095 million.

Total comprehensive income of the Group amounted to PLN 1,151 million in the first quarter of 2015, in comparison to PLN 793 million in the first quarter of 2014.

3.1.2 Consolidated statement of financial position

Non-current assets of the Group as at March 31, 2015 and as at December 31, 2014 amounted respectively to PLN 52,984 million and PLN 52,182 million.

Non-current assets - increase by PLN 802 million

Growth	<ul style="list-style-type: none">● Capital expenditures incurred for property, plant and equipment and intangible assets in amount of PLN 1,393 million, including:<ul style="list-style-type: none">▪ Conventional Generation - PLN 1,042 million▪ Distribution – PLN 263 million▪ Renewable Energy - PLN 68 million● advances for construction in progress – by PLN 257 million
Decline	<ul style="list-style-type: none">● depreciation charges and impairment losses on fixed assets and intangible assets in amount of PLN 807 million● deferred tax assets by PLN 29 million

Current assets of the Group as at March 31, 2015 and as at December 31, 2014 amounted respectively to PLN 13,173 million and PLN 14,019 million.

Current assets - decrease by PLN 846 million

Decline	<ul style="list-style-type: none">● cash and cash equivalents by PLN 1,339 million
Growth	<ul style="list-style-type: none">● trade receivables by PLN 191 million● other loans and financial assets by PLN 159 million● inventories by PLN 66 million● other short-term assets by PLN 30 million

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

Increased trade receivables result from higher trade receivables at PGE Obrót S.A.

Change in other loans and financial assets results from higher LTC receivables by PLN 103 million, higher deposits over 3 months by PLN 96 million and lower other short-term assets lower by PLN 41 million.

Increased inventories resulted mainly from increased value of certificates of energy origin by PLN 153 million, materials lower by PLN 80 million (mainly hard coal by PLN 94 million) and decreased value of CO₂ by PLN 30 million.

Growth in other short-term assets results from higher deferred commissions, higher fees for perpetual usufruct of land with the simultaneous decrease of VAT receivables.

Total equity of the Group as at March 31, 2015 and as at December 31, 2014 amounted respectively to PLN 46,036 million and PLN 44,884 million.

Non-controlling interest as at March 31, 2015 and as at December 31, 2014 amounted respectively to PLN 120 million and PLN 116 million.

The increase in total equity by PLN 1,152 million mainly resulted from recognition of the net profit for the first quarter of 2015 in amount of PLN 1,098 million.

Long-term liabilities as at March 31, 2015 and as at December 31, 2014 amounted respectively to PLN 14,055 million and PLN 14,051 million.

Long-term liabilities - increase by PLN 4 million

Growth	<ul style="list-style-type: none"> ● deferred tax liability by PLN 75 million ● long-term provisions by PLN 66 million
Decline	<ul style="list-style-type: none"> ● interest-bearing loans, borrowings, bonds and lease by PLN 122 million ● deferred income and government grants by PLN 14 million

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

Increase of long-term provisions by PLN 66 million results mainly from increased provision for reclamation of land and actuarial provisions.

Lower interest-bearing loans, borrowings, bonds and lease is connected mainly with reclassification of bonds to short-term liabilities.

Decrease in deferred income and government grants results mainly from lower donations received and property, plant and equipment received free of charge.

Short-term liabilities as at March 31, 2015 and as at December 31, 2014 amounted respectively to PLN 6,066 million and PLN 7,266 million.

Short-term liabilities – decline by PLN 1,200 million

Decline	<ul style="list-style-type: none"> ● other financial liabilities by PLN 729 million ● trade receivables by PLN 346 million ● other non-financial liabilities by PLN 245 million ● short-term part of interest-bearing loans, borrowings, bonds and lease by PLN 112 million
Growth	<ul style="list-style-type: none"> ● provisions by PLN 116 million ● income tax liabilities by PLN 78 million

Decreased other financial liabilities result from lower liabilities related to purchased property, plant and equipment and intangible assets by PLN 702 million, lower LTC liabilities by PLN 66 million and growth of other liabilities by PLN 24 million.

Trade receivables decreased mainly in PGE GiEK S.A. and PGE Dystrybucja S.A.

Lower other non-financial liabilities results from decreased employee benefits by PLN 271 million, environmental fees lower by PLN 178 million with the simultaneous increase of VAT liabilities by PLN 219 million.

Decrease short-term part of interest-bearing loans, borrowings, bonds and lease mainly relates to current account credits of PGE GiEK S.A.

Higher provisions mainly result from provision for purchase of CO₂ emission rights, what was partly compensated by use of provisions for property rights held for redemption.

Increased income tax liabilities relate mainly to PGE S.A. while PGE Dystrybucja S.A. recorded a decline.

3.1.3 Consolidated statement of cash flows

The **total net** for the 3-month period ended March 31, 2015 amounted to PLN 1,361 million in comparison to PLN 889 million for the 3-month period ended March 31, 2014.

Cash flow from operating activities

Positive impact	<ul style="list-style-type: none"> ● gross profit higher by PLN 379 million ● change in other non-financial assets, prepayments and CO₂ emission rights by PLN 291 million ● income tax paid – change by PLN 143 million
Negative impact	<ul style="list-style-type: none"> ● change in receivables – by PLN 459 million

Negative net cash flow from investing activities for the 3-month period ended March 31, 2015 amounted to PLN 2,519 million compared to negative net cash flow in amount of PLN 1,876 million in the analogical period of 2014.

Cash flow from investing activities

Negative impact	<ul style="list-style-type: none"> ● funds spent on purchase of tangible and intangible assets in amount of PLN 2,434 million ● change on deposits over 3m - by PLN 95 million
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Negative net cash flow from financial activities for the 3-month period ended March 31, 2015 amounted to PLN 150 million compared to positive net cash flow in amount of PLN 160 million in the 3-month period ended March 31, 2014.

Cash flow from financial activities in the first quarter of 2015 was mainly affected by negative balance of proceeds/repayments from/of bank loans, borrowings, bonds and finance lease amounting to PLN 140 million and, while in the comparable period balance of the item was positive and amounted to PLN 179 million.

3.2 Key operational figures of PGE Capital Group

Table: Key operational figures.

Key figures	Unit	Q1 2015	Q1 2014	% change	2014
Lignite extraction	Tons m	13.10	12.30	7%	49.97
Net electricity production	TWh	14.53	13.50	8%	54.84
Heat sales	GJ m	7.67	7.58	1%	17.94
Sales to final customers *	TWh	9.84	9.91	-1%	39.64
Distribution of electricity **	TWh	8.41	8.22	2%	32.54

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

** with additional estimation

3.2.1 Balance of energy of PGE Capital Group

Sales of electricity

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

Sales volume	Q1 2015	Q1 2014	% change	2014
SALES IN TWh, including:	26.16	24.94	5%	103.14
Sales to end-users *	9.85	9.88	0%	39.60
Sales on the wholesale market, including:	15.90	14.74	8%	62.44
<i>Sales on the domestic wholesale market - power exchange</i>	<i>15.07</i>	<i>13.74</i>	<i>10%</i>	<i>56.54</i>
<i>Other sales on the domestic wholesale market</i>	<i>0.81</i>	<i>0.82</i>	<i>-1%</i>	<i>3.10</i>
<i>Sales to foreign customers</i>	<i>0.02</i>	<i>0.18</i>	<i>-89%</i>	<i>2.80</i>
Sales on the Balancing Market	0.41	0.32	28%	1.10

* after elimination of internal sales within PGE Group

Increased sales volume on the power exchange results mainly from higher trading by PGE GiEK S.A. on the exchange due to higher availability of the generating units in comparison to the analogical period of 2014.

Purchases of electricity

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

Purchases volume	Q1 2015	Q1 2014	% change	2014
PURCHASES IN TWh, including:	13.06	12.97	1%	53.18
Purchases on the domestic wholesale market – power exchange	10.18	9.57	6%	37.82
Purchases on the domestic wholesale market, other	1.24	1.09	14%	5.20
Purchases from abroad	0.00	0.14	-100%	2.75
Purchases from Balancing Market	1.64	2.17	-24%	7.41

Increased purchases on the power exchange resulted from transaction pursued by PGE GiEK S.A. Increased other wholesale purchases is connected with the purchase of energy by PGE Obrót S.A. on local markets of Połaniec power plant and Ostrołęka power plant.

