

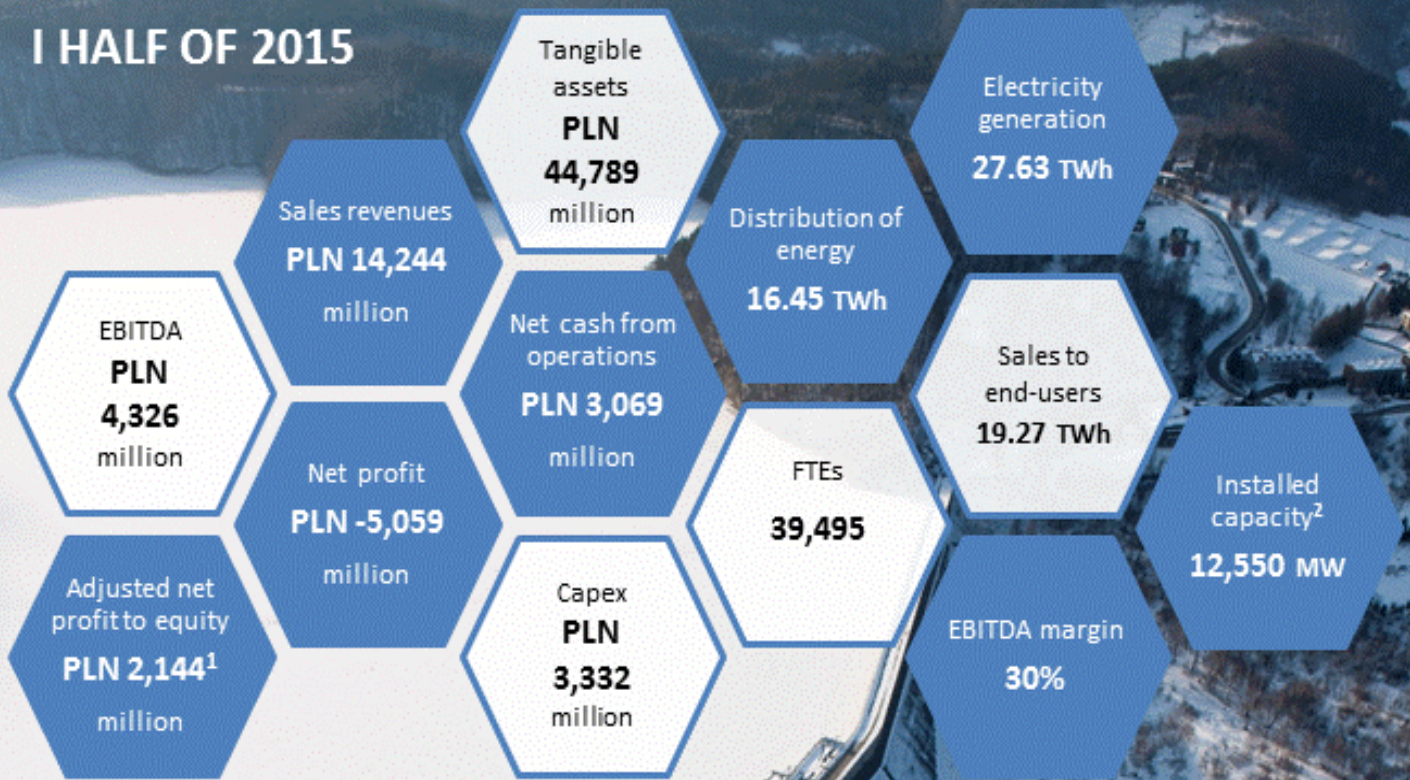
**Management Board's report on
activities of the Capital Group of
PGE Polska Grupa Energetyczna S.A.
for the 6-month period**

ended June 30, 2015

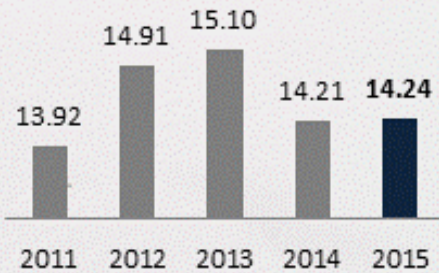
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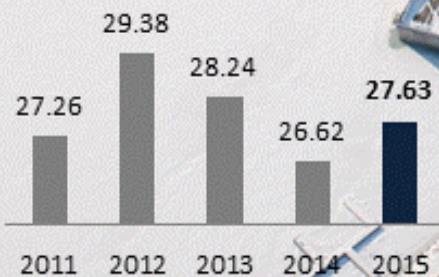
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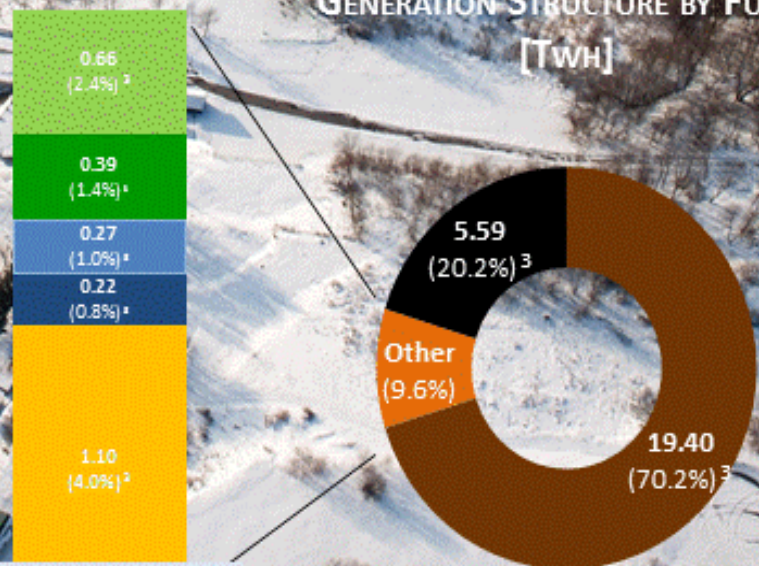
REVENUES [PLN BN]



NET ELECTRICITY PRODUCTION [TWh]



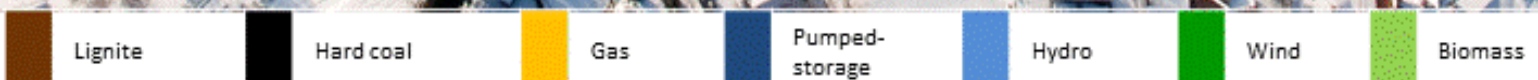
GENERATION STRUCTURE BY FUELS [TWh]



¹net profit adjusted by impairment of property, plant and equipment

²as at June 30, 2015, without Karwice wind farm

³share 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.

282,284 km of distribution lines

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 in 2015:

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

Implementation of this change enables 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 half 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 half 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, comprises of companies providing IT and telecommunication services, accounting, HR services, transport and other services were included in the Other Operations segment.

1.1 Factors important for the development of the PGE Capital Group

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

Market environment		Description in p.
Demand	<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 of electricity and heat on 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 sources ("RES") 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.12.4 to the consolidated financial statements 	

International

- regulations of 2030 climate and energy package – including EU climate summit decisions from October 2014 particularly: at least 40% 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 detailed rules for allocation of aid.
- works on introduction of Market Stability Reserve on CO₂ 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
- process of European markets connection, works on standardized model of electricity market, unified trading areas and the trading rules between them. Currently, works on connection of Poland to market coupling mechanisms are being pursued.

1.2 Factors and events affecting results

1.2.1 Macroeconomic situation

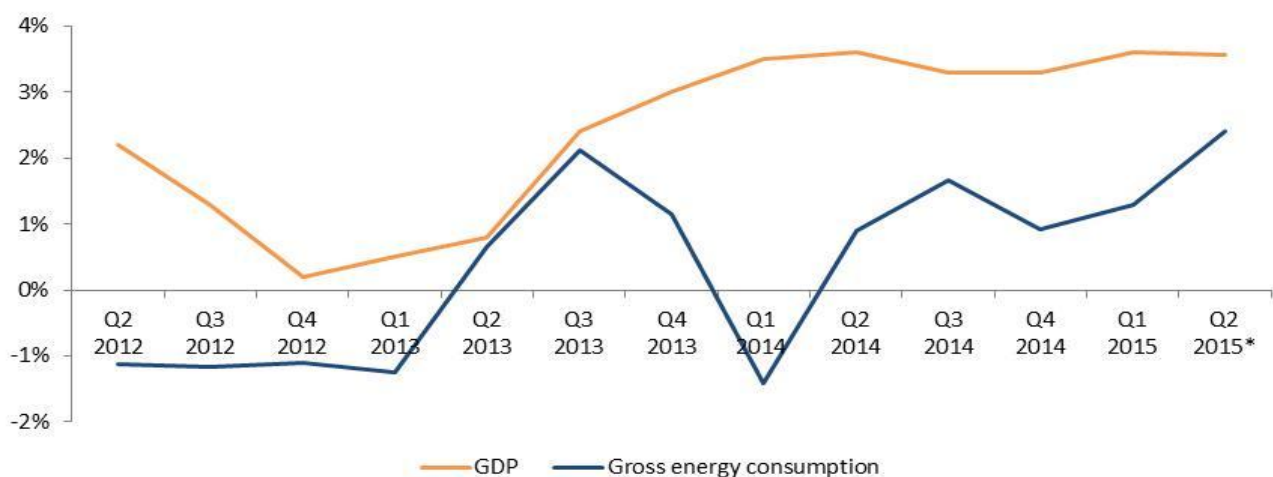
PGE Group's main operating area is Poland, and the domestic macroeconomic backdrop has a substantial impact on Group's results. At the same time, the condition of Poland's economy remains largely tied to the situation across the European Union and in global markets. The Group's financial results are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

As a rule of thumb, there is a historical correlation between rising electricity demand and economic growth in Poland. 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.

In the first half of 2015, gross electricity consumption was 1.8% higher than in the same period of the previous year. Consumption particularly accelerated in the second quarter of 2015, advancing by 2.4% y-o-y.

Data on gross domestic product (GDP) dynamics in Poland shows continuing steady economic growth. GDP in the second quarter of 2015 went up by 3.6%, slightly (by 0.1 pp) above forecasts from Poland's central statistical office (GUS). This result, according to GUS, was largely due to continuing strong growth in planned capital expenditure. An updated forecast from the National Bank of Poland sees GDP growth of 3.6% in 2015, meaning an upward revision of 0.2pp.

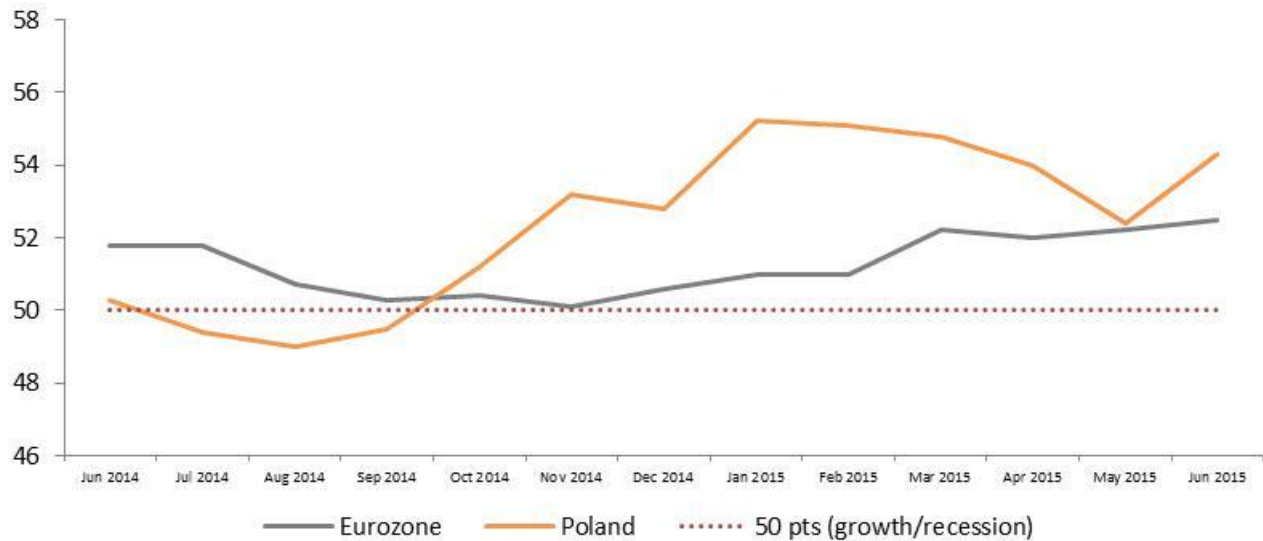
Diagram: GDP change vs. change in gross electricity consumption.



* Average from forecasts
Source: Central Statistical Office of Poland

Economic growth and rising electricity consumption were accompanied by improving conditions in Polish industry, which is responsible for nearly 45% of domestic electricity use. Industrial PMI has for the past three quarters remained above the 50-point mark, suggesting that the surveyed managers expect an improvement in the sector. After a record-setting start to the year, growth slowed down until the end of May, when it again significantly increased, returning to the levels seen in the first quarter of 2015 (approximately 55 points). Four of the five components of the index showed improvement: new orders, production, delivery time and inventories, while the employment component slumped. These good results of Polish industry should be supported by stronger performance across the Eurozone, for which the PMI reached its highest level since April 2014 (approximately 52 points).

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



Source: Markit Economics

From PGE Group's perspective, another positive development is the stronger growth in overall industrial production. In the second quarter of 2015, it went up by 4.2%, compared to 3.8% in the same period last year. The value of industrial manufacturing depends on volumes of goods produced and prices. The pricing indicator for industrial production sold decreased by 2.1% in the second quarter, due to, inter alia, decline in prices of oil, gas and petroleum and gas-related products, as well as food. According to the July "Inflation Report" by the National Bank of Poland, decline in producer prices was also supported by a slight decrease in unit labor costs in the industry and weak growth of prices in the world. Low commodity prices are resulting in negative production growth across the entire energy sector (-4.5% in the second quarter of 2015).

The second quarter of 2015 was already the fourth consecutive quarter with a negative CPI reading. In three months, CPI fell by 0.9%. PPI continues to show negative dynamics for over one year now, and the second quarter ended with a 2.1% downward revision. In a July 2015 forecast, the National Bank of Poland adjusted its full-year CPI expectations from -0.5% to -0.8% on account of a persistent slump in food prices and zloty strength versus the euro. In the second quarter, the Monetary Policy Council did not change interest rates. From March 2015, the reference interest rate is 1.5%, while the deposit rate is 0.5%.

Table: Key economic indicators for Poland.

Key economic indicators (% change y-o-y)	H1 2015	H1 2014
GDP ¹	3.6	3.6
CPI ²	-1.2	0.4
PPI ²	-2.4	-1.2
Sold industrial production ²	4.7	4.4
Sold production – manufacturing ²	5.6	6.0
Sold production – energy ³	-3.8	-3.6
Gross domestic electricity consumption ⁴	1.8	-0.3
Gross domestic electricity consumption (TWh) ⁴	79.91	78.49
EUR/PLN ⁵	4.1	4.2

Source: ¹ Value for H1 2014 and Q1 2015 – Central Statistical Office of Poland, value for Q2 2015 – average from analysts' forecasts, 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, ⁵ National Bank of Poland

1.2.2 Fuel purchase costs

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

Type of fuel	H1 2015		H1 2014	
	Volume (tons 000')	Cost (PLNm)	Volume (tons 000')	Cost (PLNm)
Hard coal	2,367	571	2,910	728
Gas (cubic metres ths)	300,182	273	108,094	33
Biomass	696	198	645	180
Fuel oil (heavy and light)	14	19	18	36
TOTAL		1,061		977

In the first half of 2015 the costs of purchasing primary fuels from providers outside the Group amounted to PLN 1,061 million and increased by 9% compared to the first half of 2014.

- Gas
 - The higher average gas purchase price (+181 PLN million)
The increase of average gas purchase price in first half of 2015 was caused by utilization of more expensive methane-rich gas derived from dispatch, compared to the gas from local sources.
 - Higher purchase volume (+59 PLN million)
The increase of gas purchase volume in the first half of 2015 was caused by the reinstated support for gas-fuelled cogeneration units what improves generation efficiency of these producers. In the first half of 2014 production in gas-fired CHPs was very low due to lack of support for highly efficient cogeneration. Cogeneration support scheme was prolonged until December 31, 2018.

In addition, increased purchase of gas results from higher production in Rzeszów CHP due to commissioning of new gas-engine unit in November 2014.
- Biomass
 - Higher volume of biomass purchase by 8% (+14 PLN million)
 - Average price higher by 2% (+4 PLN million)
- Hard coal
 - The volume of hard coal purchase lowered by 19% (-136 PLN million)
Lower purchase volume of hard coal results from lower generation in Opole power plant, as a consequence of the outage of unit no 4 being in overhaul from October 2014 to February 2015 and additionally lower average utilisation of the power units on Polskie Sieci Elektroenergetyczne S.A. („PSE S.A.”) request and longer reserve shutdown.
 - The average purchase price lower by 4% (-21 PLN million)
Lower prices of the hard coal is a result of the situation on the mining market that is connected with the oversupply of the hard coal on the market.
- Fuel oil
 - Average price lower by 32% (-9 PLN million)
Lower prices of crude oil and refinery products on international markets attributed to the decrease of average purchase price of fuel oil.
 - Purchase volume lower by 22% (-8 PLN million).

In the first half of 2015 approximately 70% 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 half 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 half 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 0.5%.

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 Distribution segment.

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. 4.1% in comparison to the prices binding in the first half of 2014.