Production of electricity

Generation volume	Q1 2015	Q1 2014	% change	2014
ENERGY GENERATION IN TWh, including:	14.53	13.50	8%	54.84
Lignite-fired power plants	10.13	9.55	6%	39.22
<i>Including co-combustion of biomass</i>	<i>0.11</i>	<i>0.09</i>	<i>22%</i>	<i>0.39</i>
Coal-fired power plants	2.60	2.82	-8%	11.35
<i>Including co-combustion of biomass</i>	<i>0.11</i>	<i>0.11</i>	<i>0%</i>	<i>0.44</i>
Coal-fired CHP plants	0.41	0.39	5%	1.10
Gas-fired CHP plants	0.77	0.14	450%	1.16
Biomass-fired CHP plants	0.11	0.11	0%	0.43
Pumped storage power plants	0.14	0.19	-26%	0.52
Hydroelectric plants	0.14	0.10	40%	0.42
Wind power plants	0.23	0.20	15%	0.64

An increase in production of electricity at lignite-fired power plants results mainly from higher production in Bełchatów Power Plant. In the first quarter of 2014 unit no. 11 was under modernization and unit no 9 from February to March 2014 remained in the medium renovation.

A decrease in production of electricity at coal-fired power plants results from lower production in Opole power plant caused by the outage of unit no 4 being in unplanned overhaul from October 2014 to February 2015. Lower electricity production of Opole power plant result also from lower demand from Transmission System Operator (TSO).

An increase in production at coal-fired CHP plants is a result of new units commissioning, i. e. an extraction-condensing turboset together with a peak-load and reserve boiler in Zgierz CHP commissioned in December 2014 and cogeneration unit producing electricity and heat with heat exchanger in Kielce CHP commissioned at the end of February 2014.

An increase in production at gas-fired CHP plants is a result of resumption of production in Rzeszów CHP starting from September 2014 and Lublin-Wrocław CHP starting from October 2014 due to the reinstated support for the highly efficient cogeneration. Furthermore, the improvement in production was also driven by the new cogeneration gas-engine unit commissioned in Rzeszów in November 2014.

An increase of production in hydroelectric power plants is a result of better hydrological conditions.

An increase of production in wind power plants is a result of favorable weather conditions as well as of commissioning of Wojciechowo wind farm - belonging to PGE EO S.A. – in March 2014, what increased installed capacity by 28 MW.

Lower production in pumped storage power plants results from the nature of these generation units, which in the first quarter of 2015 were used to a lower extent by the TSO.

3.2.2 Sales of heat

In the first quarter of 2015 the heat sales in PGE Capital Group totaled 7.67 GJ million and were at similar level as in the first quarter of 2014 when it reached 7.58 GJ million.

3.3 Business segments – financial data

Table: Group's income by business segments w in the first quarter of 2015 and 2014.

In PLN million	Total income		
	Q1 2015	Q1 2014*	% change
Conventional Generation	3,517	3,054	15%
Renewable Energy	215	219	-2%
Supply	3,798	3,584	6%
Distribution	1,540	1,485	4%
Other Operations	173	399	-57%
TOTAL	9,243	8,741	6%
Consolidation adjustments	-1,690	-1,812	-7%
TOTAL AFTER ADJUSTMENTS	7,553	6,929	9%

*data restated

Table: Key figures for each business segment in the first quarter of 2015 (after consolidation eliminations).

In PLN million	EBITDA	EBIT	Capital expendi-	Assets of the
			tures	segment *
Q1 2015				
Conventional Generation	1,282	810	1,042	36,506
Renewable Energy	125	70	68	4,123
Supply	159	153	4	4,027
Distribution	627	367	263	15,731
Other Operations	21	-5	33	940
TOTAL	2,214	1,395	1,410	61,327
Consolidation adjustments	9	21	-17	-1,966
TOTAL AFTER ADJUSTMENTS	2,223	1,416	1,393	59,361

* see Note B.1 to the consolidated financial statements

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

In PLN million	EBITDA	EBIT	Capital expenditures	Assets of the segment *
	Q1 2014**			
Conventional Generation	822	398	693	32,512
Renewable Energy	124	72	119	3,573
Supply	153	149	3	3,284
Distribution	598	354	176	15,131
Other Operations	29	-2	29	1,414
TOTAL	1,726	971	1,020	55,914
Consolidation adjustments	-3	7	-19	-1,508
TOTAL AFTER ADJUSTMENTS	1,723	978	1,001	54,406

* see Note B.1 to the consolidated financial statements

** data restated

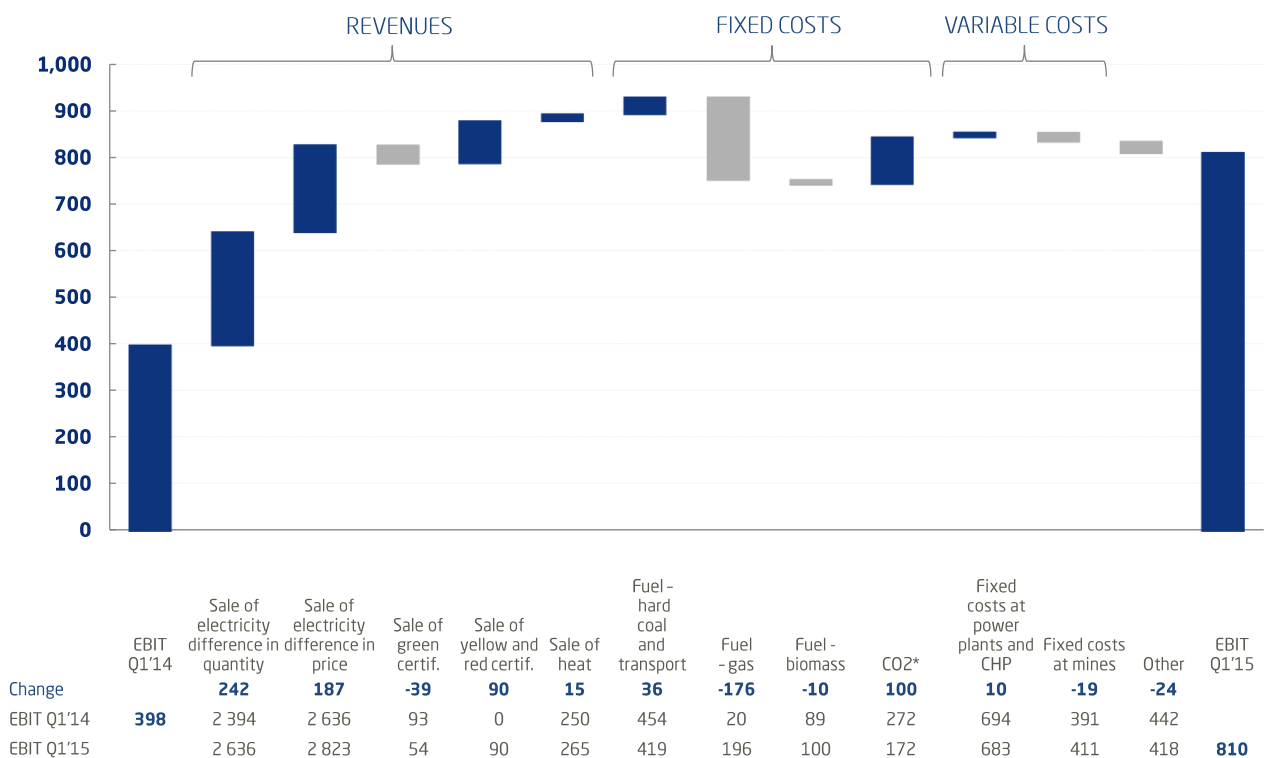
3.3.1 Conventional Generation

Table: Key figures for Conventional Generation.