1.2.4 Electricity prices

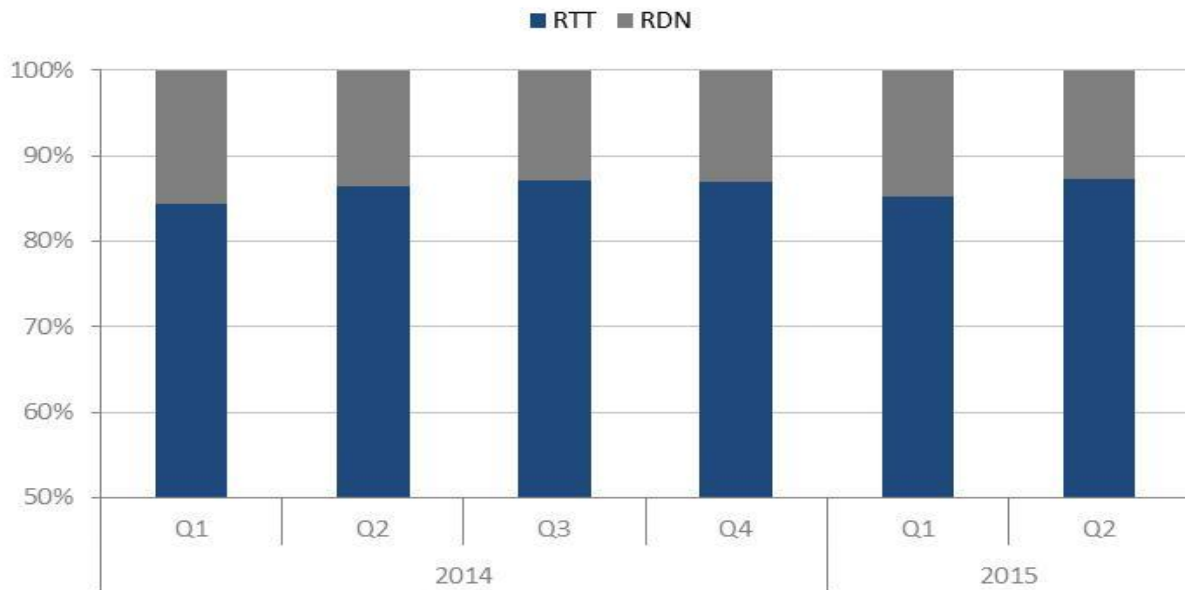
Domestic market – trading volumes

Liquidity on the day-ahead market of Towarowa Giełda Energii S.A. (TGE) in the first half of 2015 increased by 6%, as compared with the first half of 2014, wherein in the second quarter trading volume was lower by 18% comparing with the first quarter of 2015.

The positive trend in trading volumes on the futures market that prevailed throughout 2014 and the first quarter of 2015 has not continued in the second quarter of 2015, recording 2% decrease q/q. 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 13% y/y, reaching 93.71 TWh in the first half of 2015. This means that TGE trading volumes exceeded domestic electricity consumption, which amounted to 79.91 TWh - according to PSE 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

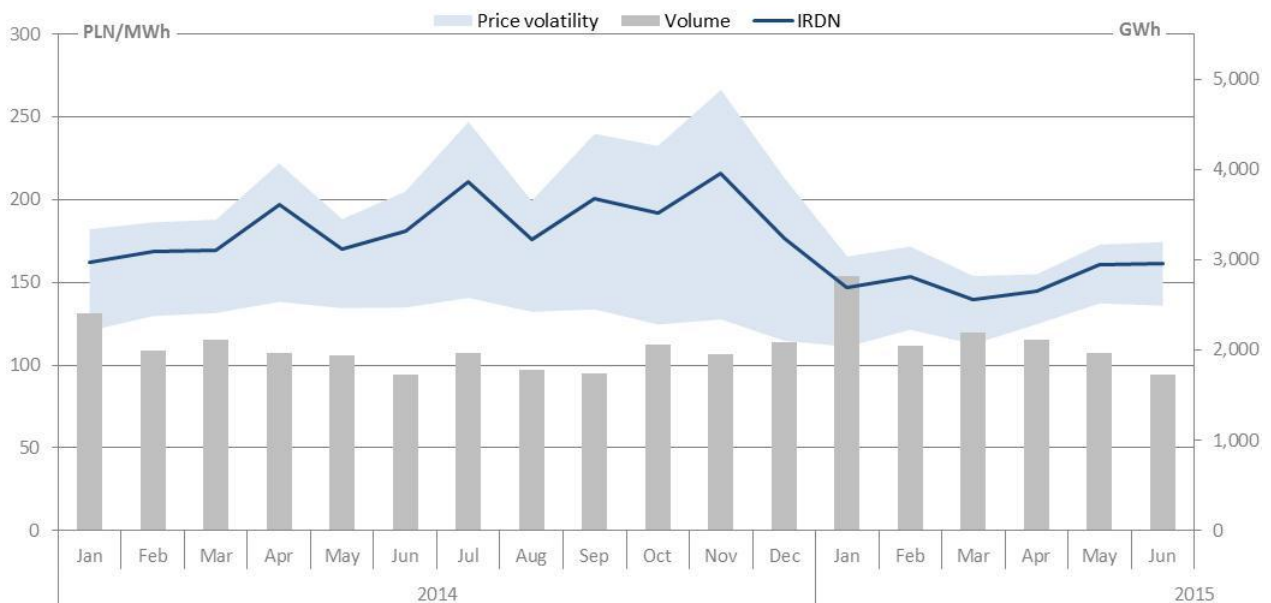
Day-ahead market

In the first half of 2015, prices on the day-ahead market were in a downward trend. The average day-ahead price (the IRDN index) was PLN 150.82/MWh, as compared with PLN 174.70/MWh in the first half of 2014, denoting a decline of 14%. Both the first and second quarter of 2015 were priced 12% and 15% lower than the respective periods in the preceding year.

In the first half of 2015, prices were subject to lower level of volatility as in the analogical period of 2014. Declines were observed in peak hour prices (sIRDN index down 15% y/y) and off-peak hours (offIRDN index down 6% y/y). The sIRDN index represented 110% of the IRDN index and was lower in comparison to the first half of 2014. The decline in electricity prices, both in peak and off-peak hours, 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)*.

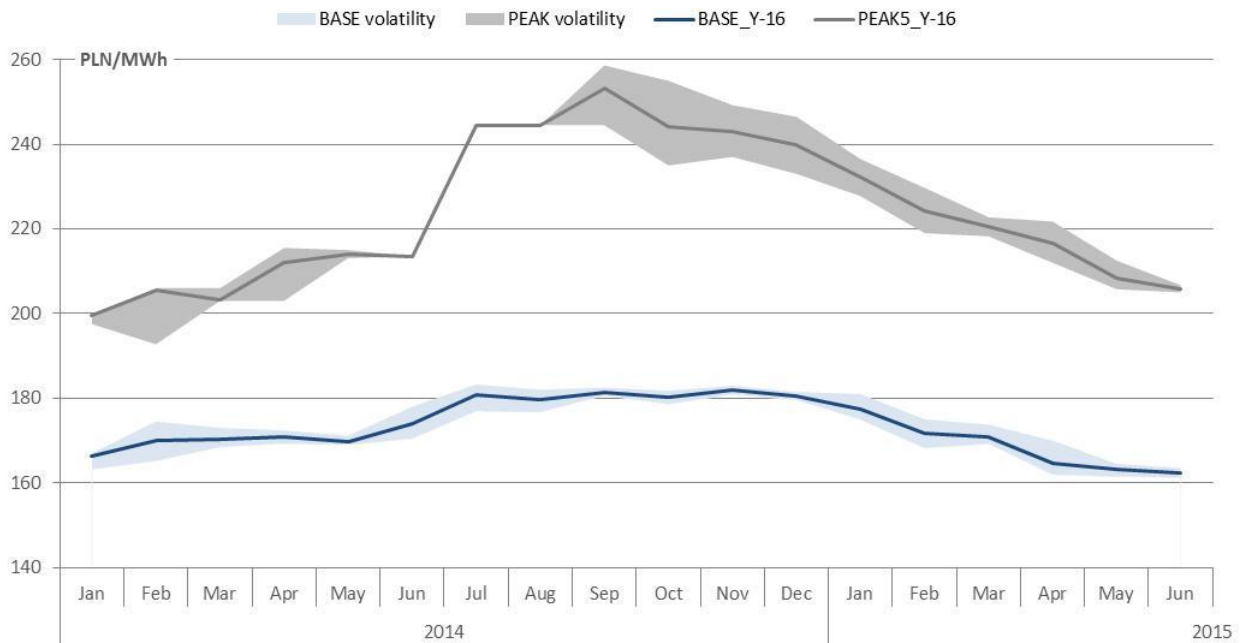


* arithmetic average price from all power exchange transactions concluded at the session (IRDN) and prices spread (sIRDN, offIRDN)

Futures market

In the first half of 2015, both BASE and PEAK contracts were also priced lower. The BASE_Y-16 and PEAK5_Y-16 futures contracts for 2016 have been in a down trend since the beginning of the year. In January, the BASE_Y-16 product was priced at an average of PLN 177.39/MWh, whilst in June it was PLN 162.33/MWh, meaning an 8% decline. The same trend was observed in the case of the PEAK5_Y-16 product, which was valued at PLN 232.25/MWh in January and its minimum price in June fell to PLN 205.00/MWh. The overall declines on the futures market were driven by low electricity prices on the day-ahead market and decreasing prices of hard coal.

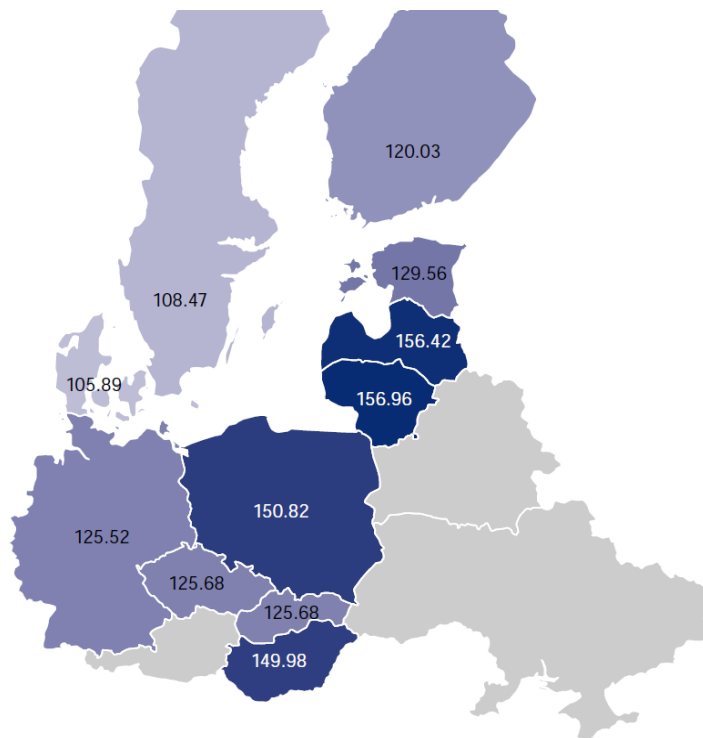
Chart: Monthly prices and price volatility on the futures market in 2014-2015 (TGE).



International markets

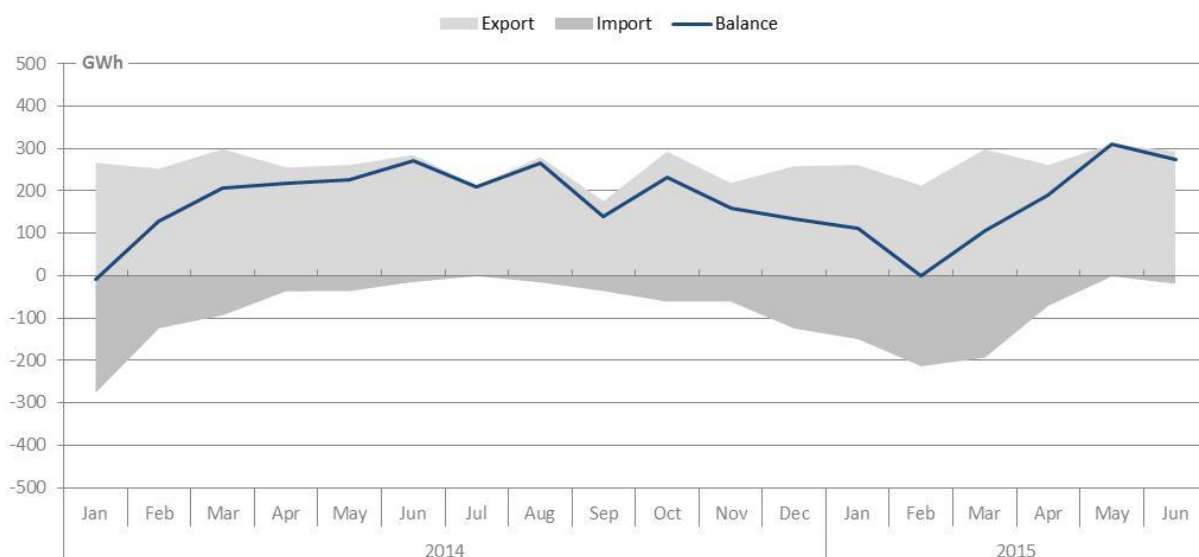
In the first half of 2015, wholesale prices on the Polish market remained above those in Sweden, Germany, Czech Republic and Slovakia. The average spot price on the German market fell by 7% y/y on account of growing wind and photovoltaic generation. An even sharper decline - driven by hydrological conditions - was noted on the Nordic wholesale market - by 16%. A strong decrease in the second quarter of 2015 in neighbouring spot markets coupled with higher prices on the Polish market (on q-o-q basis) led to a situation whereby the domestic market was significantly more expensive and, as a result, the half-year price was one of the highest in the region.

Chart: Comparison of average prices on Polish market and on European markets in the first half of 2015 (prices in PLN/MWh).



These shifting price relations in the second quarter of 2015 (versus the first quarter of 2015) between Poland and its neighbouring markets were reflected in cross-border exchange volumes. Imports went up by 12% on a quarter-to-quarter basis due to the price levels in Scandinavia. As before, the largest volume of electricity was imported from Sweden. Exports, on the other hand, fell in the second quarter by 84% from the first quarter of 2015, resulting from a lack of flows to Germany, Czech Republic and Slovakia. Maintaining elevated imports together with low electricity export prices translated into a 259% change in the balance of cross-border exchange in Poland.

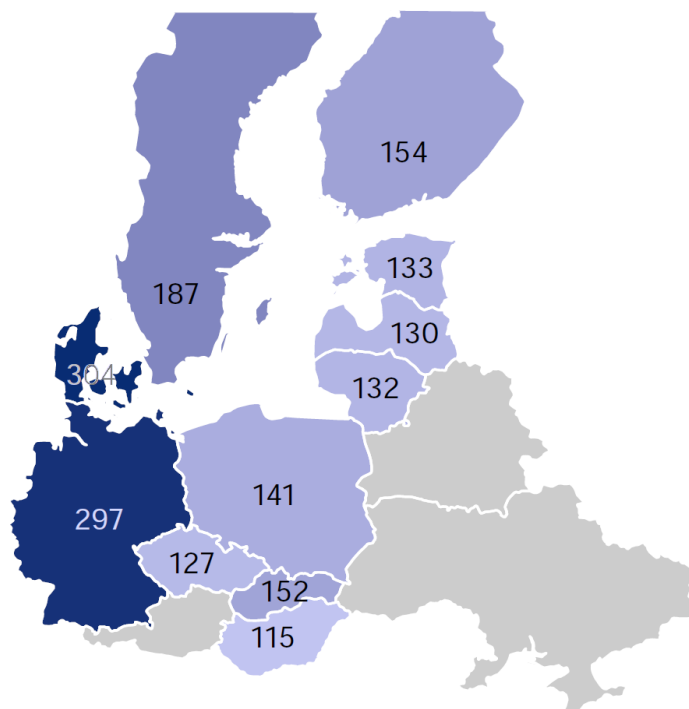
Chart: Monthly imports, exports and cross-border exchange balance in 2014-2015.



Electricity prices for households in the EU in the second half of 2014, including all additional charges

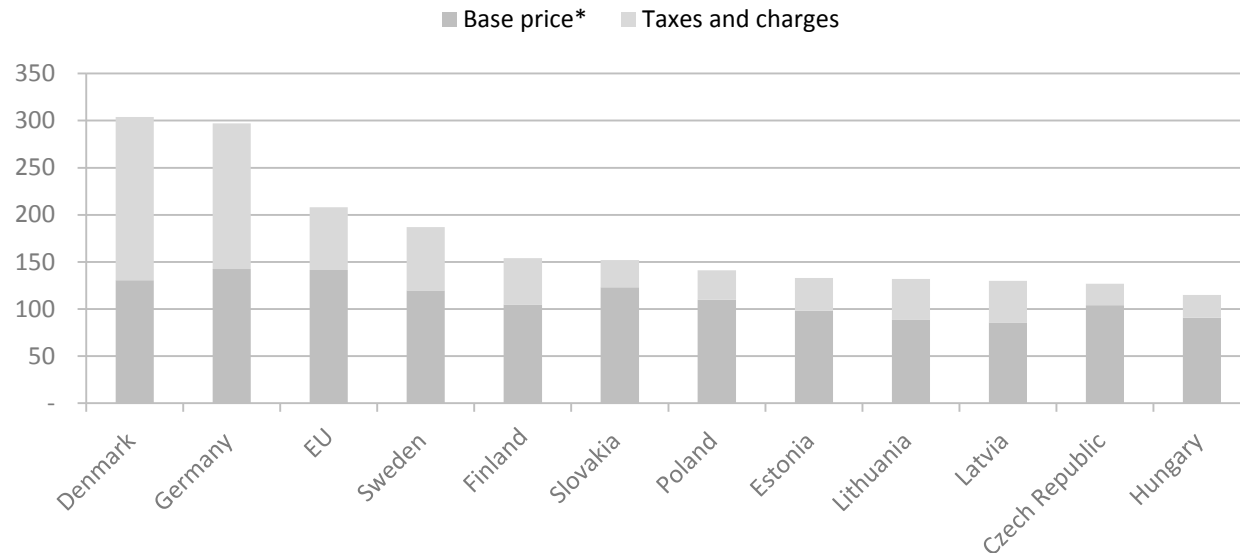
The diversity of electricity prices for retail customers in the European Union depends not only on the level of the wholesale prices of electricity. The fiscal system, regulation mechanisms and support schemes in particular countries all have significant impact on the final price of electricity. In Poland in the second half of 2014, an additional burden for individual customers accounted for 22% of the electricity price, compared to the EU average of 32%. In Denmark and Germany the proportion of additional charges in the price of electricity exceeded 50%.