PLN million	Q1 2015	Q1 2014*	% change
Sales revenues	3,517	3,054	15%
EBIT	810	398	104%
EBITDA	1,282	822	56%
Capital expenditures	1,042	693	50%

*data restated

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



Key factors affecting the results of Conventional Generation in the first quarter of 2015 compared to the results of the comparable period of 2014 were:

- **Higher electricity generation volume** resulting from increased sales on the power exchange connected with the higher availability of the generating units in comparison to the analogical period of 2014.
- **Increase of electricity prices**, what attributed to the adequate increase of sales revenues. Average sale price of electricity of generating units of Conventional Generation segment in the first quarter of 2015 was PLN 173.57/MWh while it amounted to PLN 161.66/MWh in the first quarter of 2014.
- **Lower costs of fees for CO₂ emission**. In connection with lack of allocation of free allowances due to the company, in the period January – March 2014 costs of CO₂ reflected the entire emissions of the period. In the first quarter of 2015, calculation of costs of CO₂ includes free allowances.
- **Higher costs of production fuel used** resulting from increased electricity generation (o 1 TWh) from:
 - **gas** – as a result of higher volume used by 5.1 TJ, what is connected with launching of production and unit cost of use higher by PLN 15.99/GJ;
 - **biomass** – due to higher volume used by 0.4 TJ, with simultaneous drop in unit cost by PLN 0.15/GJ.
- **Decline in other** resulting from increased cost of energy purchased for resale.

Capital expenditures

Table: Capital expenditures incurred in Conventional Generation segment in the first quarter of 2015 and 2014, by particular investment tasks.

PLN million	Capital expenditures		
	Q1 2015	Q1 2014*	% change
Investments in generating capacities, including:	794	387	105%
Development	471	66	614%
Modernization and replacement	323	321	1%
Purchases of finished capital goods	11	22	-50%
Vehicles	7	5	40%
Other	55	138	-60%
TOTAL	867	552	57%
Capitalised costs of overburden removal in mines	175	141	24%
TOTAL with capitalised costs of overburden removal in mines	1,042	693	50%

*data restated

In the foregoing report, within the Conventional Generation segment, presentation of capital expenditures in generating capacities has been altered. The portion of expenditures previously included in development expenditures has been reclassified to capital expenditures for modernization and replacement. Furthermore, expenditures of companies belonging to PGE Capital Group, which provides direct support services for the Conventional Generation segment, have been also included.

Highest capital expenditures in the first quarter of 2015 were:

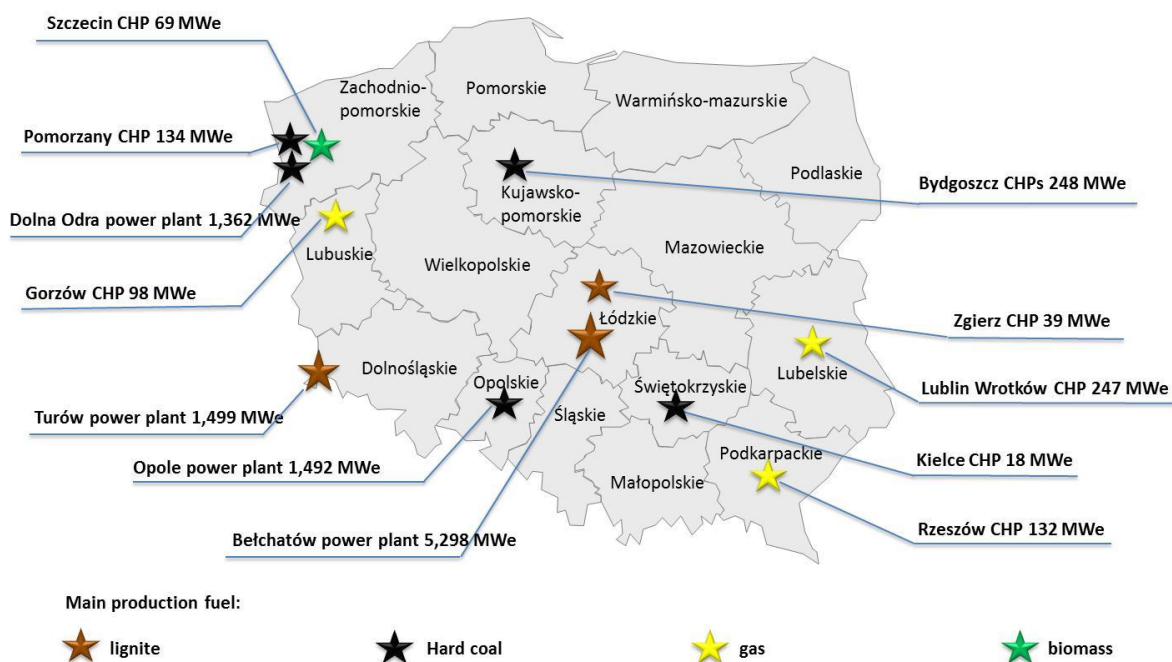
- Construction of units 5 and 6 in Opole power plant PLN 462 million;
- Comprehensive modernization of units 7-12 - Bełchatów power plant PLN 164 million;
- Construction of desulphurization installations in Bydgoszcz CHP PLN 16 million;

Key developments in the first quarter of 2015 in Conventional Generation:

- In January 2015, Unit 11 in Bełchatów has been commissioned following its complex modernisation;
- In February, Unit 12 in Bełchatów, during its final phase of modernization process, has been synchronised with the National Power Grid;
- On February 25, 2015 tenders for modernization of units 1-3 in Turów power plant were announced;

Key investments being pursued within the Conventional Generation segment are described in p. 2 of this report.

Diagram: Main assets of the Conventional Generation segment.



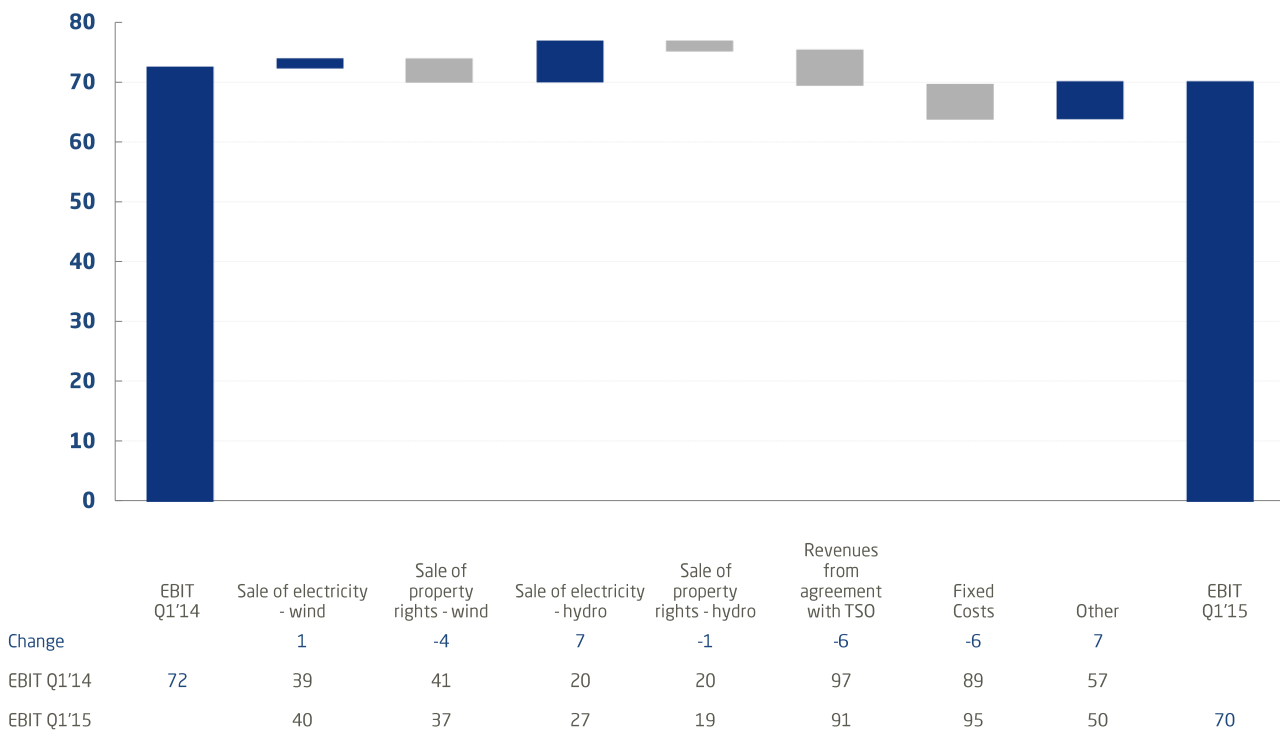
3.3.2 Renewable Energy

Table: Key figures for Renewable Energy.

PLN million	Q1 2015	Q1 2014*	% change
Sales revenues	215	219	-2%
EBIT	70	72	-3%
EBITDA	125	124	1%
Capital expenditures	68	119	-43%

*data restated

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



Key factors affecting the results of Renewable Energy in the first quarter of 2015 compared to the results of the first quarter of 2014 included:

- **The increase of sales of electricity** from wind and hydro power plants was caused by the increased volumes generated from RES due to favourable weather conditions (hydro and wind). The higher sales of electricity from wind farms results also from commissioning of Wojciechowo wind farm (28 MW) in March 2014.
- **The decline of revenues from certificates** results from the lower realised average market price in the first quarter of 2015.
- **The revenues from the balancing market and ancillary control services (contract with the TSO) declined** as the increased revenues from ancillary control services did not fully offset the lower sales on the balancing market.
- The increase of fixed costs derives mainly from:
 - Increase of depreciation, higher costs of external services, including repairs and maintenance (higher maintenance charges after termination of guarantees in Pelplin and Żuromin wind farms) and distribution services costs;
 - Recognition of operational costs of Wojciechowo wind farm in the first quarter of 2015.

Capital expenditures

Table: Capital expenditures incurred in Renewable Energy segment in the first quarter of 2015 and 2014.

PLN million	Capital expenditures		
	Q1 2015	Q1 2014	% change
Investments in generating capacities, including:	67	117	-43%
▪ Development	65	117	-44%
▪ Modernization and replacement	2	0	-
Other	1	2	-50%
TOTAL	68	119	43%

In the first quarter of 2015 the highest capital expenditures were incurred for the following projects:

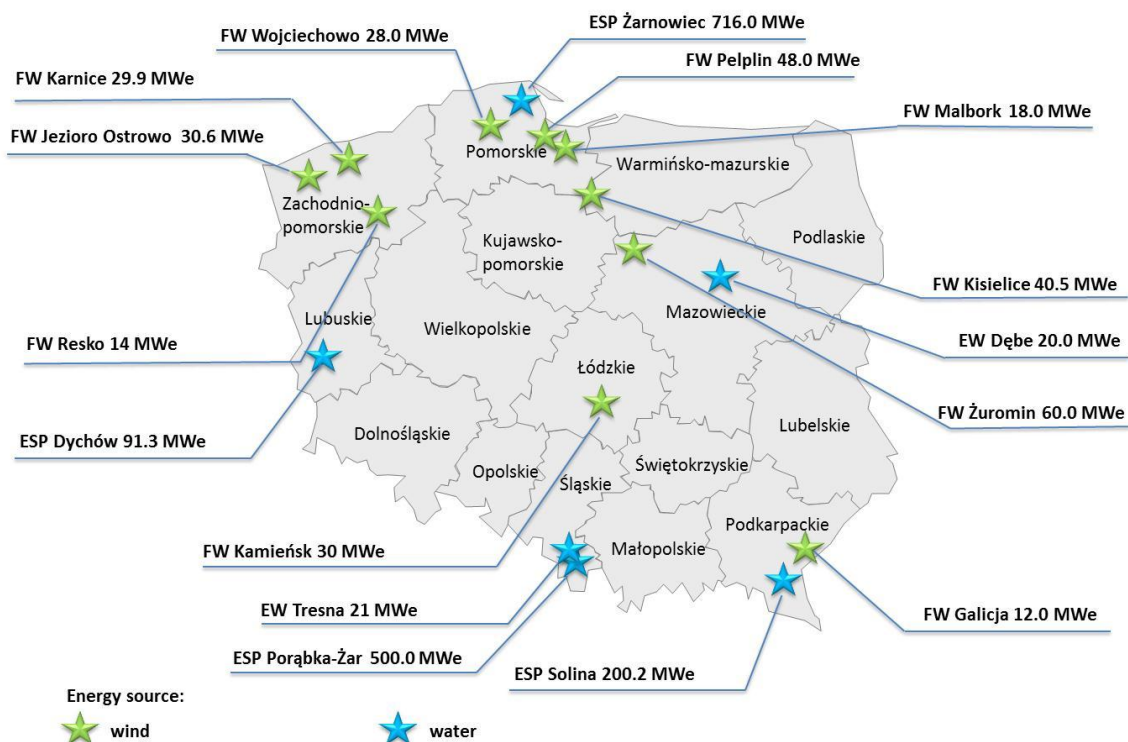
- Construction of wind farm Karwice with a capacity of 40 MW PLN 39 million
- Construction of wind farm Resko II with a capacity of 76 MW PLN 14 million
- Construction of wind farm Lotnisko with a capacity of 90 MW PLN 10 million

Key conclusions in Renewable Energy segment in the first quarter of 2015 included:

- Construction of wind farm Kisielice II with a capacity of 12 MW commenced, following the agreement concluded with the General Contractor (on January 14, 2015);

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

Diagram: Main assets of Renewable Energy segment.



3.3.3 Supply

Table: Key figures for Supply.

PLN million	Q1 2015	Q1 2014*	% change
Sales revenues	3,798	3,584	6%
EBIT	153	149	3%
EBITDA	159	153	4%
Capital expenditures	4	3	33%

*data restated

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



Key factors affecting the results of Supply segment in in the first quarter of 2015 compared to the results of the first quarter of 2014 included:

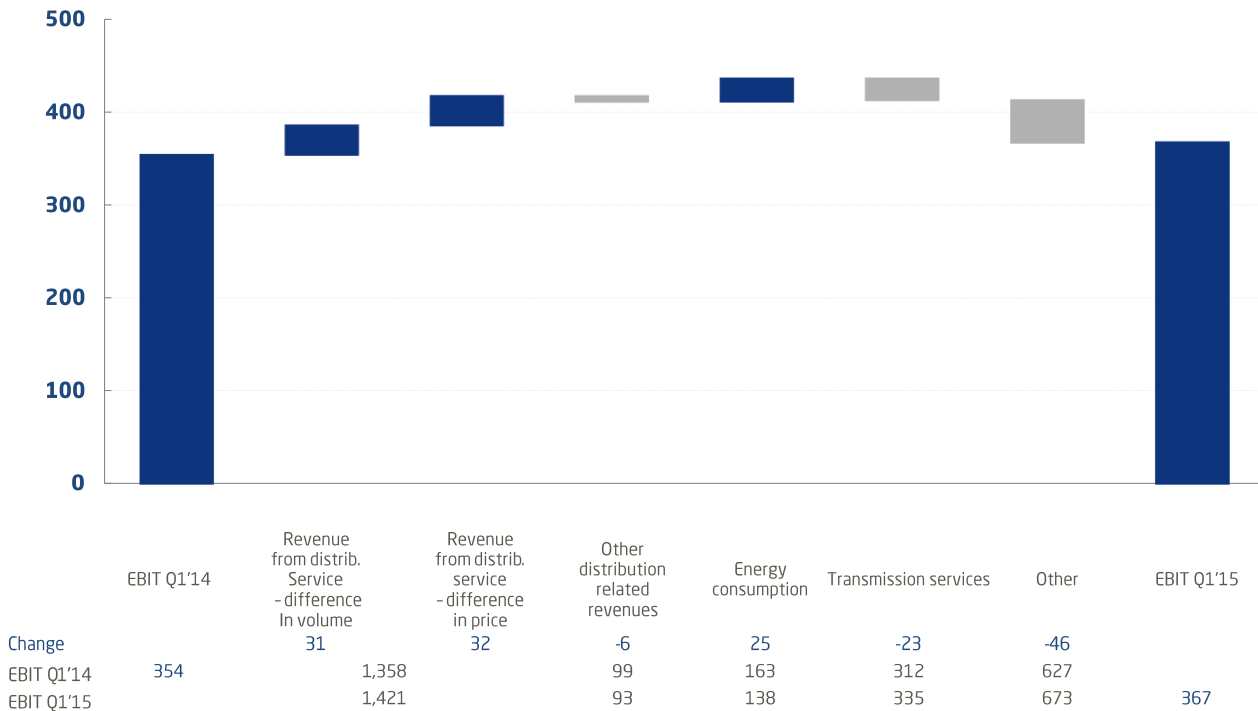
- **Increase of results from electricity** due to higher margin per unit i.e. more favourable spread between the average price of sales and average price of purchase
- **Increase of revenues from the Agreement on Commercial Management of Generation Capacities** due to higher trading volume under management and higher market prices of sale under so called power exchange obligation.
- **Higher costs of certificates redemption** – the support for highly efficient cogeneration has been reinstated as of April 30, 2014. In the first quarter of 2014 the costs of certificates redemption for cogeneration were not incurred.