Diagram: Comparison of average electricity prices for individual customers in selected EU countries in the second half of 2014 (prices in EUR/MWh). Prices include the cost of electricity distribution.



Source: own work based on the Energy prices in the EU. Eurostat, the statistical office of the European Union. 92/2015 - 27

Diagram: The share of additional charges in electricity prices for the individual customers in selected EU countries in the second half of 2014 (prices in EUR/MWh).



* including electricity distribution costs

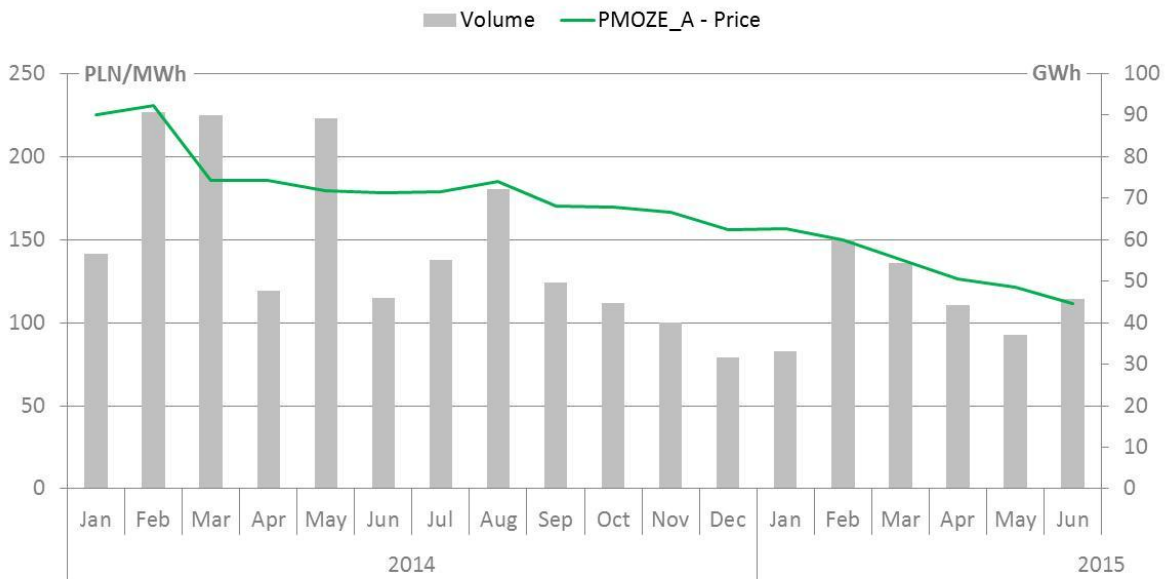
Source: own work based on the Energy prices in the EU. Eurostat, the statistical office of the European Union. 92/2015 - 27

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 half of 2015. The downtrend initiated in March 2014 continued, as a result of which the average quarterly price for property rights reached PLN 119.80/MWh in the second quarter of 2015. This marks an 19% drop in the value of allowances from the previous quarter and a 34% decline year-on-year. The lower prices resulted from a continuing surplus of allowances available on the market.

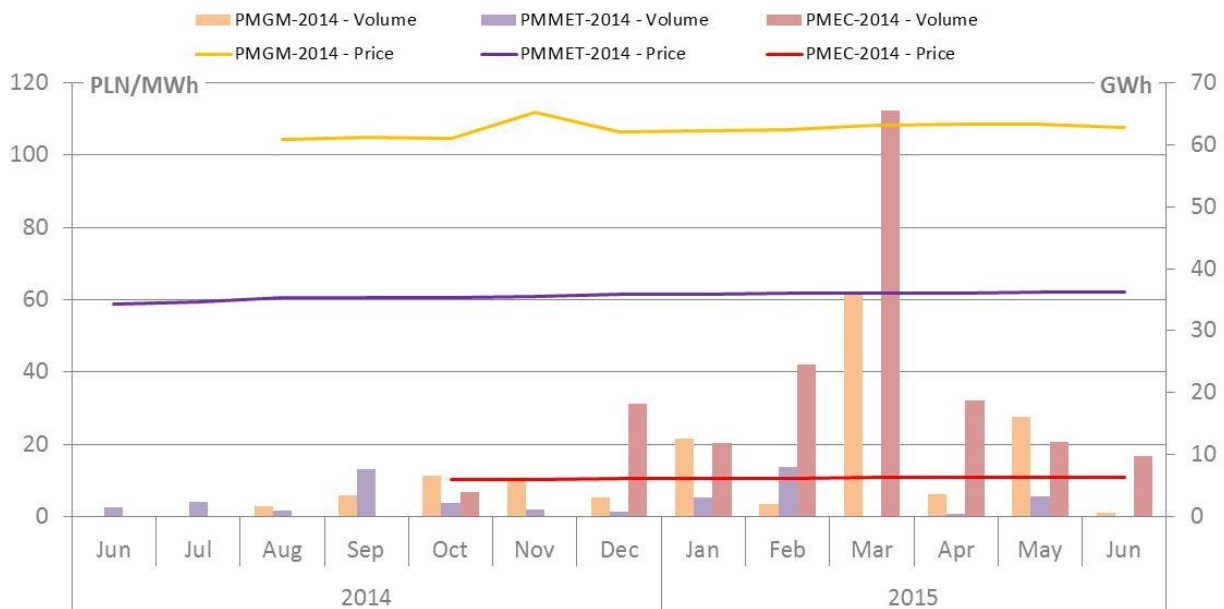
Chart: Monthly prices and trading volumes of green certificates in 2014-2015.



Yellow, red and violet certificates - cogeneration

The prices of yellow (PMGM-2014), purple (PMMET-2014) and red (PMEC-2014) cogeneration certificates in the first half of 2015 remained at levels approximating unit substitute fees. The average price for yellow certificates in the first half of 2015 reached PLN 108.54/MWh (substitute fee PLN 110.00/MWh), violet certificates PLN 62.05/MWh (substitute fee PLN 63.26/MWh) and red property rights PLN 10.85/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.



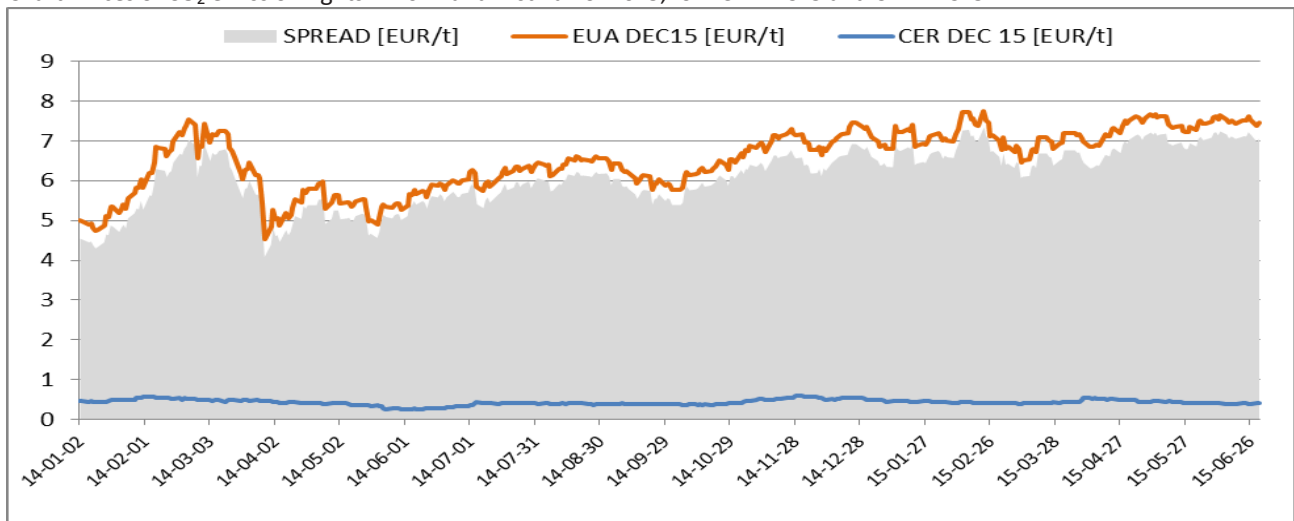
1.2.6 Prices of CO₂ emission rights

Following 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 11% of the allocations granted under the National Allocation Plan for years 2008-2012.

Factors, which affected the volatility of prices of CO₂ emission rights in the first half 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. MSR

mechanism is to rely on withdrawal to the reserve each year 12% of the total number of allowances traded in the preceding year. This is to be done until the number of allowances that should be withdrawn, falls below 100 million. If the total pool of allowances on the market will not exceed 400 million, 100 million allowances shall be released annually from the reserve.

Chart: Prices of CO₂ emission rights in 2014 and first half of 2015, for EUA DEC15 and CER DEC15.



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

In the first half of 2015, prices of EUA units in future contracts with delivery in December 2015 were priced in range EUR 6.64-7.76/tonne. In the same period, CER units in future contracts with delivery in December 2015 were priced in range EUR 0.39-0.54/tonne.

In the nearest future, the volatility of prices of CO₂ emission allowances will mainly be affected by the formal establishment of a market stabilisation reserve and publication by the European Commission of a draft amendment of the EU-ETS directive. New regulations relate to the period beyond 2020.

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 half of 2015 in comparison to the allocations.

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

Operator	CO ₂ emissions in H1 2015*	Allocation of CO ₂ emission rights for 2015**
Bełchatów Power Plant	18,631,115	13,501,970
Turów Power Plant	3,781,675	5,431,204
Opole Power Plant	2,830,322	3,118,922
ZEDO	2,430,422	2,543,421
Bydgoszcz CHPs	427,891	608,949
Lublin Wrotków CHP	260,964	328,762
Gorzów CHP	228,982	255,812
Rzeszów CHP	169,398	141,729
Zgierz CHP	108,629	40,830
Kielce CHP	97,511	105,552
TOTAL	28,966,909	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. 6.8 of this report.

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

Market and regulatory environment is currently subject to constant changes, which require PGE Group to verify its strategy through prioritisation and potential correction of key aspirations and strategic activities.

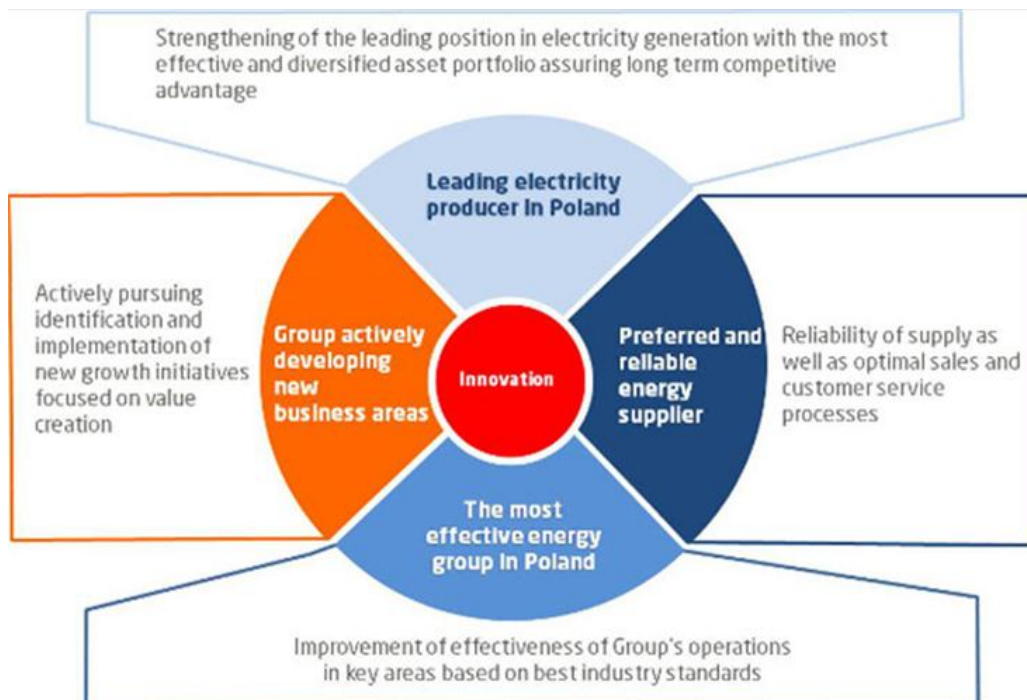
In particular, it is required to accelerate restructuring initiatives and efficiency improvement in operations of the whole organisation, that are necessary for faster diversification of the Group's generation fleet. The Company analyses its development plans in the context of the market situation and maximization of the CAPEX and OPEX efficiency.

Main areas of analyses are:

- Investment and modernization program
- M&A activities and disinvestments
- Optimising of organizational structure and efficiency improvement programs

Analyses and update of the strategic objectives is planned until the end of 2015.

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 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's value in this segment.
- 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 in 2017. Exploitation of lignite deposits will be considered within the development strategy of the whole generation portfolio.

Key projects in the first half 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 – H2 2019● January 31, 2014 – issue of Notice to Proceed● status: Work continues on boiler room and turbine hall foundations at both units; constructing a concrete coating for cooling tower no. 5; excavation and reinforced concrete works within cooling tower no 6 and other ancillary facilities in accordance with the 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: H2 2019● December 1, 2014 - issue of Notice to Proceed● status: project documentation development stage; demolition work on cooling tower basins and

the rest of underground cooling water infrastructure around the construction site is nearing completion, the contractor was requested to redesign technical project of new unit no 11, in such way that it would meet new legal requirements (BAT conclusions), that are to be effective after 2021; construction of the unit was not suspended, and preparatory works on the construction site are in line with the schedule.

Construction of new unit in Gorzów CHP	<ul style="list-style-type: none">● 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: H1 2016● October 3, 2013 - issue of Notice to Proceed● status: project in advanced stage, the roof and walls of the main building are fully in place. The installation of facilities and finishing work at all of the buildings of the new bloc are on-going
Investments in renewable energy sources	<p>Karwice wind farm</p> <ul style="list-style-type: none">● 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)● status: commissioned in July 2015 <p>Gniewino Lotnisko wind farm</p> <ul style="list-style-type: none">● 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 internal roads and foundations completed, constructing a high-voltage <p>Resko II wind farm</p> <ul style="list-style-type: none">● 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 foundations completed, assembly of towers and wind <p>Kisielice II wind farm</p> <ul style="list-style-type: none">● 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 foundations completed, delivery of wind turbines

After completion of the above investments total installed capacity in PGE Group's wind farms will reach approximately **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, 11 and 12 commissioned, unit no. 9 - in 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 and construction of installation to transport ash; production and transport of sludge from unit 14 in 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. In the course of the project, the requirement to fit out unit 14 with new technology for the transport and storage of combustion waste was identified.
- budget for units 1-12: ca. PLN 454 million (net, without costs of financing)
- budget for unit 14: ca. PLN 90 million (net, without costs of financing)
- completion for units 1-12 and unit 14: 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

Construction of flue gas denitrification installation and flue-gas desulphurisation for OP-230 boilers no. 3 and 4 in Bydgoszcz CHPs

- **Aim of the project:** Reduction of NO_x and SO_x emissions from boilers no. 3 and 4 to a level allowing for further use after 2017
- budget to be set
- fuel: hard coal
- completion: 2018

Modernisation of the Pomorzany power plant

- **Aim of the project:** Reduction of NO_x and SO_x emissions from Benson OP-206 boilers to a level allowing to meet the requirements of the IED Directive and BAT/BREF conclusions as well as to ensure that the plant remains in operation until about 2040
- budget to be set
- fuel: hard coal
- completion: 2019

Preferred and reliable energy supplier

PGE Group reorganises the sales process based on effective trading strategy. In every customer segment the PGE Group focuses on understanding the needs of the customers and improvement of customer service quality. In particular it includes:

- corporate customers segment, PGE Group focuses on effective margin management at the Group level and on securing optimal contracts of generating units if PGE Capital Group;
- SME segment, PGE Group focuses on retention of historical customers while maintaining the margin levels, acquisition of new customers through improved customer service and expansion of product offering;
- households segment, PGE Group acquires new customers, expands product offering, lowers the service and sales costs and builds modern IT tools supporting sale processes.

In the Distribution segment, assuring reliability of supply through operational and investment efficiency is 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 half 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
CRM Billing	<ul style="list-style-type: none"> ● the aim of the program is deployment of support systems for settlements and customer service in Supply and Distribution segments ● the program 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 half 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 half 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>
Operating model	<ul style="list-style-type: none"> ● the aim of this project is: organisational performance improvement across PGE Group 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 ● project 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. 40 projects have been implemented by the end of the first half of 2015.
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 half 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. The second half-year of 2015 will see the development of HR solutions that are part of PGE Group's strategic initiatives. During this initial period, HR policies standardising the human resources management area across the Group will be of key importance.

Program SAP

● **the aim of the project is:**

- **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, maintaining a dominant market position while facing the growing competition

Implementation process of modules: Accounting and Logistics, HCM Strategy and Asset Management was continued in the first half of 2015 in the major companies of the PGE Capital Group and was ended with the commenced of production on April 1, 2015. In the Procurement Management area, due to the Contractor's failure to perform a contractual product delivery, the Steering Committee decided to shut the project down. In the second half of 2015, the process to implement HR, Accounting, Logistics and Property Management areas at PGE Group's subsidiaries will be continued.