3.3.4 Distribution

Table: Key figures for Distribution.

PLN million	Q1 2015	Q1 2014	% change
Sales revenues	1,540	1,485	4%
EBIT	367	354	4%
EBITDA	627	598	5%
Capital expenditures	263	176	49%

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



Key factors affecting the results of Distribution in the first quarter of 2015 compared to the results of the first quarter of 2014 included:

- **Increase of the average tariffs**, mainly due to fees paid to the TSO, what resulted in increased revenues from sales, with the simultaneous rise of the cost of TSO services.
- **Increased volume of distributes energy** by 191 GWh resulting from – inter alia – higher number of customers measured by power take-off points (by approx. 35 thousand) in comparison to the first quarter of 2014.
- **Lower revenue from other sales of distribution services** (reactive energy, excess of contracted capacity, and additional service) as a result of client-side optimisations in this area.
- **Lower network losses**, attributing to the lower cost of electricity used to cover balancing difference.
- **Lower result on other operations** – change in provisions and impairment allowances raised for receivables.
- **Increase of general and administrative expenses** due to provisions raised for regulation of remuneration and employee benefits.

Capital expenditures

Table: Capital expenditures incurred in Distribution segment in the first quarter of 2015 and 2014.

In PLN million	Capital expenditures		
	Q1 2015	Q1 2014	% change
MV and LV power networks	90	42	114%
110/ MV and MV/MV power stations	21	9	133%
110 kV power lines	3	3	0%
Connection of new off-takers	100	88	14%
Purchase of transformers and energy counters	18	12	50%
IT, telemechanics and communication	18	7	157%
Other	13	15	-13%
TOTAL	263	176	49%

Major tender procedures completed in the first quarter of 2015 in the distribution segment:

- A tender procedure announced on behalf of four Distribution System Operators (DSO) for the supply of balancing meters (carried out by TAURON Dystrybucja S.A.) was completed in February, and on 17 March 2015 an agreement was signed with Landis+Gyr. The subject of PGE Dystrybucja S.A.'s order includes delivery of 9,200 meters in 2015.

3.3.5 Other Operations

in PLN million	Q1 2015	Q1 2014	% change
Sales revenues	173	399	-57%
EBIT	-5	-2	-150%
EBITDA	21	29	-28%
Capital expenditures	33	29	14%

EBIT lower by PLN 3 million was mainly related to:

- **Shifting of company ENESTA S. A.** from Other Operations segment in the first quarter of 2014 to Supply segment in the first quarter of 2015 PLN (-) 5 million
- **Lower result of PGE EJ1 sp. z o.o.**, connected mainly with accounting reallocation of incurred capital expenditures to expenses due to termination of agreement with a contractor PLN (-) 4 million
- **Shifting of companies rendering ancillary services** (construction, renovation and modernization) to the companies from Conventional Generation segment, from Other Operations in the first quarter of 2014 to Conventional Generation segment in the first quarter of 2015 PLN (-) 9 million

Decline of EBIT was partly compensated by:

- **an improved result at PGE Systemy S.A.** mainly due to higher revenues from rendered services PLN (+) 9 million;
- **higher result of EXATEL S.A.** due to lower fixed costs PLN (+) 3 million;
- **higher result of Elbest Sp. z o.o.** mainly due to higher revenues from sales of services PLN (+) 3 million.

Capital expenditures

Capital expenditures in Other Operations in the first quarter of 2015 amounted to PLN 33 million compared to PLN 29 million in the first quarter of 2014.

Within the above amount, the highest capital expenditures in the first quarter of 2015 were incurred by:

- PGE EJ1 sp. z o.o. – for nuclear project development PLN 15 million;
- PGE Systemy S.A. – for IT infrastructure and software development PLN 10 million;
- Exatel S.A. – for telecommunication infrastructure development PLN 8 million.

3.4 Transactions with related entities

Information about transactions with related entities is presented in Note B.14 to the consolidated financial statements.

3.5 Publication of financial forecasts

PGE S.A. did not publish financial forecasts.

3.6 Information about shares and other securities

3.6.1 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 2014 held following number of shares:

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

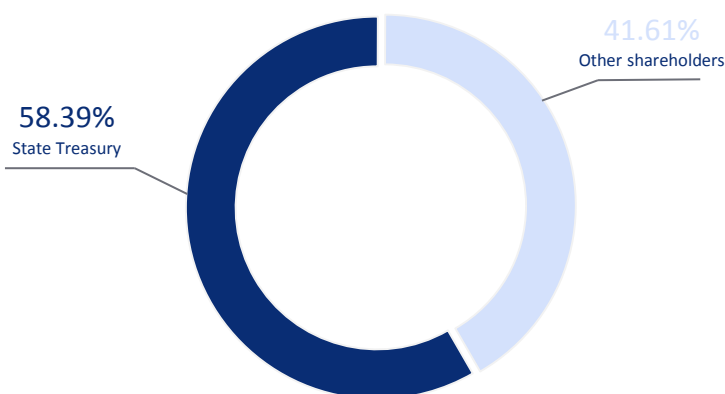
Shareholder	Number of shares as of submission date of the annual report for 2014 (i.e. February 17, 2015)	Change in number of owned shares	Number of shares as of submission date of the quarterly report	Nominal value of shares as of submission date of the quarterly report (PLN)
The Management Board	350	no change	350	3,500
Grzegorz Krystek	350	no change	350	3,500
The Supervisory Board	873	no change	873	8,730
Krzysztof Trochimiuk	873	no change	873	8,730

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

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

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

The State Treasury holds 1,091,681,706 ordinary shares of the Company with a nominal value of PLN 10 each, representing 58.39% of the share capital of the Company and entitling to exercise 1,091,681,706 votes at the General Meeting of the Company, constituting 58.39% of the total number of votes.



Shareholder	No of shares (pcs)	No of votes (pcs)	Share in total number of votes on the general meeting (%)
State Treasury	1,091,681,706	1,091,681,706	58.39%
Other shareholders	778,079,123	778,079,123	41.61%
Total	1,869,760,829	1,869,760,829	100.00%

4 Description of the organisation of the PGE Capital Group

Companies comprising the main business segments of PGE Group as at March 31, 2015.

Segment	Spółka
CONVENTIONAL GENERATION	<ol style="list-style-type: none"> 1. PGE Górnictwo i Energetyka Konwencjonalna S.A. 2. Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. 3. MegaSerwis sp. z o.o. 4. ELBIS sp. z o.o. 5. PUP ELTUR SERWIS sp. z o.o. 6. TOP SERWIS sp. z o.o. 7. ELMEN sp. z o.o. 8. MEGAZEC sp. z o.o. 9. EPORE sp. z o.o. 10. RAMB sp. z o.o. 11. PTS BETRANS sp. z o.o. 12. BESTGUM POLSKA sp. z o.o. 13. Energoserwis Kleszczów sp. z o.o.
RENEWABLE ENERGY	<ol style="list-style-type: none"> 14. PGE Energia Odnawialna S.A. 15. Elektrownia Wiatrowa Baltica-1 sp. z o.o. 16. Elektrownia Wiatrowa Baltica-2 sp. z o.o. 17. Elektrownia Wiatrowa Baltica-3 sp. z o.o. 18. Eolica Wojciechowo sp. z o.o. 19. PGE Energia Natury S.A. 20. PGE Energia Natury sp. z o.o. 21. PGE Karnice sp. z o.o. 22. PGE Energia Natury Bukowo sp. z o.o. 23. PGE Energia Natury Omikron sp. z o.o. 24. PGE Energia Natury Kappa sp. z o.o. 25. PGE Energia Natury PEW sp. z o.o. 26. PGE Energia Natury Olecko sp. z o.o.
SUPPLY	<ol style="list-style-type: none"> 27. PGE Polska Grupa Energetyczna S.A. 28. PGE Dom Maklerski S.A. 29. PGE Trading GmbH 30. PGE Obrót S.A. 31. Enesta sp. z o.o.
DISTRIBUTION	<ol style="list-style-type: none"> 32. PGE Dystrybucja S.A.

4.1 Changes in organisation of the Capital Group

4.1.1 Changes in organisation of the Capital Group in the first quarter of 2015

The changes, which occurred in the Group's structure during the first quarter of 2015, are presented in Note A.1.4 to consolidated financial statements and described below.

Shares in subsidiaries and associates

In the first quarter of 2015 **PGE S.A.** changed its equity interest in the following entities:

- On September 11 2014, the Extraordinary General Meeting of PGE GiEK S.A. adopted a resolution on the redemption of all treasury shares held by the company i.e. 2,751,654 shares of the company. In connection

with the redemption of treasury shares, the Extraordinary General Meeting adopted a resolution on decrease of the share capital of the company by PLN 27,516,540, i.e. from PLN 6,964,382,240 PLN 6,936,865,700. On March 13, 2015 the redemption of the own shares and decrease of the share capital were registered with the National Court Register. As a result of the above redemption the share of PGE S.A. in the company's share capital reached 99.60%.

- On February 20, 2015 the Extraordinary Assembly of Partners of PGE EJ 1 sp. z o.o. adopted a resolution on increase of the company's share capital from PLN 73,000,000 to PLN 205,860,000, i.e. by PLN 132,860,000,00, through increasing of the nominal value of the existing shares of the company, from PLN 50 to PLN 141 each share. Increasing of the nominal value of shares was acquired by PGE S.A. in exchange for cash contribution from earlier surcharges by PGE S.A. that were not returned to PGE S.A. On March 17, 2015 the increase of the share capital was registered with the National Court Register.

In the first quarter of 2015 **PGE Group companies** changed their capital exposure in the following entities:

- On January 13, 2015 the Management Board of PGE GiEK S.A. took decision on merger of PGE GiEK S.A. (the Acquiring Company) with PGE Gubin sp. z o.o. (the Acquired Company). Extraordinary Assembly of Partners of PGE Gubin sp. z o.o. adopted a resolution on merger with PGE GiEK S.A. on January 14, 2015. Merger was carried out by course of art. 492 § 1 p. 1 in connection with art. 515 § 1 of Code of Commercial Companies, i.e. through transfer of all assets of the Acquired Company to the Acquiring Company without raising the share capital of the acquired company and without the exchange of acquired company's shares for the shares of the Acquiring Company. The merger was registered with the National Court Register on February 26, 2015.
- On January 14, 2015, with validity as of December 31, 2014, PGE Energia Odnawialna S.A. concluded an agreement for sale of all shares held in Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A. („ENERGO-UTECH”), i.e. 50% of the share capital of that company, to the following companies:
 - Przedsiębiorstwo Usługowe „UTECH” sp. z o.o. with its seat in Poznań („UTECH”),
 - Elektrociepłownia „BĘDZIN” S.A. with its seat in Będzin („EC Będzin”).
- On March 18, 2015 the Extraordinary Assembly of Partners of PELPLIN sp. z o.o. adopted a resolution on merger of the company with PGE EO S.A. (the Acquiring company) with PELPLIN sp. z o.o. (the Acquired company), through transfer of all assets of the Acquired Company to the Acquiring Company without issue of new shares in exchange for Acquired company's shares, pursuant to art. 514 of Code of Commercial Companies. PGE EO S.A. held 100% in the share capital of PELPLIN sp. z o.o. On March 31, 2015 the merger was registered with the National Court Register.

Other changes

As of January 1, 2015 following branches were created in PGE Energia Natury sp. z o.o.:

- Branch „Galicja” seated in Orzechowce,
- Branch „Kisielice/Malbork” seated in Malbork.


In the first quarter of 2015 PGE Capital Group did not discontinue any of its substantial operations.

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

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

- On April 15, 2015 PGE S.A., KGHM Polska Miedź S.A. with its seat in Lubin (“KGHM”), TAURON Polska Energia S.A. with its seat in Katowice (“TAURON”) and ENEA S.A. with its seat in Poznań concluded an agreement for the acquisition of shares in PGE EJ 1 sp. z o.o.. PGE S.A. held 100% shares in the share capital of PGE EJ 1 sp. z o.o. As a result of the transaction, each of the companies, i.e. KGHM, TAURON i ENEA, acquired 146,000 shares of PGE EJ 1 sp. z o.o., representing 10% of the share capital of PGE EJ 1 sp. z o.o. Following the transaction PGE S.A. currently holds 70% of shares, KGHM 10% of shares, TAURON 10% of shares and ENEA 10% of shares, in the share capital of PGE EJ 1 sp. z o.o.
- On April 15, in accordance with the provisions of the Agreement for sale of shares of ENERGO-UTECH by PGE EO S.A. (the „Agreement”), a cash settlement of the transaction price payable by EC Będzin S.A. took place. Settlement of the transaction price payable by UTECH took place as a result of purchase of EC Będzin S.A. shares by PGE EO S.A., on the ground of agreement concluded on April 17, 2015 between PGE EO S.A. and Przedsiębiorstwo Usługowe „UTECH” („UTECH”) and settled on April 21, 2015. As a result of the above transaction, PGE EO S.A. holds 311,355 shares of EC Będzin S.A., constituting 9.89% of the share capital.

PGE EO S.A. regards investment in shares of EC Będzin S.A. as short-term and does not plan to increase its share in the total number of votes on the General Meeting of EC Będzin S.A. Current capital commitment of PGE EO



S.A. in EC Będzin S.A. is a result of the transaction settlement resulting from the Agreement. According to the provisions of the Agreement, by December 31, 2015 PGE EO S.A. will sell all shares of EC Będzin S.A. to UTECH or to an entity indicated by UTECH.

4.2 Branches of the companies of the PGE Capital Group

As at March 31, 2015 the following PGE Group companies had their branches:

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

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

5 Other significant events of the reporting period and subsequent events

5.1 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. ("Business Partners") concluded a Partners' Agreement.

On April 15, in accordance with the Partners' Agreement, an agreement was concluded for the sale of shares in PGE EJ 1 sp. z o.o., and as a result each of the Business Partners acquired 10 % of shares in PGE EJ 1 sp. z o.o.

As a result of the sale of shares to the Business Partners by PGE S.A., PGE S.A. holds 70% in the share capital of PGE EJ 1 sp. z o.o., and each of the Business Partners holds 10% in the share capital of PGE EJ 1 sp. z o.o.

According to assumptions, PGE Group will be the leader of the project of construction and operating of the first nuclear power plant in Poland with capacity of approx. 3,000 MW ("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.A. financial commitment in the Development Stage will not exceed amount of approx. PLN 700 million.

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

Site and environmental research

Having terminated an agreement with WorleyParsons on December 23, 2014, in the first quarter of 2015 PGE EJ 1 sp. z o.o. began implementing new design and organisational assumptions for site characterisation and environmental surveys, as well as initiated the process to obtain the permits and authorisations necessary in the investment process connected with the construction of Poland's first nuclear plant.