RES consolidation

● **the aim of the project is:**

- **concentration of all activities related to the electricity generation from renewable energy sources** (excluding biomass combustion and co-combustion) in a single entity - PGE Energia Odnawialna S.A. (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

A concept of the consolidation of the RES area was devised in the first half of 2015. Following actions were taken within the project:

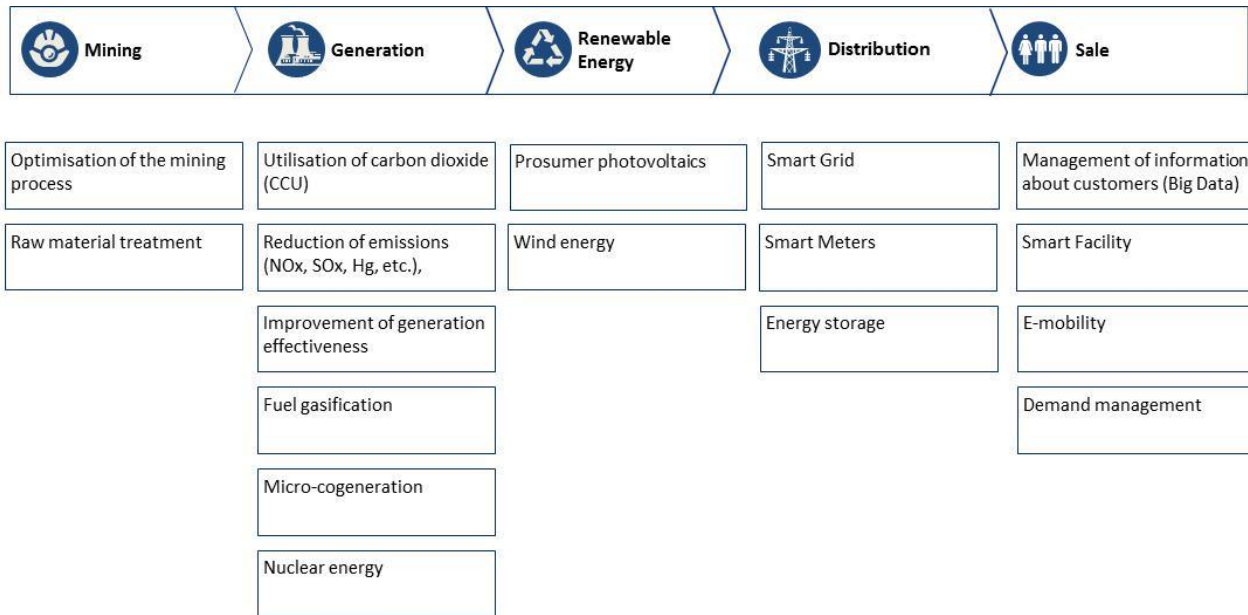
- PGE EO S.A. merged with PELPLIN sp. z o.o.
- PGE EO S.A. acquired assets from PGE Obrót S.A. (6 Small Hydro Power Plants)
- PGE EO S.A. took over part of assets of PGE Energia Natury Sp. z o.o. (Malbork wind farm 18MW and Kisielice wind farm 40.5MW)
- PGE EO S.A. merged with PGE Energia Natury S.A. and Eolica Wojciechowo sp. z o.o. (Wojciechowo wind farm 28MW)

The second half-year will see work being carried out on further stages of consolidation: an in-kind contribution of PGE Energia Natury Sp. z o.o. shares to PGE EO S.A. and the incorporation of PGE EO S.A. subsidiaries.

Group actively developing new business areas

PGE Group's Development and Innovation Strategy 2015-2020, adopted by the Management Board of PGE S.A. in June 2015, defines Strategic Research and Development and New Business Areas ("SOBiR&NB"), within which the Group intends to carry out R&D and innovation projects concerning, among others, the supply of new products or services. The SOBiR&NB areas are aligned with the Group's most important challenges and are identified for each element of the value chain (see the graph below). In addition, in order to scope out the technologies that are available on global markets, three working groups have been established within PGE S.A., dedicated to coal gasification technology, waste management for electricity and heat production as well as coal drying and enrichment.

Graph: Strategic Research and Development and New Business Areas in PGE Capital group



Innovation

PGE focuses on initiating and executing R&D projects that fall within the SOBiR&NB areas. In the first half of 2015, 12 of these projects were launched. Aside from this, more than 30 R&D projects that had been previously commenced are still on-going.

Key projects in the first half of 2015

„Power-to-Gas” concept	<ul style="list-style-type: none"> ● Aim of the project: Development of energy storage technology consisting of the transformation of electricity into a gaseous fuel in a Power-to-Gas installation, which would store, in gas form, surplus electricity produced by wind farms. The concept is being developed jointly by PGE S.A. and gas transmission operator Gaz-System S.A.
Cooperation with the National Centre for Research and Development ("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 NCBiR 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, intended to advance the level of innovativeness in the Polish energy sector through implementing a research agenda that falls outside the Sector Programme for Energy, drafted on the basis of subject areas proposed by PGE S.A., which are aligned with the SOBiR&NB areas. ▪ Draft and delivery of a Report on the Sector Programme for Energy to the National Centre for Research and Development (NCBiR) by PGE and other members of the Polish Electricity Association. The is a plan for a research agenda, consistent for the entire scope of the energy value chain, the implementation of which is intended to provide answers to the most pressing challenges facing the industry. The Sector Programme Report is the first plan of its type prepared with the approval of all of the key energy market participants. ▪ Initiating of cooperation with PZU Group that, through preparing and launching an equity fund mechanism, is intended to support and develop innovative technologies and solutions. PGE S.A. and PZU TFI signed a Letter of intent with regard to support for innovative projects.

3 Results achieved in PGE Capital Group

3.1 Financial results of PGE Capital Group

Key financial data	Unit	H1 2015	H1 2014 <i>data restated</i>	% change
Sales revenues	PLN million	14,244	14,208	0%
EBIT	PLN million	-6,174	3,526	-
EBITDA	PLN million	4,326	5,073	-15%
Net profit/loss attributable to equity holders of the parent company	PLN million	-5,055	2,821	-
Adjusted net profit attributable to equity holders of the parent company*	PLN million	2,144	2,863	-25%
LTC compensations	PLN million	301	1,408	-79%
Capital expenditures	PLN million	3,332	2,232	49%
Net cash from operating activities	PLN million	3,069	1,584	94%
Net cash from investing activities	PLN million	-4,152	-5,050	-18%
Net cash from financial activities	PLN million	-273	2,093	-
Net earnings per share	PLN	-2.71	1.51	-
EBITDA margin	%	30%	36%	-
Key financial data	Unit	As at June 30, 2015	As at December 31, 2014	% change
Working capital	PLN million	5,556	6,753	-18%
Net debt/LTM EBITDA**	x	0.06x	-0.11x	

* Net profit adjusted by impairment loss

** LTM EBITDA - Last Twelve Months EBITDA

3.1.1 Consolidated statement of comprehensive income

In the first half of 2015 total sales revenues of the Group amounted to PLN 14,244 million compared to PLN 14,208 million in the first half of 2014.

Sales revenues – increase by PLN 36 million

Positive impact	<ul style="list-style-type: none"> ● increased revenues from sales of electricity by PLN 652 million ● increased revenues from sales of distribution services by PLN 138 million ● increase of revenues from sale of gas by PLN 137 million ● increased revenues from sales of heat by PLN 36 million ● increased revenues from ancillary control services by PLN 30 million
Negative impact	<ul style="list-style-type: none"> ● decreased revenues from LTC compensations by PLN 861 million ● decreased revenues from sales of certificates of energy origin by PLN 34 million ● decreased revenues from telecom operations by PLN 15 million

Cost of goods sold in the first half of 2015 amounted to PLN 19,457 million, what means an increase by approx. 85% compared to the first half of 2014.

Cost of goods sold – increase by PLN 8,930 million

Negative impact	<ul style="list-style-type: none"> ● recognition of impairment loss in amount of PLN 8,842 million ● higher merchandise and materials sold, mainly: <ul style="list-style-type: none"> ● higher costs of production fuel and transport services by PLN 67 million ● higher costs of transmission fees by PLN 67 million
Positive impact	<ul style="list-style-type: none"> ● lower personnel expenses by PLN 148 million, mainly due to lower provision for costs of Voluntary Leave Programs ● lower costs of materials used for repair and maintenance by PLN 45 million

Gross loss on sales in the first half of 2015 amounted to PLN (-) 5,213 million compared to gross profit of PLN 3,681 million in the first half of 2014, what means an decrease by PLN 8,894 million.

In the first half of 2015 distribution and selling expenses of PGE Group amounted to PLN 732 million and were lower by approx. 2% in comparison to the first half of 2014. The decreased selling and distribution expenses were mainly associated with lower costs of redemption of property rights incurred by Supply segment.

In the first half of 2015 general and administrative expenses amounted to PLN 402 million, what means an increase of approx. 10% in comparison to the first half of 2014.

Result on other operating activities in the first half of 2015 was positive and amounted to PLN 173 million in comparison to positive result of PLN 955 million in the first half of 2014.

Other operating revenues of the Group in the first half of 2015 amounted to PLN 334 million, what means decrease by approx. 74% in relation to PLN 1,289 million achieved in the comparable period of 2014.

Other operating revenues - decrease by PLN 955 million

Negative impact	<ul style="list-style-type: none"> ● lower level of reversed provisions by PLN 816 million, mainly due to lower provision for purchase of CO₂ emission rights ● decline in LTC compensations (disputes) by PLN 246 million ● donations received – decrease by PLN 64 million ● compensations, penalties and fines received lower by PLN 26 million
Positive impact	<ul style="list-style-type: none"> ● effect of changes in provision in reclamation of land due to discount rate change (+ PLN 193 million)

Other operating expenses of the Group from January to June 2015 amounted to PLN 161 million compared to PLN 334 million in the first half of 2014, what means a decrease by approx. 52%. Decrease of other operating expenses by PLN 173 million was mainly the effect of changes of provision in reclamation of land due to discount rate change.

In the first half of 2015 result on financial activities was negative and amounted to PLN (-) 61 million, in comparison to negative result in the amount of PLN (-) 6 million in the first half of 2014.

The Group's financial revenues in the first half of 2015 amounted to PLN 110 million, what means a decrease by approx. 40% in relation to PLN 182 million achieved in the first half of 2014.

Financial revenues - decrease by PLN 72 million

Negative impact	<ul style="list-style-type: none"> ● lower exchange gains by PLN 27 million ● lower interest on loans and receivables by PLN 25 million ● lower interest on financial asset at fair value through profit or loss and cash by PLN 25 million ● lower level of provisions reversed by PLN 17 million
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Financial expenses of the Group in the period January - June 2015 amounted to PLN 171 million, what means a decrease by approx. 9% in comparison to the value of PLN 188 million in the comparable period of 2014.

Financial expenses - decrease by PLN 17 million

Negative impact	<ul style="list-style-type: none"> ● higher interest on financial liabilities at fair value through profit or loss by PLN 35 million
Positive impact	<ul style="list-style-type: none"> ● recognition of the revaluation of CCIRS hedging transactions in the amount of PLN 24 million

As a result of the factors discussed above, the **gross loss** of the Group in the first half of 2015 amounted to PLN (-) 6,235 million, compared to gross profit of PLN 3,520 million in the first half of 2014.

Net loss of the PGE Capital Group in the period January - June 2015 amounted to PLN (-) 5,059 million compared to net profit of PLN 2,836 million in the comparable period of 2014.

Net loss attributable to the equity holders of the parent company in the first half of 2015 amounted to PLN (-) 5,055 million, what means decline by PLN 7,876 million in comparison to the first half of 2014.

Adjusted net profit attributable to the equity holders of the parent company in the first half of 2015 amounted to PLN 2,144 million and was lower by PLN 719 million in comparison to PLN 2,863 million in the first half of 2014.

Total comprehensive income of the Group amounted to PLN (-) 4,886 million in the first half of 2015, in comparison to PLN 2,781 million in the first half of 2014.

3.1.2 Consolidated statement of financial position

Non - current assets of the Group as at June 30, 2015 and as at December 31, 2014 amounted respectively to PLN 44,789 million and PLN 52,182 million.

Non - current assets - decrease by PLN 7,393 million

Decline	<ul style="list-style-type: none"> ● depreciation charges and impairment losses on fixed assets and intangible assets in the amount of PLN 10,500 million
Growth	<ul style="list-style-type: none"> ● capital expenditures incurred for property, plant and equipment and intangible assets in the amount of PLN 3,332 million, including: <ul style="list-style-type: none"> ▪ Conventional Generation – PLN 2,358 million ▪ Distribution – PLN 688 million ▪ Renewable Energy - PLN 219 million ● advances for construction in progress by PLN 198 million

Current assets of the Group as at June 30, 2015 and as at December 31, 2014 amounted respectively to PLN 12,679 million and PLN 14,019 million.

Current assets – decrease by PLN 1,340 million

Decline	<ul style="list-style-type: none"> ● cash and cash equivalents by PLN 1,369 million ● CO₂ emission rights by PLN 577 million
Growth	<ul style="list-style-type: none"> ● inventories by PLN 293 million ● other loans and financial assets by PLN 240 million ● other short term assets by PLN 79 million

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

Decrease in greenhouse gases emission rights results mainly from redemption of CO₂ emission rights for 2014.

Higher inventories resulted mainly from increased value of certificates of energy origin by PLN 258 million and increased value of CO₂ emission rights by PLN 89 million, with a decrease in the value of hard coal by PLN 104 million.

Change in other loans and financial assets results from higher LTC receivables by PLN 175 million, higher deposits over 3 months by PLN 97 million and lower other receivables by PLN 32 million.

Growth in **other short-term assets** results from higher excise tax receivables, fees for mining usufruct and fees for the exclusion of land from agricultural and forestry production with the simultaneous decrease in position of upward valuation of revenues.

Total equity of the Group as at June 30, 2015 and as at December 31, 2014 amounted respectively to PLN 38,513 million and PLN 44,884 million, what means decline by PLN 6,371 million.

Total equity of the Group in the first half of 2015 was negatively affected by recognition of net loss in amount of PLN (-) 5,059 million and 2014 profit distribution and allocation of its part in the amount of PLN 1,462 million for dividend payout.

Non-controlling interest as at June 30, 2015 and as at December 31, 2014 amounted respectively to PLN 83 million and PLN 116 million.

Long-term liabilities as at June 30, 2015 and as at December 31, 2014 amounted respectively to PLN 11,832 million and PLN 14,051 million.

Long-term liabilities – decrease by PLN 2,219 million

Decline	<ul style="list-style-type: none">● provisions for deferred tax liability by PLN 1,447 million● level of provisions by PLN 675 million● interest - bearing loans, borrowings, bonds and lease by PLN 119 million
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Decrease of provisions for deferred tax liability results mainly from the increase of deferred tax asset due to difference between tax and carrying value of the property, plant and equipment.

Decrease of long-term provisions results mainly from decreased provision for reclamation of land and actuarial provisions due to discount rate change.

Lower interest - bearing loans, borrowings, bonds and lease is connected mainly with reclassification of bank loans and bonds to short - term liabilities and revaluation of bonds issued by PGE Sweden AB (publ) caused by the change of EUR/PLN exchange rate.

Short-term liabilities as at June 30, 2015 and as at December 31, 2014 amounted respectively to PLN 7,123 million and PLN 7,266 million.

Short-term liabilities – decrease by PLN 143 million

Decline	<ul style="list-style-type: none">● other financial liabilities by PLN 571 million● trade receivables by PLN 461 million● level of provisions by PLN 288 million● current account credits by PLN 131 million
Growth	<ul style="list-style-type: none">● other non-financial liabilities by PLN 1,260 million● income tax liabilities by PLN 55 million

Decreased other financial liabilities result from lower liabilities related to purchased property, plant and equipment and intangible assets by PLN 507 million, lower LTC liabilities by PLN 70 million and growth of other liabilities.

Trade receivables decreased mainly in Conventional Generation segment and Distribution segment.

Lower short-term provisions mainly result from lower level of provisions for purchase of CO2 emission rights

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

Higher non-financial liabilities results mainly from increase of dividend payable by PLN 1,461 million and liabilities arise from VAT and excise tax by PLN 128 million with simultaneous lower level of liabilities related to current employment benefits – by PLN 221 million - and lower environmental fees – by PLN 106 million.

3.1.3 Consolidated statement of cash flows

The total net cash flows from operating activities for the 6-month period ended June 30, 2015 amounted to PLN 3,069 million in comparison to PLN 1,584 million in 6-month period ended June 30, 2014.

Negative net cash flow from investing activities for the 6-month period ended June 30, 2015 amounted to PLN 4,152 million compared to negative net cash flow in amount of PLN 5,050 million in comparable period of 2014.

Cash flow from investing activities

Positive impact ● deposits lower by PLN 1,971 million

Negative impact ● increase of purchase of tangible and intangible assets by PLN 1,078 million

Negative net cash flow from financial activities for the 6-month period ended June 30, 2015 amounted to PLN 273 million compared to positive net cash flow in amount of PLN 2,093 million in the 6-month period ended June 30, 2014.

Cash flow from financial activities in the first half of 2015 was mainly affected by negative balance of proceeds/repayments from/of bank loans, borrowings, bonds and finance lease amounting to PLN 183 million and, while in the comparable period balance of the item was positive and amounted to PLN 2,135 million.

3.2 Key operational figures of PGE Capital Group

Table: Key operational figures.

Key figures	Unit	H1 2015	H1 2014	% change	2014
Lignite extraction	Tons m	25.02	24.13	4%	49.97
Net electricity production	TWh	27.63	26.62	4%	54.84
Heat sales	GJ m	10.60	10.06	5%	17.94
Sales to final customers*	TWh	19.26	19.56	-2%	39.64
Distribution of electricity**	TWh	16.45	15.95	3%	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	H1 2015	H1 2014	% change	2014
SALES IN TWh, including:	50.22	49.14	2%	103.14
Sales to end-users*	19.27	19.53	-1%	39.60
Sales on the wholesale market, including:	30.15	29.05	4%	62.44
<i>Sales on the domestic wholesale market - power exchange</i>	28.57	27.14	5%	56.54
<i>Other sales on the domestic wholesale market</i>	1.54	1.61	-4%	3.10
<i>Sales to foreign customers</i>	0.04	0.30	-87%	2.80
Sales on the Balancing Market	0.80	0.56	43%	1.10

* after elimination of internal sales within PGE Group

Increased sales volume of PGE Capital Group on the power exchange results mainly from higher trading by the Conventional Generation segment on the exchange due to higher availability of the generating units in comparison to the corresponding period of 2014.