Assumptions adopted in the new model for performance of the above by PGE Group companies include the following:

- Increase in the scope of tasks being carried out independently by PGE EJ 1 sp. z o.o., using internal PGE Group resources and cooperating with ELBIS sp. z o.o. (a PGE Group company) pursuant to an executed agreement,
- Expansion of teams at PGE EJ 1 sp. z o.o. and ELBIS sp. z o.o. in order to carry on their own activities as well as contracting and technical supervision over specialist work being performed by subcontractors,
- Work with the Technical Advisor (Amec Foster Wheeler Nuclear UK Limited) pursuant to an agreement executed by PGE EJ 1 sp. z o.o.

Appointment and cooperation with the Technical Advisor

On September 11, 2014, an agreement on the provision of technical advisory services for Poland's first nuclear power plant was concluded with the Technical Advisor (Owner's Engineer), Amec Nuclear UK Limited (currently Amec Foster Wheeler Nuclear UK Limited).

In the first quarter of 2015, works resulting from issued orders to proceed were being carried out, which covered preparing detailed action plans for key Project areas, including obtaining permits and authorisations, creating an integrated management system, carrying out an integrated proceeding, technical capacity building and project management.

The second quarter of 2015 is expected to see work being continued under the existing authorisations, acceptance of product deliveries and issue of further authorisations.

Selection of technology, integrated proceeding

Meetings with consortia potentially interested in participating in the Project, which were initiated as part of preliminary dialogue in 2013, were continued in the first quarter of 2015.

Completing the meetings under preliminary dialogue will be the starting point for drafting a comprehensive summary and deciding on the final shape, scope, approach and formula for the integrated proceeding.

At the same time, activities were continued (in cooperation with the Polish government) on obtaining approval from the European Commission regarding exclusion of the integration proceeding from the scope of public tender regulations.

At the end of the second and start of the third quarter of 2015, individual consortia will be asked to submit an expression of interest with regard to participating in the integrated proceeding, pursuant to which formal invitations for participating in the integrated proceeding will be sent to the consortia.

Participation in legislative work

In the first quarter of 2015, PGE Group companies took part in public consultations held by the Ministry of Economy on the Forecast environmental impact of a draft National plan for radioactive waste and spent fuel management.

In the next quarter, these companies will participate in other legislative initiatives as part of public consultations that might have an impact on preparing and executing the nuclear power project, including initiatives concerning amendments to the Act on Spatial Planning and Land Development.

Financing of the project

In the first quarter of 2015, in cooperation with an external consultancy, assumptions regarding capital expenditure and operating costs for the nuclear power plant were updated, and the investment financing model was revised.

Analysis continues with regard to the Project's potential financing structures as well as qualification criteria and requirements for financial institutions for the purposes of the integrated proceeding.

Support schemes

In the first quarter of 2015, PGE Polska Grupa Energetyczna S.A. prepared and submitted for consultation to the Minister of Economy and the Advisory Group for Nuclear Power Development information summarising analytical work performed by PGE Polska Grupa Energetyczna S.A. in the area of potential support mechanisms dedicated to nuclear energy.

In its position piece, PGE Polska Grupa Energetyczna S.A., having described and justified a catalogue of potential support mechanisms, singled out contracts for difference as the mechanism that should be dedicated to nuclear energy. It is assumed that this type of mechanism should apply market tools in a manner similar to the contracts-for-difference mechanism used in the United Kingdom.

PGE Polska Grupa Energetyczna S.A. expects to continue further work together with the Polish government, aimed at devising detailed solutions (a model) for support mechanisms for nuclear energy, including joint approval of the presented solutions (justification and general shape of the mechanism), as well as developing detailed economic, financial and legal solutions.

Educational and information activities

In the first quarter of 2015, PGE EJ 1 sp. z o.o. continued its communication activities at both national and local level, including – as part of national educational and informational initiatives – the nationwide premiere and subsequent series of showings of Pandora's Promise. This movie became an impulse for discussions regarding the impact of nuclear power plants on the natural environment. The documentary analyses the personal stories of well-known eco activists who radically changed their stance on nuclear energy whilst confronting popular myths and prejudices relating to nuclear power.

In January 2015, the second edition of the Atom for Science programme was launched, aiming to promote young scientists and popularise knowledge about nuclear energy.

PGE EJ 1 sp. z o.o. also continues to carry out cyclical public opinion polls at national and local level with the aim of monitoring the level of support for the nuclear power plant development project as well as expectations relating to communication activities. In the first quarter of 2015, results of the "autumn round" of polling were presented, showing continuingly strong support (66-78%) for the construction of Poland's first nuclear power plant in municipalities where it might eventually be located and their surrounding areas.

Safety.

In performing an agreement signed by PGE EJ 1 sp. z o.o. in 2014 for the design and implementation of safety architecture, the second phase of the agreement was initiated in the first quarter of 2015, which consists of developing a safety strategy and internal regulations in this area.

Works are currently underway to develop a concept for an organisational and technical system aimed at securing and protecting the integrated proceeding.

5.2 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.

The issue of compensation regarding the conversion of shares

Former shareholders of PGE Górnictwo i Energetyka S.A. filed petitions calling PGE S.A. for a pre-trial settlement with respect of the payment of damages for incorrectly set – as they claim – share exchange ratio of PGE Górnictwo i Energetyka S.A. shares for the shares of PGE S.A. in the consolidation process which took place in 2010. The total value of claims resulting from petitions for pre-trial settlements by former shareholders of PGE Górnictwo i Energetyka S.A. is almost PLN 8 million.

Notwithstanding the foregoing, on November 12, 2014 Socrates Investment S.A. (the purchaser of the liabilities from former shareholders of PGE Górnictwo i Energetyka S.A.) filed a lawsuit for compensation in total amount exceeding PLN 493 million (plus interests) for the damage resulting from incorrectly (in opinion of the Socrates Investment S.A.) set share exchange ratio in the consolidation process of PGE Górnictwo i Energetyka S.A. with PGE S.A.

PGE Polska Grupa Energetyczna S.A. filed its reply to the lawsuit on March 28, 2015.

PGE S.A. does not accept the claims of Socrates Investment S.A. and of the other shareholders filing for a pre-trial settlement. The claims are unsubstantiated. In the opinion of PGE S.A. the whole consolidation process was executed in fair and proper manner. The value of the shares of companies subject to the mergers was assessed by the independent company - PwC Polska sp. z o.o. Additionally, plan of the companies merger, including the exchange ratio with respect to shares of the acquired company for the shares of the acquiring company were examined for accuracy and reliability by an expert appointed by the registration court; no irregularities were found. Then, an independent court registered the merger of the companies.

5.3 Description of material agreements

No material agreements occurred in the first quarter of 2015.

5.4 Information on granting by the Company or its subsidiary of loan securities or guarantees

Within the Group, in the 3-month period ended March 31, 2015 PGE S.A. and its subsidiaries did not grant any loan securities or guarantees to another entity or its subsidiary, where the value of securities and guarantees constituted at least 10% of the Company's equity.

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

Some generating entities, currently branches of PGE GiEK S.A., became entitled to receive funds to cover stranded costs (so-called "LTC compensation") pursuant to the LTC Act. The LTC Act is ambiguous in many points and raise important questions of interpretation. The calculation of the estimated results of each entity and resulting compensations, annual adjustments of stranded costs and final adjustments as well as resulting revenues recognized in the statement of comprehensive income was performed by the Group with the best of its knowledge in this area and with support of external experts.

In the previous years entitled producers from PGE Group received decisions on annual adjustments of stranded costs and costs related to natural gas fired entities for 2008-2013. The part of these decisions were disadvantageous for the particular entities and the Group believes that they were issued in violation of the Long-Term Contracts Act. As a consequence, since 2009, a number of proceedings have been pending before the Regional Court in Warsaw - Competition and Consumer Protection Court ("CCP Court") and before the Court of Appeal concerning appeals by PGE Group producers against the Decision of the President of the Energy Regulatory Office. These proceedings are currently at various levels of advancement.