Purchases of electricity

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

Purchases volume	H1 2015	H1 2014	% change	2014
PURCHASES IN TWh, including:	24.96	25.10	-1%	53.18
Purchases on the domestic wholesale market – power exchange	19.92	18.30	9%	37.82
Purchases on the domestic wholesale market, other	1.96	2.66	-26%	5.20
Purchases from abroad	0.02	0.25	-92%	2.75
Purchases from Balancing Market	3.06	3.89	-21%	7.41

Increased purchases on the domestic wholesale market - power exchange volume on the power exchange results from transactions realized by the Conventional Generation segment.

Decreased purchases on the domestic wholesale market, other are due to lower purchases transactions realized on local market by PGE Obrót S.A. Since April 2015 the company ceased purchases from Połaniec and Ostrołęka power plant plants.

The decrease of purchase on the local market has been compensated by the purchase on the power exchange market.

Production of electricity

Generation volume	H1 2015	H1 2014	% change	2014
ENERGY GENERATION IN TWh, including:	27.63	26.62	4%	54.84
Lignite-fired power plants	19.61	18.71	5%	39.22
<i>including co-combustion of biomass</i>	0.21	0.18	17%	0.39
Coal-fired power plants	5.14	5.95	-14%	11.35
<i>including co-combustion of biomass</i>	0.22	0.23	-4%	0.44
Coal-fired CHP plants	0.67	0.64	5%	1.10
Gas-fired CHP plants	1.10	0.22	400%	1.16
Biomass-fired CHP plants	0.23	0.24	-4%	0.43
Pumped storage power plants	0.22	0.28	-21%	0.52
Hydroelectric plants	0.27	0.24	13%	0.42
Wind power plants	0.39	0.34	15%	0.64

An increase in production of electricity at lignite - fired power plants results mainly from higher production in Bełchatów Power Plant as a consequence of units availability in the first half of 2015. Unit no. 11 was not operational from December 2013 to September 2014 due to modernization.

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 results also from lower demand from Transmission System Operator (TSO) (lower average utilisation of the power units and longer reserve shutdown).

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.

An increase in production at gas-fired CHP plants is a result of production resumption in Rzeszów CHP starting from September 2014 and Lublin - Wrotków 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 wind/weather conditions as well as arise from the commissioning of Wojciechowo wind farm in March 2014 (farm belongs to Renewable Energy segment), 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 half of 2015 were used to a lower extent by the TSO.

3.2.2 Sales of heat

In the first half of 2015 the heat sales in PGE Capital Group totaled 10.6 GJ million and were higher by 0.55 GJ million than in the first half of 2014. Higher sales of heat results from increased demand for heat due to weather conditions. Additionally it results also from the acquisition of a new industrial consumer by Turów Power Plant starting from November 2014.

3.3 Business segments – financial data

Table: Breakdown of the Group's income by business segments in the first half of 2015 and 2014

In PLN million	Total income		
	H1 2015	H1 2014*	% change
Conventional Generation	6,426	6,658	-3%
Renewable Energy	378	415	-9%
Supply	7,269	6,943	5%
Distribution	3,001	2,848	5%
Other operations	340	849	-60%
TOTAL	17,414	17,713	-2%
Consolidation adjustments	-3,170	-3,505	-10%
TOTAL AFTER ADJUSTMENTS	14,244	14,208	0%

*data restated

**MANAGEMENT BOARD'S REPORT ON ACTIVITIES OF THE CAPITAL GROUP OF PGE POLSKA GRUPA ENERGETYCZNA S.A.
FOR THE 6 MONTH PERIOD ENDED JUNE 30, 2015**

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

In PLN million	EBITDA	EBIT	Capital expenditures	Assets of the segment*
Conventional Generation	2,566	-7,260	2,358	27,383
Renewable Energy	202	88	219	4,252
Supply	279	267	13	4,969
Distribution	1,225	709	688	15,857
Other operations	33	-20	80	958
TOTAL	4,305	-6,216	3,358	53,419
Consolidation adjustments	21	42	-26	-2,776
TOTAL AFTER ADJUSTMENTS	4,326	-6,174	3,332	50,643

* see Note B.1 to the consolidated financial statements

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

In PLN million	EBITDA	EBIT	Capital expenditures	Assets of the segment*
Conventional Generation	3,415	2,516	1,578	33,328
Renewable Energy	234	130	155	3,605
Supply	160	151	7	4,223
Distribution	1,183	691	452	15,116
Other operations	73	10	74	1,417
TOTAL	5,065	3,498	2,266	57,689
Consolidation adjustments	9	28	-34	-2,349
TOTAL AFTER ADJUSTMENTS	5,073	3,526	2,232	55,340

* see Note B.1 to the consolidated financial statements

** data restated

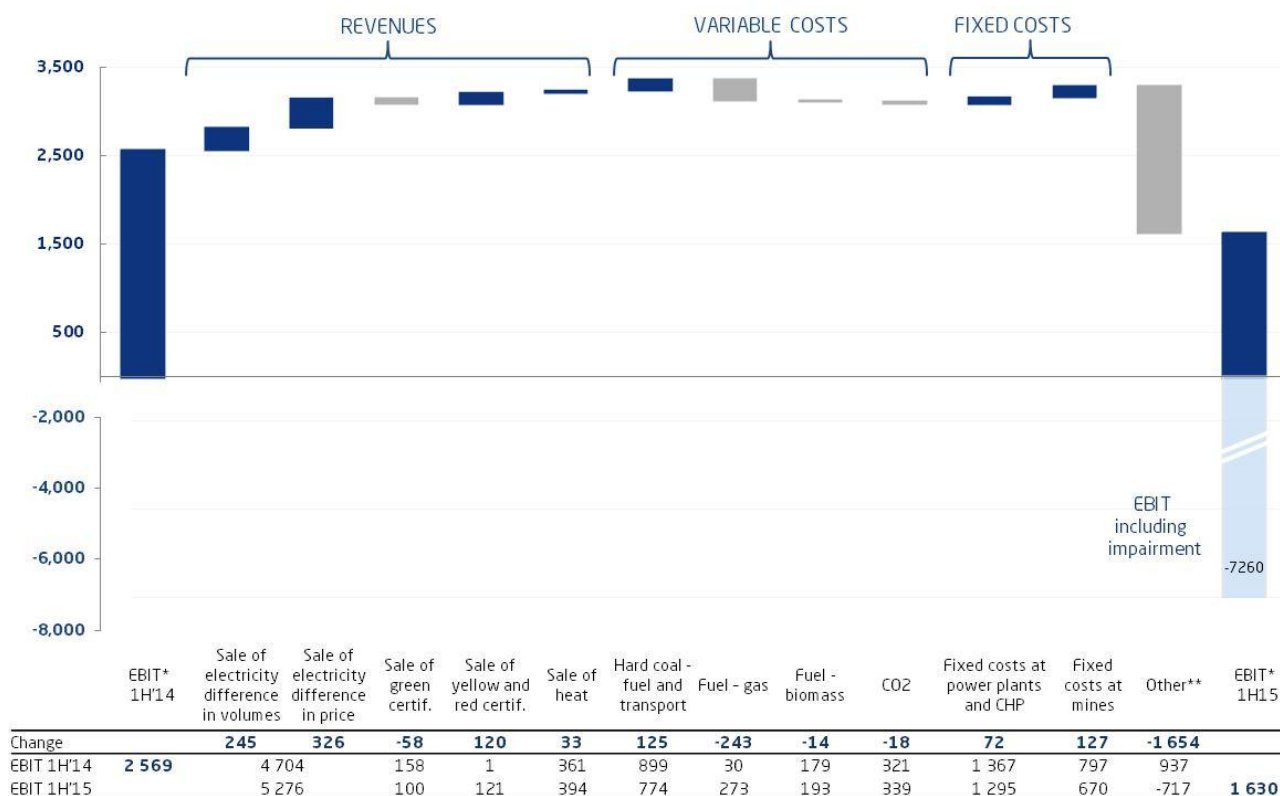
3.3.1 Conventional Generation

Table: Key figures for Conventional Generation.

PLN million	H1 2015	H1 2014*	% change
Sales revenues	6,426	6,658	-3%
EBIT	-7,260	2,516	-
EBITDA	2,566	3,415	-25%
Capital expenditures	2,358	1,578	49%

* data restated

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



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

- **Recognition of impairment loss** in amount of PLN 8,842 million
- **Higher electricity generation volume** resulting from 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 half of 2015 was PLN 173.56/MWh while it amounted to PLN 162.53/MWh in the first half of 2014;
- **Higher costs of gas used** resulting from increased electricity generation by 7.1 TJ, which relates to production start in our CHPs in Rzeszów and Lublin-Wrotków as well as unit cost of use higher by PLN 15.8/GJ;
- **Lower costs of coal used (with transport)** – as a result of lower production from coal (lower volume used by 10.3 TJ);
- **Decline in other operations** resulting mainly from lower by PLN 1,106 million revenues from LTC compensations and lower result on other operating activities influenced by released in H1 2014 provisions for the purchase of CO2 emission rights which amounted to PLN 751 million.
- **Lower fixed costs** mainly due to lower provision for costs of VLP.

Capital expenditures

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

PLN million	Capital expenditures		
	H1 2015	H1 2014	% change
Investments in generating capacities, including:	1,892	955	98%
▪ Development	1,058	199	432%
▪ Modernization and replacement	834	756	10%
Purchase of finished capital goods	28	25	12%
Vehicles	12	6	100%
Other	33	331	-90%
TOTAL	1,965	1,317	49%
Capitalized costs of overburden removal in mines	393	261	51%
TOTAL with capitalized costs of overburden removal in mines	2,358	1,578	49%

Highest capital expenditures in the first half of 2015 were:

- construction of units 5 and 6 in Opole power plant PLN 1,036 million;
- comprehensive modernization of units 7-12 - Bełchatów power plant PLN 338 million;
- construction of desulphurization installations of units 4 - 6 in Turów power plant PLN 37 million;
- construction of desulphurization installations in Bydgoszcz CHP PLN 31 million.

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

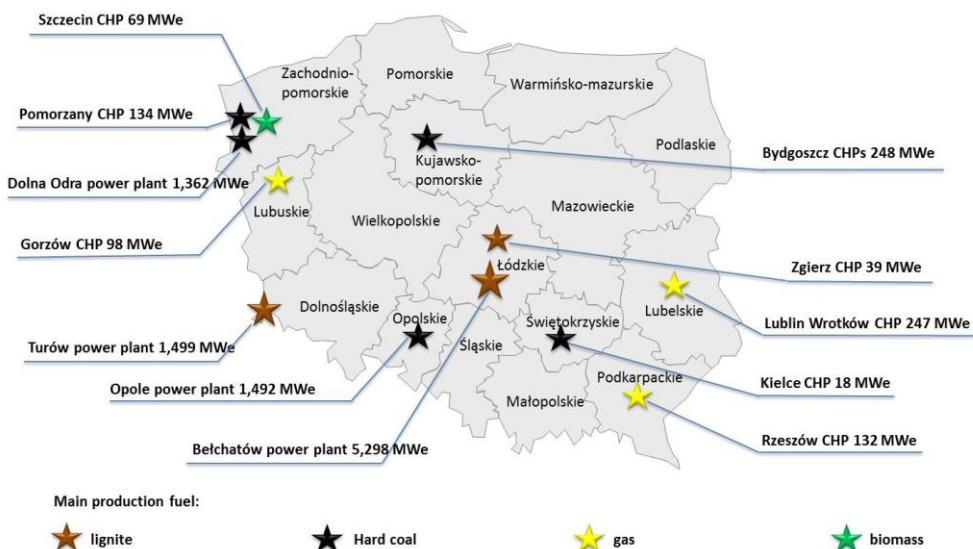
- In January 2015, Unit 11 in Bełchatów has been commissioned following its complex modernization;
- On February 25, 2015 tenders for modernization of units 1-3 in Turów power plant were announced;
- On May 1, 2015 unit no 9 in Bełchatów power plant was decommissioned for modernization;
- In June 2015 unit no 12 in Bełchatów power plant has been commissioned following its complex modernization.

In the first half of 2015 expenditures of companies belonging to PGE Capital Group, which provides direct support services for the Conventional Generation segment, have been also included into Conventional Generation segment.

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

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.



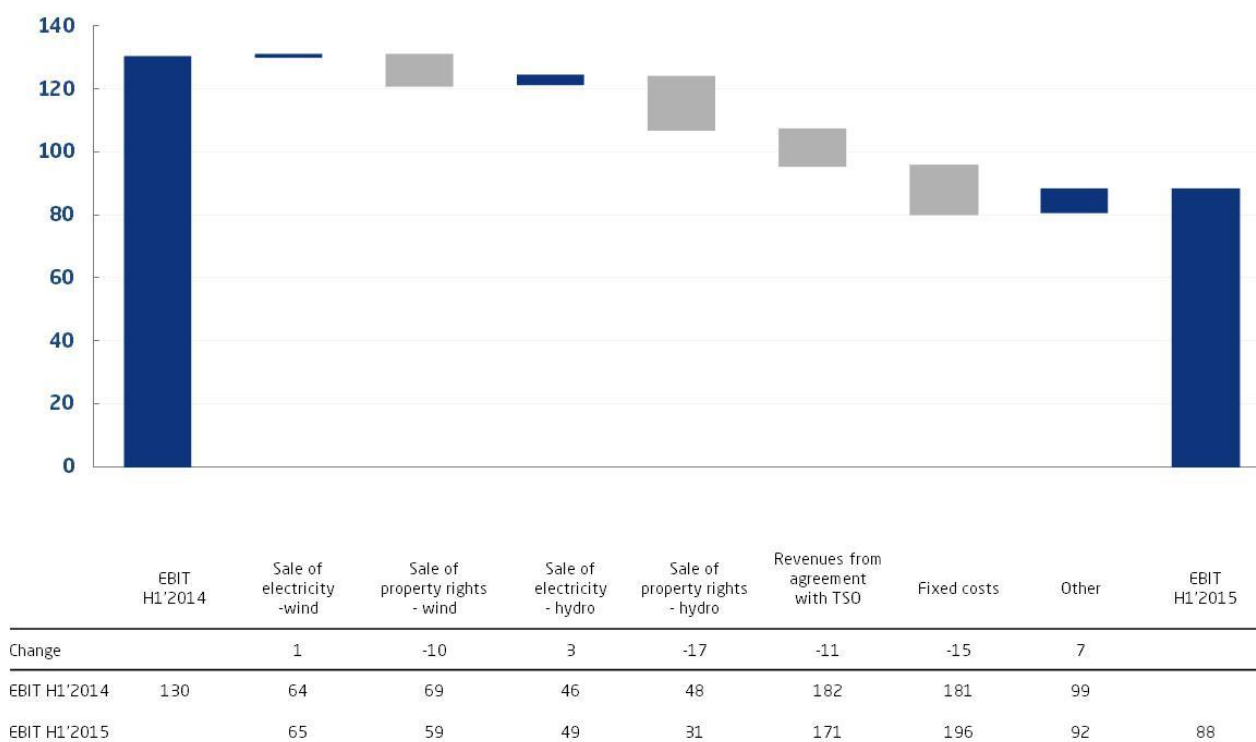
3.3.2 Renewable Energy

Table: Key figures for Renewable Energy.

PLN million	H1 2015	H1 2014*	% change
Sales revenues	378	415	-9%
EBIT	88	130	-32%
EBITDA	202	234	-14%
Capital expenditures	219	155	41%

* data restated

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



Key factors affecting the results of Renewable Energy in the first half of 2015 compared to the results of the comparable period of 2014 were:

- **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. 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 realized average sale price in the first half of 2015 (PLN 154/MWh) in comparison to the first half of 2014 (PLN 208/MWh).
- Revenues from the balancing market and ancillary control services (contract with PSE S.A.) declined due to lower prices and volumes.
- The increase of fixed costs derives mainly from increase of depreciation, higher costs of external services, including distribution services costs and taxes and charges. This increase is also caused by full period of Wojciechowo wind farm exploitation.

Capital expenditures

Table: Capital expenditures incurred in Renewable Energy in the first half of 2015 and 2014, by particular investment tasks.

PLN million	Capital expenditures		
	H1 2015	H1 2014	% change
Investments in generating capacities, including:	218	153	42%
▪ Development	203	142	43%
▪ Modernization and replacement	15	11	36%
Other	1	2	-50%
TOTAL	219	155	41%

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

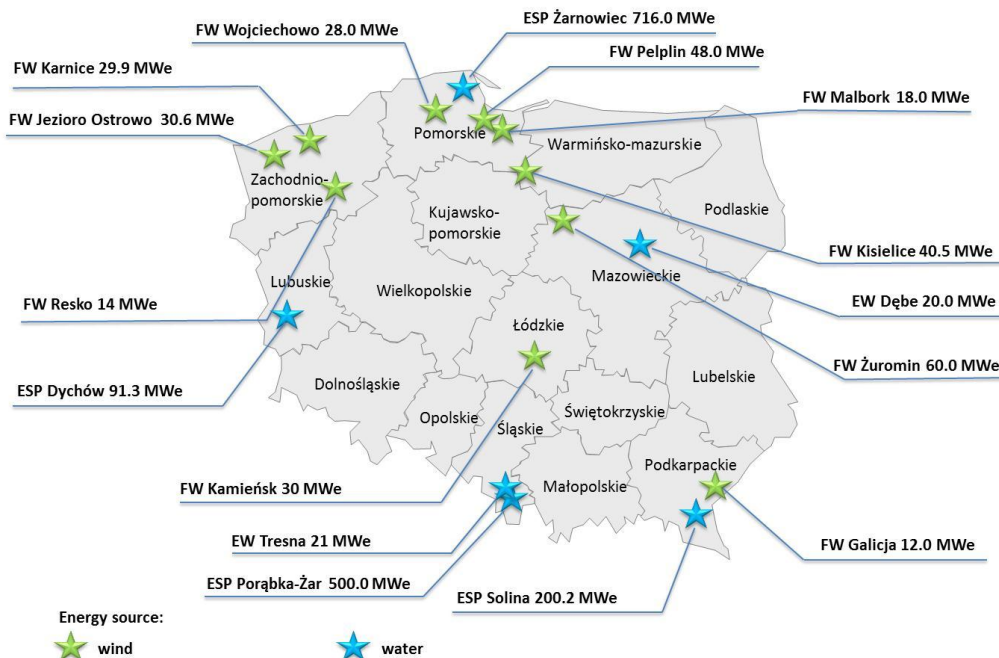
- Construction of Lotnisko wind farm Lotnisko with a capacity of 90 MW PLN 87 million;
- Construction of Karwice wind farm with capacity of 40 MW PLN 60 million;
- Construction of Resko II wind farm with a capacity of 76 MW PLN 35 million;
- Construction of Kieselice wind farm with capacity of 12 MW PLN 19 million.