In the first quarter of 2015:

- In connection with expiry of the period in which the ERO President could file a cassation appeal relating to a ruling by the Court of Appeal on determining the annual adjustment for stranded costs due to PGE GiEK S.A. for 2010 and to PGE GiEK S.A. Branch Elektrownia Opole for 2009, these proceedings were completed. The claim value in these proceedings totalled PLN 635 million.
- On February 20, 2015, the Supreme Court issued an order that a cassation appeal be deferred in the matter of determining the annual adjustment for stranded costs due to PGE GiEK S.A. Branch Elektrownia Opole (claim value of PLN 178.8 million), PGE GiEK S.A. Branch ZEDO (claim value of PLN 42.3 million) and PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków for 2008 (claim value of PLN 26.7 million) and for PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2009 (claim value of PLN 45 million) until a resolution is reached by the European Court of Justice in PGE GiEK S.A. Branch ZEDO's 2009 (claim value of PLN 92.9 million) case.
- A favourable judgment was passed by the Competition and Consumer Protection Court in a case pertaining to the annual adjustment for costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2012. The judgment has not become final. The ERO President has filed an appeal with the Court of Appeal. The value of the matter at issue is PLN 7 million.
- The ERO President has filed a cassation appeal with the Supreme Court regarding a ruling by the Court of Appeal in a matter concerning determining the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków for 2009. Claim value in this case amounts to nearly PLN 7 million.

Furthermore, in April 2015, the Company filed a cassation appeal with the Supreme Court relating to a ruling by the Court of Appeal in a matter on determining the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. for 2010. Claim value amounts to PLN 4.5 million.

Impact on the financial statements for the period ended March 31, 2015

In the financial statements for the period ended March 31, 2015, the Group recognized LTC revenue in sales revenue in the amount of PLN 162 million.

The value of disputes in all matters relating to the years 2008 – 2012 amounts to PLN 1,660 million, including the value of disputes favourably resolved for PGE Group by the Court of Appeal and a favourable final judgment by the CCP Court in the amount of PLN 1,429 million.

In the period 2008 – first quarter of 2015 the PGE Capital Group recognised LTC revenues in amount of PLN 6,702 million.

5.6 Tax Capital Group

On September 18, 2014, an agreement concerning a tax group, named "PGK PGE 2015," was executed for a 25-year period, for which PGE S.A. is a representing company. Apart from the Company, PGK PGE 2015 comprises PGE GiEK S.A., PGE Dystrybucja S.A., PGE Obrót S.A., PGE EO S.A., PGE Energia Natury S.A., PGE Dom Maklerski S.A., PGE Systemy S.A., ELBIS sp. z o.o., ELBEST sp. z o.o., ELTUR-SERWIS sp. z o.o., Betrans sp. z o.o., MegaSerwis sp. z o.o., MEGAZEC sp. z o.o., BESTGUM POLSKA sp. z o.o., „ELMEN" sp. z o.o., „TOP SERWIS" sp. z o.o., PGE Obsługa Księgowo-Kadrowa sp. z o.o., ELBEST Security sp. z o.o. and 13 companies named PGE Inwest, PGE Inwest 2,4,...,15 that were not operational at the time the agreement was signed.

The Polish Corporate Income Tax Act treats tax groups as separate income tax payers. This means that companies within PGK PGE 2015 are not treated as separate entities for corporate income tax purposes, with PGK PGE 2015 being treated as one whole entity instead. PGK PGE 2015's tax base will constitute the group's aggregate income, calculated as the excess of the income of the companies that make up the group over their losses. PGK PGE 2015 is considered to be a separate entity

only for the purposes of corporate income tax. This should not be equated with a separate legal entity. This also does not transfer over to other taxes, with particular emphasis on the fact that each of the companies within PGK PGE 2015 continues to be a separate payer of VAT and tax on civil-law transactions, as well as withholding agent with respect to personal income tax.

Pursuant to the executed agreements, when a company belonging to the tax group reports tax profit, it transfers the relevant amount of income tax to PGE S.A., which then settles with the tax office as the representing company. On the other hand, when a company belonging to PGK PGE 2015 incurs a tax loss, then the related tax benefit is available to the representing company, which is PGE S.A. This also means that in the case of corrections in tax settlements of companies reporting a tax loss any such changes have a direct impact on the financial results of PGE S.A.

Cash flows between companies in PGK PGE 2015 are realised within a year, with deadlines prior to payment of advance income tax. Final settlement between companies belonging to the tax group takes place after the representing company files an annual declaration.

The companies that make up the tax group must meet a number of requirements, including among others: appropriate level of equity, at least 95% ownership by the parent, no cross-holdings between subsidiaries, no tax arrears, having at least 3% share in revenue (counted for the entire tax group) and executing transactions with entities from outside the tax group only on market terms. A breach of the above requirements would result in the tax group being dissolved and losing the status of a taxable person. From the moment of dissolution, each of the companies included in the tax group would become a separate taxable person for corporate income tax.

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

As at March 31, 2015 PGE S.A. and its subsidiaries were not a party of any proceedings concerning payables or debts whose total value would constitute at least 10% of the Company's equity.

Significant proceedings pending in front of courts, competent arbitration authority or public administration authority are described in Note B.12 to the consolidated financial statements.

5.8 Information on issue, redemption and repayment of debt securities and other securities

Information on issue, redemption and repayment of debt securities and other securities were described in Note 22 to the consolidated financial statements and p. 4.1. of the foregoing report.

6 Statements of the Management Board

6.1 Statement on the reliable preparation of the financial statements

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

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

7 Approval of the Management Board's Report

The foregoing Management Board's Report on activities of the Capital Group of PGE Polska Grupa Energetyczna S.A. was approved for publication by the Management Board of the parent company on May 6, 2015.

Warsaw, May 6, 2015

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

President of the Management Board

Marek Woszczyk

Vice-President of the Management Board

Jacek Drozd

Vice-President of the Management Board

Grzegorz Krystek

Vice-President of the Management Board

Dariusz Marzec

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 ₂ 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 ₂ emission allowances; one EUA allows an operator to release one tonne of CO ₂ .
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.
HICP	Harmonised Index of Consumer Process
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.
JI	Joint Implementation: one of the flexibility mechanisms introduced under Article 6 of the Kyoto Protocol.
Kyoto Protocol	the Kyoto Protocol to the United Nations Framework Convention on Climate Change of December 11, 1997 (Dz.U. of 2005, No. 203, Item 1684), in force since February 16, 2005.
KSE	the National Power System, a set of equipment for the distribution, transmission and generation of electricity, forming a system to allow the supply of electricity in the territory of Poland.
KSP	the National Transmission System, a set of equipment for the transmission of electricity in the territory of Poland.
kV	kilo volt, an SI unit of electric potential difference, current and electromotive force; 1kV= 103 V.
kWh	kilowatt-hour, a unit of electric energy in the SI system defined as the volume of electricity used by the 1 kW equipment over one hour. 1 kWh = 3,600,000 J = 3.6 MJ.
Low Voltage Network (LV)	a network with a nominal voltage not exceeding 1 kV.
LTC	Long-term contracts on the purchase of capacity and electricity entered into between Polskie Sieci Elektroenergetyczne S.A. and electricity generators in the years 1994-2001.
Medium-voltage network (MV)	an energy network with a nominal voltage higher than 1 kV but lower than 110 kV.
MEV	Minimum Energy Volumes.
MSR	Market Stability Reserve
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 CO ₂ 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 ³	normal cubic meter; a unit of volume from outside the SI system signifying the quantity of dry gas in 1 m ³ of space at a pressure of 101.325 Pa and a temperature of 0°C.
NO _x	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), $1 \text{ V} = 1\text{J}/1\text{C} = (1 \text{ kg} \times \text{m}^2) / (\text{A} \times \text{s}^3)$.
W (watt)	a unit of power in the International Systems of Units (SI), $1 \text{ W} = 1\text{J}/1\text{s} = 1 \text{ kg} \times \text{m}^2 \times \text{s}^{-3}$.
Yellow certificate	a certificate confirming generation of energy in gas-fired power plants and CCGT power plants.
Yellow energy	popular name for energy generated in gas-fired power plants and CCGT power plants.