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

- Construction of wind farm Kieselice II with a capacity of 12 MW commenced, following the agreement concluded with the General Contractor (on January 14, 2015);
- Conclusion of construction works of Karwice wind farm with a capacity of 40 MW (commissioned in July 2015);
- Conclusion of works relating to foundation building, initiation of towers and wind turbines assembly on Lotnisko 90 MW, Resko II 76 MW and Kieselice 12 MW projects.

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

Diagram: Main assets of the Renewable Energy segment.



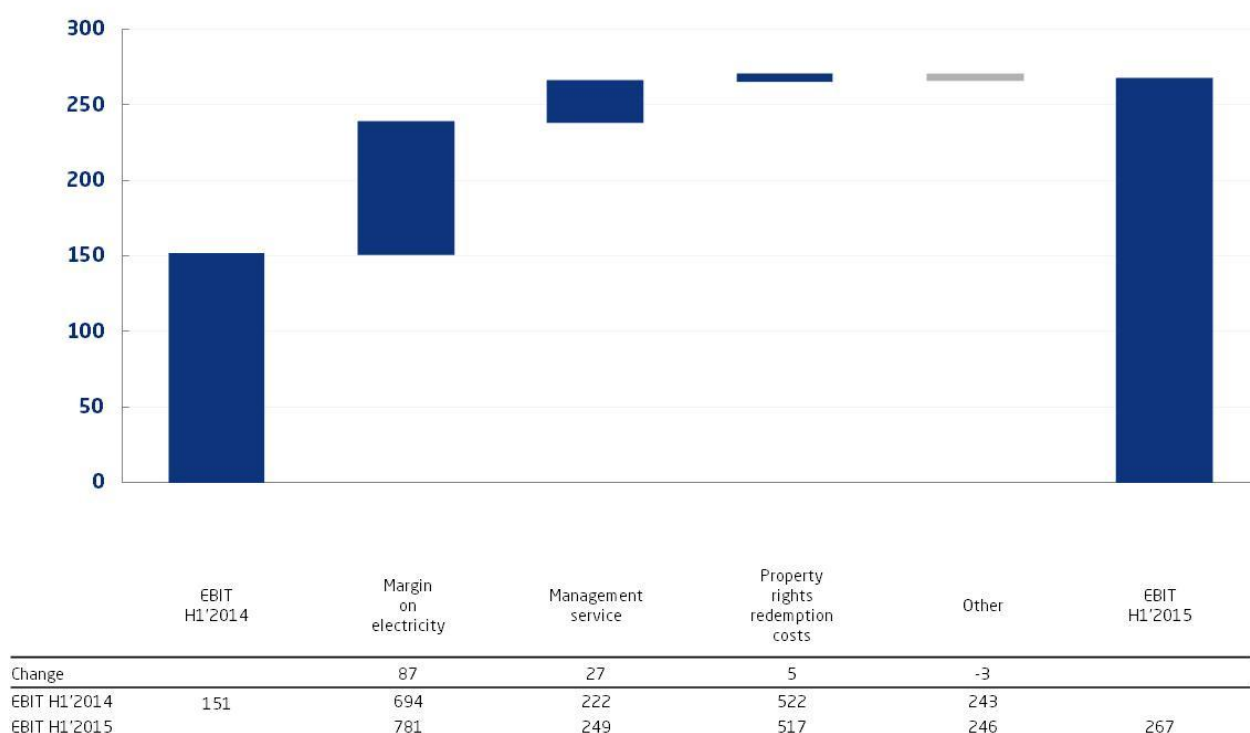
3.3.3 Supply

Table: Key figures for Supply

PLN million	H1 2015	H1 2014*	% change
Sales revenues	7,269	6,943	5%
EBIT	267	151	77%
EBITDA	279	160	74%
Capital expenditures	13	7	86%

* data restated

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



Key factors affecting the results of Supply in the first half of 2015 compared to the results of the comparable period of 2014 were:

- **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.

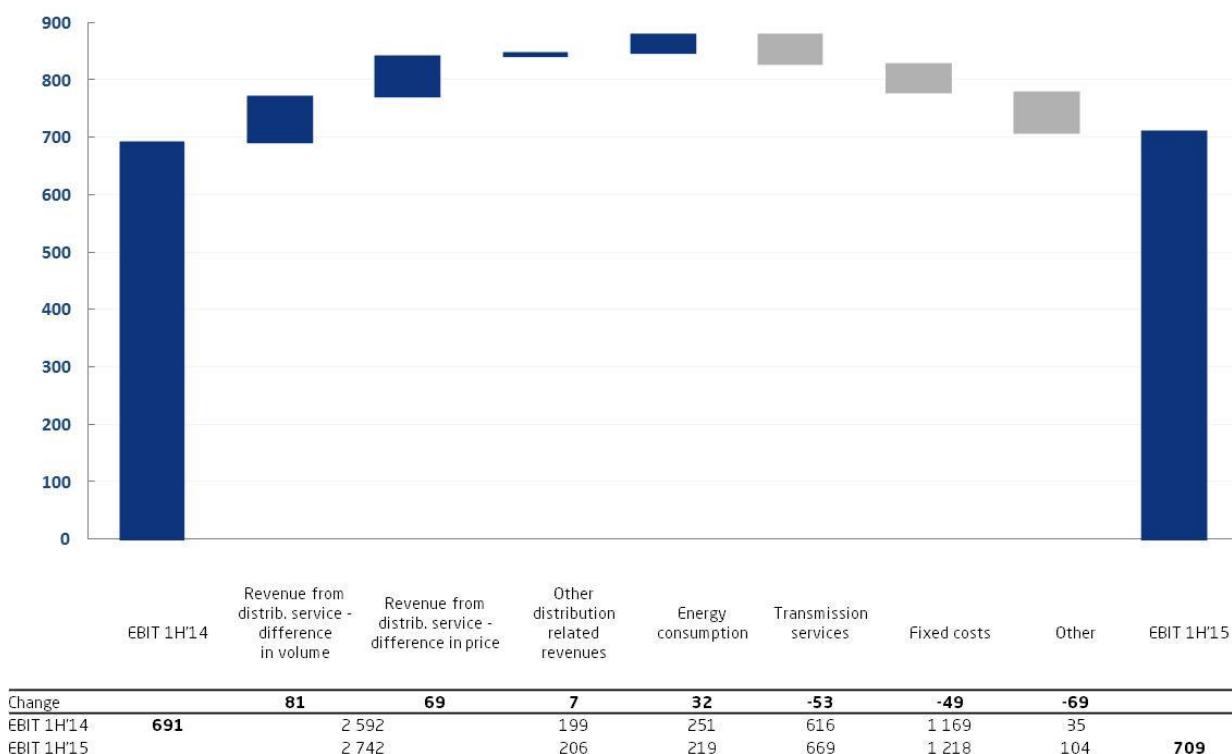
3.3.4 Distribution

Table: Key figures for Distribution.

PLN million	H1 2015	H1 2014*	% change
Sales revenues	3,001	2,848	5%
EBIT	709	691	3%
EBITDA	1,225	1,183	4%
Capital expenditures	688	452	52%

* data restated

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



Key factors affecting the results of Distribution in the first half of 2015 compared to the results of the comparable period of 2014 were:

- **Increased volume of distributed energy** by 496 GWh resulting from – inter alia – higher number of customers measured by power take-off points (by approx. 34 thousand) in comparison to the first half of 2014.
- **Increase of other sales revenues** resulting mainly from increase of revenues from off-taker connection fees, in connection with optimization of connection process.
- **Lower network losses**, attributing to the lower cost of electricity used to cover balancing difference.
- **Lower result from other operating activities** results mainly from change in balance of provisions for non-contractual use of real property .
- **Increase of other expenses** due to changes in costs of employees remuneration.

Capital expenditures

Table: Capital expenditures incurred in Distribution in the first half of 2015 and 2014, by particular investment tasks.

PLN million	Capital expenditures		
	H1 2015	H1 2014	% change
MV and LV power networks	210	110	91%
110/ MV and MV/MV	63	26	142%
110 kV power lines	11	16	-31%
Connection of new off-takers	254	202	26%
Purchase of transformers and energy counters	65	47	38%
IT, telemechanics and communication	63	28	125%
Other	22	23	-4%
TOTAL	688	452	52%

Major tender procedures completed in the first half 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 March 17, 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

PLN million	H1 2015	H1 2014*	% change
Sales revenues	340	849	-60%
EBIT	-20	10	-
EBITDA	33	73	-55%
Capital expenditures	80	74	8%

* data restated

EBIT lower by PLN 30 million was mainly related to:

- **Shifting of companies rendering ancillary services** (construction, renovation and modernization) to the companies from Conventional Generation segment, from Other Operations in the first half of 2014 to Conventional Generation segment in the first half of 2015 PLN (-) 23 million;
- **Shifting of company ENESTA S. A.** from Other Operations segment in the first half of 2014 to Supply segment in the first half of 2015 PLN (-) 10 million;
- **Lower result of PGE EJ 1 sp. z o.o.**, connected mainly with accounting reallocation of incurred capital expenditures to expenses due to termination of agreement with a contractor WorleyParsons PLN (-) 7 million.

Decline of EBIT was partly compensated by:

- **Higher result of EXATEL S.A.** due to lower fixed costs PLN (+) 5 million;
- **Higher result of Elbest Sp. z o.o.** mainly due to higher revenues from sales of services PLN (+) 5 million.

Capital expenditures

The highest capital expenditures in the first half of 2015 were incurred by:

- PGE Systemy S.A. – for IT infrastructure and software development PLN 42 million;
- PGE EJ 1 sp. z o.o. – for nuclear project development PLN 19 million;
- Exatel S.A. – for telecommunication infrastructure development PLN 17 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.

On August 25, 2015 PGE S.A. published current report no. 24/2015, disclosing estimates of consolidated EBITDA and net profit attributable to the equity holders of the parent company for the first half of 2015. consolidated EBITDA and net profit attributable to the equity holders of the parent company for the first half of 2015 were recognized at the estimated level and amounted respectively to PLN 4.3 billion and PLN (-)5.0 billion.

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 the first quarter of 2015 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 publication date of the quarterly report for Q1 2015 (i.e. May 6, 2015)	Change in number of owned shares	Number of shares as of submission date of this report	Nominal value of shares as of submission date of this report (PLN)
Management Board	350	No change	350	3,500
Grzegorz Krystek	350	No change	350	3,500
Supervisory Board	873	No change	873	8,730
Krzysztof Trochimiuk	873	No change	873	8,730

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

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 half-year 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.

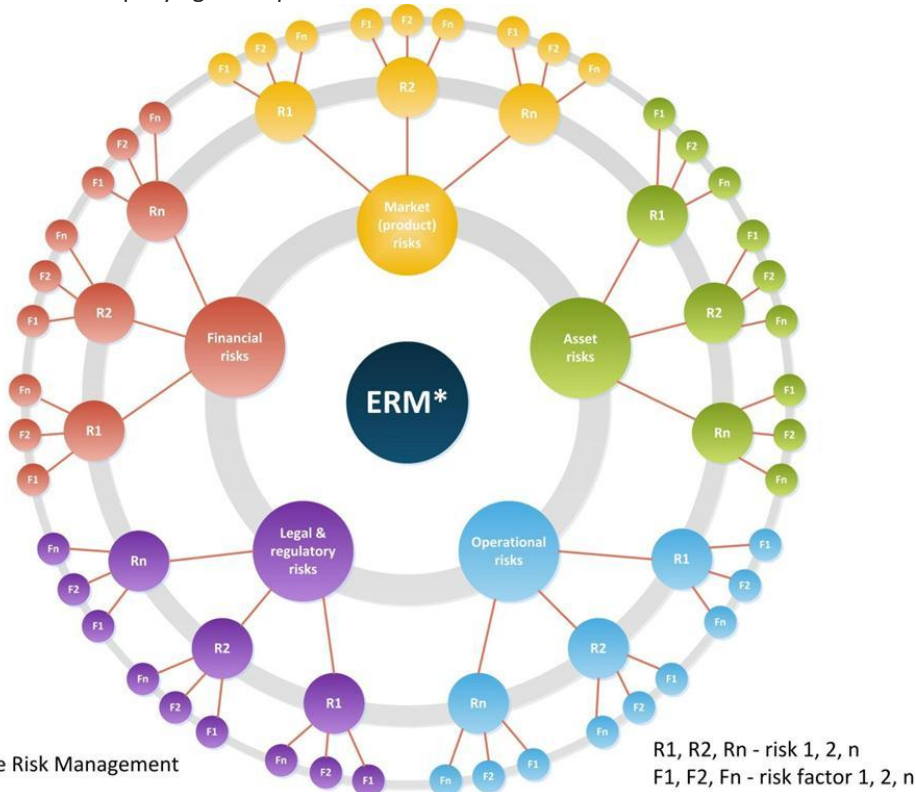


Shareholder	No of shares	No of votes	Share in total number of votes on the general meeting
	(pcs)	(pcs)	(%)
State Treasury	1,091,681,706	1,091,681,706	58.39%
Other shareholders	778,079,123	778,079,123	41.61%
Total	1,869,760,829	1,869,760,829	100.00%

4 Risks and threats of the PGE Capital Group

Risk management

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



Source: own work

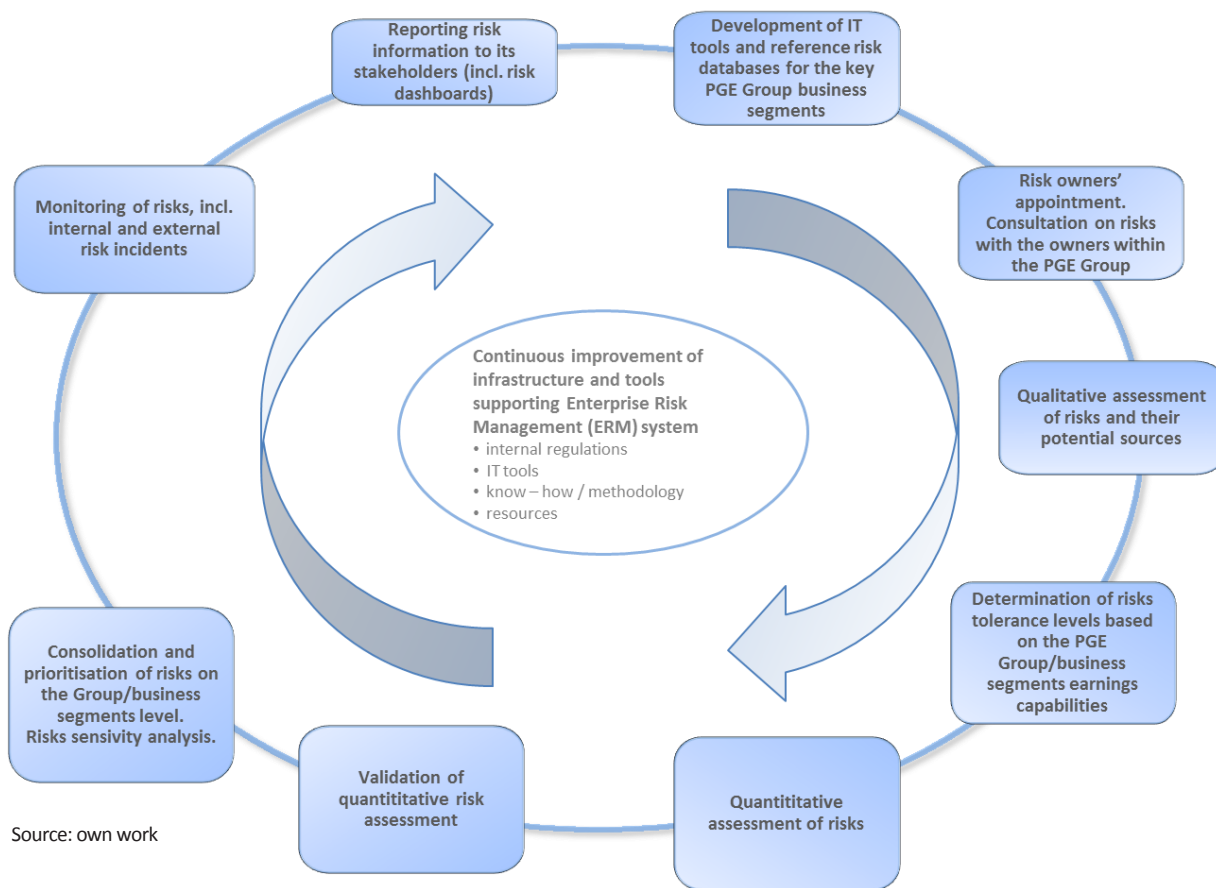
PGE Group's risk management process is based on the GRC (Governance - Risk - Compliance) model, which makes it possible to adapt and integrate each of the Group's operational areas at all levels of management. Having established a top-level Risk Committee, which reports directly to the Management Board,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



Source: own work

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












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



Source: own work

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

Risk level	Risk level			Risk perspective		
	low	medium	high	decrease	growth	stable
low level	Risk does not pose a threat and may be tolerated,					
medium level	Risk which needs preparation of the proper reaction based on analysis of costs and benefits,					
high level	Intolerable risk, which needs immediate and active reaction, leading simultaneously to limitation of possible consequences and of probability of occurrence thereof					
Market risks (product)						
Related to prices and volumes of offered products and services	Prices of electricity and related products – resulting from a lack of certainty with regard to the future levels and volatility of commodity prices relative to open contract positions - this particularly concerns electricity and associated products (property rights, CO ₂ emission allowances and fuels).				high	growth
	Electricity and heat sales volumes – this risk derives from a lack of certainty with regard to the conditions determining the demand and supply of electricity and heat, directly affecting the volume of market sales by PGE Group.				high	stable
	Tariffs (regulate prices) – resulting from the requirement to approve rates for distribution services and electricity and heat prices for particular groups of entities				high	growth
Property risks						
Related to development and maintenance of the assets	Failures – connected with the operation and degradation over time of energy equipment and facilities (maintenance and repair work, diagnostics)				medium	decrease
	Damage to property – connected with the physical protection of energy equipment and facilities against destructive external factors (including fire, flood and intentional damage)				medium	stable
	Investment and development – connected with strategic plans for expanding the generation, distribution and sales potential as well as on-going investments				medium	growth
Operational risks						
Related to pursuing of ongoing economic processes	Production costs – connected with the growing costs of fuel procurement, operational works, environmental fees, HR-related factors, etc.				medium	stable
	Electricity and heat production – connected with production planning and impact of the factors that determine production capacities.				medium	stable
	Fuel management – connected with uncertainty regarding the quality, timeliness and volumes of fuel supply (mainly coal) and the effectiveness of inventory management processes.				medium	stable
	HR – pertaining to provision of employees with the relevant experience and competences, who are capable of performing specific tasks				medium	stable
	Social dialogue – connected with a failure in achieving agreement between the Group's management and employees, what could lead to strikes/collective labour disputes				medium	growth
Regulatory and legal risks						
Related to compliance with external and internal legal provisions	Legal changes in support systems – connected with uncertainty as to the future shape of the support system (or a lack thereof) for production of certified energy				medium	stable
	Purchase volume of certificates and CO₂ allowances - resulting from the possible changes to the statutory requirement for electricity sellers to purchase a specified quantity of property rights and to uncertainty with regard to volume of CO ₂ emission rights granted free of charge in future				medium	stable
	Compensation for the termination of long-term contracts (LTCs) – there is a possibility that the level of adjustments to advances collected for stranded costs, as calculated by the Group, will be questioned by the President of the Energy Regulatory Office (URE), as a result of which the Group will be obligated to return advances received for terminating the LTCs				medium	decrease

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

Risk mitigation measures

Market (product) risks

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

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

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

Regulatory and legal risks

Regulatory and legal risks mainly impact the compliance area

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

Property risks

In general, property risks affect assets

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

Operational risks

Operational risks mainly impact the cost side

Measures: PGE Group's results are to a large extent dependent on the costs incurred in the course of operations. The Company optimises costs through, inter alia:

1. Monitoring fuel reserves (quality and quantity) in connection with the tracking fuel prices. Securing supply through long-term contracts with suppliers and through price fixing formulas.
2. Pursuing inspections, repairs, operational works and modernisations of the existing assets are carried out what translates into ensuring optimal equipment lifecycles and required availability of key assets.
3. Receiving CO₂ emission allowances partly free of charge by the Group's power plants and CHPs. Additional allowances needed are purchased with the assumption of securing the margin on sales.
4. Optimisation of the employment with regard to the HMC Strategy implemented by the Group. As a consequence of employment optimisation operations Voluntary Leave Programs were introduced in the companies of the Group.

Financial risks

Financial risks mainly have an impact on finances

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

5 Description of the organisation of the PGE Capital Group

Companies comprising the main business segments of PGE Group as at June 30, 2015.

Segment	Company
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. PGE Energia Natury sp. z o.o. 19. PGE Energia Natury Karnice sp. z o.o. 20. PGE Energia Natury Bukowo sp. z o.o. 21. PGE Energia Natury Omikron sp. z o.o. 22. PGE Energia Natury Kappa sp. z o.o. 23. PGE Energia Natury PEW sp. z o.o. 24. PGE Energia Natury Olecko sp. z o.o.
SUPPLY	<ol style="list-style-type: none"> 25. PGE Polska Grupa Energetyczna S.A. 26. PGE Dom Maklerski S.A. 27. PGE Trading GmbH 28. PGE Obrót S.A. 29. Enesta sp. z o.o.
DISTRIBUTION	<ol style="list-style-type: none"> 30. PGE Dystrybucja S.A.

5.1 Changes in organisation of the Capital Group

5.1.1 Changes in organisation of the Capital Group in the first half of 2015

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

Shares in subsidiaries and associates

In the first half 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 and mandatory buy-out from the minority shareholders, the share of PGE S.A. in the company's share capital reached 99.94%.
- 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.
- 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 and 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 23, 2015, an Ordinary Assembly of Partners of PGE Obsługa Księgowo-Kadrowa sp. z o.o. passed a resolution on a share capital increase from PLN 1,050,000 to PLN 2,050,000, i.e. by PLN 1,000,000, through the creation of 20,000 new shares with nominal value of PLN 50 each. The increased share capital was acquired by PGE S.A. in exchange for a cash contribution from the principal of a loan issued to the company and not yet repaid to PGE S.A. On August 21, 2015 the increase of the share capital was registered with the National Court Register.
- On May 5, 2015, an Extraordinary General Meeting of PGE EO S.A. and Extraordinary Assembly of Partners of PGE Energia Naturity sp. z o.o. passed resolutions on the split-up of PGE Energia Naturity sp. z o.o. (the Split Company) through the transfer of a part of the Split Company's assets, constituting an organised part of enterprise in the form a branch of the Split Company, named PGE Energia Naturity sp. z o.o. Oddział "Kielice/Malbork", based in Malbork, to PGE EO S.A. (the Acquiring Company). The transfer of the organised part of enterprise to the Acquiring Company was carried out through a reduction in the Split Company's share capital and increase of the Acquiring Company's share capital, by cancellation of 234,845 shares in the Split Company with nominal value of PLN 1,000 each and issuance of 3,770,031 new registered shares in the Acquiring Company, with nominal value of PLN 10 each. As the sole shareholder of the Split Company, PGE S.A. acquired all of the newly-issued shares in the Acquiring Company's increased share capital in exchange for the redeemed stock of the Split Company. On June 1, 2015, the split-up of PGE Energia Naturity Sp. z o.o. was registered by the National Court Register.
- On June 8, 2015, an Extraordinary Assembly of Partners of PGE Inwest 2 sp. z o.o. adopted a resolution on an increase in the company's share capital from PLN 10,000 to PLN 60,000, i.e. by PLN 50,000, through the issuance of 50 new shares in the company, with nominal value of PLN 1,000 each. The increased share capital was acquired by PGE S.A. in exchange for a cash contribution. On July 31, 2015 the increase of the share capital was registered with the National Court Register.
- On June 22, 2015, Extraordinary General Meetings of PGE EO S.A. and PGE Energia Naturity S.A. as well as an Extraordinary Assembly of Partners of Eolica Wojciechowo sp. z o.o. passed resolutions regarding the merger of PGE EO S.A. (the Acquiring Company) on the one hand and PGE Energia Naturity S.A. and Eolica Wojciechowo sp. z o.o. (the Acquired Companies) on the other. The merger of the companies was executed through the transfer to the Acquiring Company of all of the assets of the Acquired Companies and subsequent dissolution of the Acquired Companies without liquidation. As regards the merger of the Acquiring Company with Eolica Wojciechowo sp. z o.o., the Acquiring Company's share capital was not increased (pursuant to art. 515 § 1 of the Polish Commercial Companies' Code), while in the case of the merger between the Acquiring Company and PGE

Energia Naturity S.A. the Acquiring Company's share capital was increased by PLN 478,800,000, through the issuance of 47,880,000 new registered shares with nominal value of PLN 10 each. As the sole shareholder of PGE Energia Naturity S.A., PGE S.A. acquired all of the newly-issued registered shares in the Acquiring Company's increased share capital in exchange for its shares of PGE Energia Naturity S.A. The merger of the Acquiring Company with the Acquired Companies was registered by the National Court Register on June 30, 2015.

As a result of the merger of PGE EO S.A. with PGE Energia Naturity S.A., the former became the sole shareholder in the following companies:

- PGE Energia Naturity Kappa sp. z o. o.,
 - PGE Energia Naturity Omikron sp. z o. o.,
 - PGE Energia Naturity PEW sp. z o. o.,
 - PGE Energia Naturity Karnice sp. z o. o.,
 - PGE Energia Naturity Bukowo sp. z o. o.,
 - PGE Energia Naturity Olecko sp. z o. o.
- In the period from January 1, 2015 to June 30, 2015, PGE S.A. purchased from minority shareholders of PGE GiEK S.A., as a result of a mandatory buyback in accordance with art. 418 of the Polish Commercial Companies' Code, a total of 2,249,374 shares in PGE GiEK S.A. (constituting 0.324% of PGE GiEK S.A.'s share capital). Currently PGE S.A. holds shares representing 99.94% of the share capital of PGE GiEK S.A.

In the first half 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 w Będzin („EC Będzin”).

On April 15, 2015, once the conditions precedent indicated in the agreement had been met, EC Będzin purchased 896 shares in ENERGO-UTECH (a 40% stake in ENERGO-UTECH's share capital), whilst UTECH sold 224 shares in ENERGO-UTECH (10% of ENERGO-UTECH's share capital).

In accordance with the provisions of the Agreement, a cash settlement of the transaction price payable by EC Będzin S.A. took place on April 15, 2015. 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 UTECH and settled on April 21, 2015. As a result of the above transaction, as of April 21, 2015 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.

- 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.
- On April 30, 2015, an Extraordinary General Meeting of BIO – Energia S.A., based in Warsaw (a subsidiary of PGE EO S.A.) passed a resolution on the issue of consent for transformation of the company into a limited company (sp. z o.o.). On June 1, 2015, the company's transformation was completed by the National Court Register. New name of the company is: BIO - ENERGIA sp. z o.o.

Other changes

- As of January 1, 2015 following branches were created in PGE Energia Natury sp. z o.o.:
 - Branch „Galicja” with its seat in Orzechowce,
 - Branch „Kisielice/Malbork” with its seat in Malbork.

In connection with changes in the Renewables segment, the Kisielice/Malbork branch, based in Malbork, was transferred, as an organised part of enterprise, to PGE EO S.A. and, subsequently, a motion was filed for it to be removed from the National Court Register.

- On April 23, 2015, the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, removed the branch from the Court Register entry of PGE EO S.A. Branch ZEW Dębe.
- On May 31, 2015, PGE EO S.A. executed an agreement with PGE Obrót S.A. on the sale of an organised part of enterprise. As a result, the following assets were acquired by PGE EO S.A.:
 - Hydro Plant Dębe
 - Small Hydro Plant Smardzewice
 - Small Hydro Plant Nielisz
 - Small Hydro Plant Radawa
 - Small Hydro Plant Michałów
 - Small Hydro Plant Górecko Kościelne

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

5.1.2 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 June 24, 2015 the Extraordinary Assemblies of Partners of Elbest sp. z o.o. and Elbest Security sp. z o.o. passed resolutions regarding the split-up of Elbest sp. z o.o. (the Split Company) through the transfer of a certain portion of the Split Company's assets that constitutes an organised part of enterprise that, further, is used to pursue economic activities in the area of personnel and property security services (ZCP Ochrona) to Elbest Security sp. z o.o. (the Acquiring Company). The transfer of ZCP Ochrona to the Acquiring Company was executed through a reduction in the Split Company's share capital and increase of the Acquiring Company's share capital, by cancellation of 5,044 shares in the Split Company, with nominal value of PLN 1,000 each, and issuance of 5,044 shares in the Acquiring Company, with nominal value of PLN 1,000 each. As the sole shareholder of the Split Company, PGE S.A. acquired all of the newly-issued shares in the increased share capital of the Acquiring Company's in exchange for the Split Company's cancelled shares. On July 13, 2015, the split-up of the Split Company was registered by the National Court Register.
- On July 22, 2015 PGE Dystrybucja S.A. and LCT INVEST sp. z o.o. with its seat in Kleosin concluded agreement for sale of 9,000 shares in Przedsiębiorstwo Produkcyjno-Handlowe EKTO sp. z o.o. z with its seat in Białystok, held by PGE Dystrybucja S.A., constituting 100% of the share capital of the company. On July 22, 2015, LCT INVEST sp. z o.o. paid for the shares and on the same day the ownership of shares was transferred to LCT INVEST sp. z o.o.

5.2 Branches of the companies of the PGE Capital Group

As at June 30, 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 ● Branch „Kisielice/Malbork” with its seat in Malbork *
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
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
"ELBEST SECURITY" sp. z o.o. with its registered office in Bełchatów	<ul style="list-style-type: none"> ● Branch Rogowiec I ● Branch Rogowiec II
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 Brzezie 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

* on July 17, 2015 a request was filed to delete a branch from the National Court Register after acquiring it from PGE Energia Natury Sp. z o. o.

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

6 Other significant events of the reporting period and subsequent events

6.1 Impairment of property, plant and equipment of Conventional Generation segment

Property, plant and equipment is the most significant asset of the PGE Group. Due to changeable macroeconomic conditions the PGE Group periodically verify the indicators that may imply impairment of recoverable value of its assets.

When assessing the market situation the PGE Capital Group uses both its own analytical tools and independent think tanks' support. Within the last six months the Group has identified a number of factors that could have significant impact on a change in the value of assets held:

- Restrictive EU climate policy

Increasingly stringent EU approach to climate policy, manifests among other things the planned creation of MSR restricting the supply of CO₂ emission rights on the market. It resulted in the increase of prices of CO₂ emission rights during the first half of 2015 by 10% from 7.0 EUR/t to more than 7.7 EUR/t. The upward trend is maintained in July and August of 2015. These changes make the PGE Group expect a stronger and more effective pressure to introduce further modifications in the system of trading in CO₂ emission rights and as a result a faster increase of their prices. The consequence is in the first place a loss of competitiveness of power plants based on lignite, which have high coefficients of emission of CO₂ per MWh. At the same time, such a change improves the competitiveness of newly built, high-performance power units based on coal. In addition, the introduction of solutions stemming from climate policy to support RES installations in Poland will result in increasing pressure on margins generated in all types of conventional generation units.

- Oversupply of coal on the domestic market

Oversupply of coal and sharpened price competition on the domestic market results in significant decrease of coal prices - during the half of 2015 by approx. 10%. This causes a significant reduction of fuel costs in power plants based on coal and worsened competitiveness of power plants based on lignite. In the PGE Group's opinion, this situation is permanent and results in a decline in expectations regarding profit margins generated by lignite power plants in the medium and long term.

- Decline in the futures and spot prices of electricity in Poland and abroad

In the first half of 2015, the prices of futures contracts for BASE and PEAK products declined by 8% and 9%, respectively. A similar decrease was observed in neighboring markets. In Germany and Scandinavia the base product prices declined by 2% and 8%, respectively, maintaining the high competitiveness of the energy import to Poland. The downward trend persists in July and August of 2015. Despite the problems of balance of power in the national power system, contrary to earlier expectations, we do not observe the effect in the form of increased prices of electricity on the spot and futures markets.

As a result of the above events, the PGE Group has reduced its forecasts of the expected future cash flows and identified the impairment risk concerning conventional generation assets. In the PGE Group's opinion, these events do not affect the distribution assets and the impact on the assets in the Renewable Energy segment is limited and does not cause any impairment risk.

The impairment tests of cash-generating units ("CGU") have been carried out in order to determine their recoverable amount. Determination of fair value for very large groups of assets for which no active market exists and there are few comparable transactions, is in practice very difficult. In case of whole power plants and mines, for which there is a need to specify the value on the local market, the observed fair values do not exist. Therefore, the recoverable amount was determined based on estimated value in use of the tested assets calculated using the discounted cash flow method on the basis of financial projections for the years 2015 – 2030. For the units with a deemed economic useful life going beyond 2030, the residual value for the remaining life was determined. According to the PGE Group, adoption of the financial projections longer than five years is reasonable due to the fact that property, plant and equipment used by the Group have significantly longer economic useful lives and due to the significant and long-term impact of estimated changes in the regulatory environment of the Group.

The assumptions

The key assumptions influencing the recoverable amount of tested CGUs are as follows:

- recognizing:
 - Branch Kopalnia Węgla Brunatnego Bełchatów and Branch Elektrownia Bełchatów („Bełchatów complex”),
 - Branch Kopalnia Węgla Brunatnego Turów and Branch Elektrownia Turów („Turów complex”),as one CGU due to the technological and economical connections between these branches;
- recognizing as three separate CGUs: Elektrownia Dolna Odra, Elektrownia Szczecin and Elektrownia Pomorzany being a part of Branch Zespół Elektrowni Dolna Odra,
- electricity prices forecasts for the years 2015-2030 assuming an increase in the wholesale market price by more than 20% till 2020 and a smaller increase in the following years (in fixed prices),
- CO₂ emission rights prices forecasts for the years 2015-2030 assuming an over 250% increase in prices till 2020 and a smaller increase in the following years (in fixed prices),
- coal prices forecasts for the years 2015-2030 assuming a relatively constant level of coal market prices in the period 2015-2018, increase of prices in the period 2019-2020 and a stabilization of prices in the following years (in fixed prices),
- the assumptions on the number of CO₂ emission rights for the production of electricity received free of charge for the years 2015-2020 for particular CGUs in accordance with the Application of Poland for temporary allocation of free of charge emission rights for modernization of electricity production on the basis of article 10c paragraph 5 of Directive 2003/87/EC of the European Parliament and of the Council (so-called derogations application), which meets the requirements of Commission Decision of July 13, 2012. In terms of heat production, free of charge rights has been taken into account in line with the list of allocations of CO₂ emission rights for heat in the reference period 2013-2020, published by Ministry of the Environment,
- taking into account free allocations of CO₂ emission rights in the period 2021-2030 forecasted based on allocation method applied until now,
- taking into account the so-called capacity market, ie. remunerating manufacturing units and reducing the demand, necessary to ensure security of electricity supply in the National Power System, since 2023; the remuneration was assumed based on the performance of the capacity market in the UK,
- taking into account the system of support for high-performance cogeneration in whole period of forecast,
- taking into account the optimization of employment costs, resulting among other from the current employment plan,
- maintenance of production capacities at the current level, as a result of replacement investments,
- taking into account development investments,
- adopting weighted average cost of capital after tax (WACC) at the level of 7.26%, (in the previous impairment tests carried out in 2014 the PGE Group adopted WACC at the level of 7.63%),
- receipt of compensation for the early termination of long-term contracts by eligible producers.

The forecasts of electricity, CO₂ emission rights, coal prices, production and demand for electricity comes from a study prepared by an independent expert. The most probable forecast of energy prices was adopted. For the years 2015 and 2016 the prices arising from signed contracts were adopted, when applicable.

Moreover, as at June 30, 2015 and as at the date of preparation of this report, there are no specific projects and plans for the Polish market, on the manner and timing of the so-called capacity market after 2023 and for support for natural gas-fired generation unit for the period after 2018. Nevertheless, the PGE Group believes their assumptions are reasonable in the view of the anticipated and desired changes in the regulatory environment. The assumptions that have been reflected in the projected cash flows represent, in the PGE Group's opinion, a reasonable scenario of the way how they will function and the period when they will function. Nevertheless, it cannot be excluded that the final shape and duration of these solutions may significantly differ from the ones adopted.

Impairment of generation assets of Conventional Generation segment

The results of the tests for CGUs for which impairment has been identified are presented below:

As at June 30, 2015	Value tested	Impairment loss	Value after impairment loss
Generation units of Conventional Generation segment			
Bełchatów complex	17,188	-3,136	14,052
Turów complex	5,561	-5,116	445
Opole power plant	4,408	0	4,408
Szczecin CHP	516	0	516
Bydgoszcz CHP	417	-417	0
Lublin-Wrotków CHP	400	0	400
Rzeszów CHP	300	0	300
Gorzów CHP	296	0	296
Kielce CHP	157	-157	0
Pomorzański CHP	70	0	70
Dolna Odra power plant	0	0	0
Zgierz CHP	0	0	0
Other assets allocated to segment	16	-16	0
Total	29,329	-8,842	20,487

The above value tested is the carrying value of the tested assets as at the reporting date decreased by the value of rehabilitation provision as at that date.

As a result of the conducted test the PGE Group deemed impairment of generation assets amounted to PLN 8,842 million. In addition, during the reporting period ended June 30, 2015, the Group recognized impairment losses of PLN 49 million. Total impairment loss of PLN 8,891 million was included in the statement of comprehensive income in costs of goods sold.

The changes in market conditions and the regulatory environment described above caused that the competitive position of the PGE Group has been weakened. The expected decrease in margins in the Conventional Generation segment especially concerns units using lignite as a fuel, which do not benefit from a reduction in coal prices. In addition, these plants emit more CO₂ per energy unit produced, therefore they are affected to a larger extent by the predicted rise in prices of the emission rights.

Sensitivity analysis

The results of a sensitivity analysis for individual units showed that the electricity prices, CO₂ emission rights prices, weighted average cost of capital and the assumption regarding the introduction of so-called capacity market in Poland have the greatest impact on the value in use of the tested assets. The change in the purchase price of coal influences the value in use to a lesser extent.

The table below presents estimated changes of impairment allowances on Conventional Generation segment assets as a result of changes in key assumption as at June 30, 2015.

Parameter	Change	Impact on impairment in billions of PLN	
		Increase in impairment allowance	Decrease in impairment allowance
Change in electricity prices throughout the forecast period	+ 1%	-	1.0
	- 1%	1.1	-
Change in WACC	+ 0.5 p.p.	1.4	-
	- 0.5 p.p.	-	0.9
Change in CO ₂ emission rights prices throughout the forecast period	+ 1%	0.4	-
	- 1%	-	0.4
Assumption regarding so-called capacity market	no capacity market after 2023	5.2	-

6.2 Change of accounting policy

On the ground of the resolution of PGE's Management Board, „Accounting policy compliant with IFRS for the Companies of PGE Polska Grupa Energetyczna S.A. Capital Group” has been amended. Starting from the financial statements for the first half of 2015, the impairment of property, plant and equipment, intangible assets and goodwill are recognized in costs of goods sold, while in costs by type in item “Depreciation, amortization and impairment losses”. Before the change of accounting policy impairment of property, plant and equipment had been recognized in other operating expenses.

Amended accounting policy applies IFRS in a better way and provides higher transparency and comparability of the financial statements with the European energy groups.

6.3 Change of dividend policy

The Management Board of PGE decided to adopt a new dividend policy. Previous dividend policy determined Management Board's declaration with regard to dividend proposal to the General Meeting of the Company at the level of 40-50% of consolidated net profit.

According to the amended policy, the Management Board of PGE intends to make a recommendation to the General Meeting of the Company of dividend for shareholders at the level of 40-50% of the consolidated net profit adjusted by the value of impairment loss.

Management Board of PGE reserves that for each individual distribution, the amount of the dividend will depend, in particular, on the Company's overall indebtedness, expected capital expenditures and prospective acquisitions. The dividend policy will be verified periodically by the Management Board of PGE.

6.4 Commissioning of Karwice wind farm

Karwice wind farm with a capacity of 40 MW was commissioned in July 2015. On July 24, 2015 the wind farm obtained concession for electricity generation. After the commissioning of the above investment, the installed capacity in Renewable Energy segment amounts to 351 MW.

6.5 Rating

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

Rating agencies Moody's Investors Service and Fitch Ratings affirmed long-term ratings for PGE S.A. On May 21, 2015 Fitch affirmed PGE's long-term foreign and local currency Issuer Default Ratings at 'BBB+' with a stable outlook. Moody's also affirmed its last-year rating at Baa1 with stable outlook, confirming PGE's long-term credibility on the capital and credit markets.

According to Fitch's opinion, affirmation of the rating results from PGE's strong market position in the Polish electricity sector and conservative financial profile. This rating is constrained by the fairly low portion of the regulated business (distribution of electricity) in EBITDA, limited diversification of generation sources and high average carbon dioxide (CO₂) emissions per MWh. Fitch also expects a decline in margins of PGE's core business of conventional generation. In Fitch's opinion, the large capital expenditure plans will increase funds from operations adjusted net leverage to approximately 2x by 2017 and close to 3x by 2020 from close to zero net leverage at the end of March 2015.

Moody's, in its opinion of June 2, 2015 appreciates strong position of PGE Group as an integrated power group dominant on the electricity market in Poland. Moody's underlined that PGE benefits from a low cost lignite-fuelled power plants. However Moody's also notes high exposure to carbon, albeit reduced due to the free carbon dioxide emission allowances and impact of the lower electricity prices. The assigned rating further takes into account an expected increase in leverage due to negative free cash flows arising from a significant capital expenditure programme.

Ratings assigned by both agencies confirming PGE's long-term credibility on the capital and credit markets.

6.6 Activities related to nuclear energy

Business partnership

On September 3, 2014 PGE S.A., TAURON, ENEA and KGHM ("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. In May 2015, the National Court Register registered a new version of the Articles of Association, resulting from the provisions of the Partners' Agreement, and in May and June 2015 the Supervisory Board of PGE EJ 1 sp. z o.o. was expanded to include representatives of the Business Partners.

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.

Financing of the project

In the first half 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. Further to that, follow-up meetings took place under preliminary dialogue with consortia potentially interested in participating in the Project in order to specify future business and equity relations in greater detail.

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

Support schemes

In the first half of 2015 PGE S.A. carried out consultations and discussions with the Ministry of Economy regarding potential support mechanisms dedicated to nuclear energy.

In its position piece, PGE 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, using the best regulatory and legal solutions applied in Poland so far.

PGE 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.

In the second quarter of 2015, PGE S.A. engaged an adviser to carry out analysis of the economic, financial and legal options regarding the structure and terms for a contract for difference for the Polish nuclear plant project.

Project management, integration, safety

Work with the Technical Advisor – AMEC Foster Wheeler Nuclear UK Limited – continued in the first half of 2015 pursuant to a contract signed on September 11, 2014. The Technical Advisor is to support PGE Group in completing objectives and meeting investor requirements in relation to the technology supplier / EPC general contractor and the other contractors involved in key works. In the first half of 2015, a Quality Assurance Programme procedure was implemented for a project covering environmental surveys and site characterisation, including communication with contractors, contractor qualifications and documentation sharing, among other things.

PGE EJ 1 sp. z o.o. began working with an outside consultant on designing and implementing safety architecture, including an Information Security Management System (in compliance with ISO 27001).

Site, infrastructure and the environment

In connection with having terminated an agreement with WorleyParsons on December 23, 2014, PGE EJ 1 sp. z o.o. spent the first half of 2015 on implementing new organisational assumptions concerning site characterisation and environmental surveys as well as obtaining the permits required in the investment process.

In the first half-year, PGE EJ 1 sp. z o.o. prepared a draft project data sheet, among other things. Also commenced was work on plotting and obtaining approvals for corridors for the infrastructure accompanying the nuclear power plant.

In the third quarter of 2015, a procedure is expected to be commenced with regard to the issue of a decision on environmental determinants and on the scope of the environmental impact report.

On August 5, 2015 PGE EJ 1 sp. z o.o. submitted to the General Director for Environment Protection a request for issue of decision on environmental determinants and for determination of the scope of the environmental impact report. The company attached a Project Outline Specification to the request. The documents form the basis for initiation of the environmental impact assessment, which is necessary in the selection process safe location of the power plant.

Work on analysing the power plant site's impact on Natura 2000 areas is also expected to continue in the third quarter of 2015.

Integrated proceeding (including technology and O&M)

Work on the documentation and processes required in order to launch the integrated proceeding was continued in the first half of 2015.

In the period from February to April 2015, follow-up sessions under preliminary dialogue were held, which dealt with investment and financing issues. Completion of the dialogue meetings is the basis for drafting a comprehensive summary and a decision regarding the final shape, scope, approach and formula for the integrated proceeding. Work on drawing up a detailed concept for executing the integrated proceeding as well as a timetable for the proceeding is being carried out in cooperation with the Technical Advisor.

Also being prepared in close collaboration with the Technical Advisor is an invitation to participate in the integrated proceeding, which is a key document opening up the proceeding's competitive stage. The invitation will specify the boundary conditions for all elements within the scope of the proceeding as well as requirements and qualification criteria for entities requesting admission to the proceeding.

In the third quarter of 2015, PGE EJ 1 sp. z o.o. plans to obtain declarations of participation in the integrated proceeding from entities taking part in preliminary dialogue and to conclude work on drafting a detailed concept and timetable for the integrated proceeding, qualification documentation and the Regulations of the integrated proceeding.

Commencement of the integrated proceeding's competitive stage is expected to take place at the end of the fourth quarter of 2015.

Licensing (permits / approvals)

In the first half of 2015, work was continued with the Technical Advisor on preparing a plan for obtaining the permits and approvals required in the investment process.

In the second quarter of 2015, works were on-going in connection with preparations for an application to the General Director for Environmental Protection for issue of an environmental permit.

Legal and regulatory affairs

In the first half of 2015, PGE Group companies took part in community consultations led by the Ministry of the Economy as regards forecast environmental impact of the draft of the national programme for radioactive waste and spent fuel management.

In the first half of 2015, PGE EJ 1 sp. z o.o. participated in consultations pertaining to the following legal bills, among other things: (a) parliamentary draft of a legislative bill amending the Environmental Protection Law and certain other bills, (2) draft legislative bill amending the Act on Local Government and amending certain other bills, (3) draft legislative bill on amending the Act on Disclosure of Information on the Environment and Environmental Protection, Society Participation in Environmental Protection and Environmental Impact Assessments, and (4) a draft Building Code.

Stakeholder relations, education and communication

The investment process is being supported by a range of communication activities that have been on-going since 2011 at both national (including the educational and informational website www.swiadomieoatomie.pl and a newsletter) and local level (e.g. Location Information Points).

In the first half of 2015, PGE EJ 1 sp. z o.o. continued its communication activities at both national and local level.

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 half 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.

6.7 Legal aspects

Claims for annulment of the resolutions of the General Shareholders Meetings

On April 1, 2014 PGE S.A. received a copy of lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolutions 1, 2 and 4 of the Extraordinary General Meeting of the Company held on February 6, 2014. The Company filed response to the claim.

On June 22, 2015 the District Court in Warsaw dismissed in full the shareholder's claim. The verdict is not final and binding. On July 28, 2015 the shareholder appealed against that verdict.

On September 17, 2014 PGE S.A. received a copy of lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 4 of the Ordinary General Meeting of the Company held on June 6, 2014. The Company filed response to the claim.

On August 13, 2015 the District Court in Warsaw dismissed in full the shareholder's claim. The verdict is not final and binding.

On August 21, 2015 PGE S.A. received a copy of lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 5 of the Ordinary General Meeting of the Company held on June 24, 2015.

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.

The company 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.

Compensations from WorleyParsons

In 2013, PGE EJ 1 sp. z o.o. signed an agreement for environmental studies, site characterisation and services related to obtaining permits and permissions necessary in the investment process associated with the construction of a nuclear power plant with a consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc. and WorleyParsons Group Inc. ("WorleyParsons", the "Contractor"), in the amount of PLN 253 million net (including basic range of PLN 167 million).

Due to delays in the implementation of the agreement, in 2013 the company accrued to WorleyParsons a contractual penalty in the amount of PLN 7 million. In addition, in connection with a further improper execution of services in 2014, the company accrued contractual penalties in the total amount of PLN 43 million. On December 23, 2014, PGE EJ 1 sp. z o.o. terminated the contract for reasons attributable to the Contractor.

Contractual penalties of 2013 were deducted from the remuneration payable to WorleyParsons in 2014. Penalties for 2014 in the total amount of PLN 30 million were deducted from the remuneration payable to WorleyParsons and the bank guarantee. After all deductions and amounts received by the company from the Guarantee, the company is entitled to claim towards WorleyParsons for payment of PLN 14 million as a penalty by way of delay. This amount will be claimed in court. At the date of this report there are no grounds to challenge the validity of issued debit notes and all actions taken by PGE EJ 1 sp. z o.o. are consistent with contractual provisions and other laws.

The contractor has undermined the legitimacy of contractual penalties and failed to make the payments. Therefore, it cannot be ruled out that WorleyParsons will in future court proceedings seek reimbursement of equivalent of penalties that were deducted or obtained as a result of the bank guarantee. Additionally, the Contractor raised own claim against PGE 1 sp. z o.o. related to the subject matter of the dispute, amounting to PLN 92 million. The company does not accept these claims and considers possible order by the court to pay the claim requested by the Contractor as unlikely.

6.8 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 half 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 179 million), PGE GiEK S.A. Branch ZEDO (claim value of PLN 42 million) and PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków for 2008 (claim value of PLN 27 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 93 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. On May 22, 2015, the Supreme Court issued a decision to postpone examination of a cassation appeal until the European Court of Justice rules in a case involving PGE GiEK S.A. Branch ZEDO 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 5 million.

On August 6, 2015 PGE GiEK S.A. received an administrative decision of the ERO President concerning the annual adjustment of the stranded costs for the year 2014. Annual adjustment of the stranded costs generated in generating units PGE GiEK S.A. Branch Elektrownia Turów and PGE GiEK S.A. Branch Elektrownia Opole for the year 2014 amounts to app. PLN (+)559 million. The company does not dispute this amount. Advances for 2014 amounted to PLN 299 million.

On August 7, 2015 the company filed a cassation appeal with the Supreme Court, regarding the verdict of the Court of Appeal in case of determining the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2009. Claim value in this case amounts to PLN 4 million.

Impact on the financial statements for the period ended June 30, 2015

In the financial statements for the period ended June 30, 2015, the Group recognized LTC revenue in sales revenue in the amount of PLN 301 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 half of 2015 the PGE Capital Group recognised LTC revenues in total amount of PLN 6,842 million.

6.9 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 agreement relates to the period after January 1, 2015.

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.

6.10 Changes in the Supervisory Board

An Annual General Meeting took place on June 24, 2015 and adopted the resolutions on appointment of the Supervisory Board members of the tenth term.

As at the publication date of this report, the Supervisory Board consists of:

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

In accordance with the resolutions of the Supervisory Board of July 1, 2015 the composition of the Committees of the Supervisory Board were established.

In accordance with the resolution of the Supervisory Board no. 4/X/2015, the Audit Committee consists of:

Name and surname	Position
Jarosław Gołębiowski	Chairman of the Committee, as of July 15, 2015
Barbara Dybek	Member of the Committee
Krzysztof Trochimiuk	Member of the Committee
Anna Kowalik	Member of the Committee

In accordance with the resolution of the Supervisory Board no. 5/X/2015, the Corporate Governance Committee consists of:

Name and surname	Position
Piotr Machnikowski	Member of the Committee
Małgorzata Mika – Bryska	Member of the Committee
Jacek Barylski	Member of the Committee
Barbara Dybek	Member of the Committee

In accordance with the resolution of the Supervisory Board no. 7/X/2015, the Strategy and Development Committee consists of:

Name and surname	Position
Małgorzata Mika – Bryska	Member of the Committee
Jarosław Gołębiowski	Member of the Committee
Barbara Dybek	Member of the Committee
Małgorzata Molas	Member of the Committee

In accordance with the resolution of the Supervisory Board no. 6/X/2015, the Appointment and Remuneration Committee consists of:

Name and surname	Position
Jacek Barylski	Chairman of the Committee, as of July 16, 2015
Małgorzata Molas	Member of the Committee
Krzysztof Trochimiuk	Member of the Committee
Anna Kowalik	Member of the Committee

6.11 Changes in the statutes

On August 12, 2015 the District Court of the City of Warsaw, XII Commercial Division of the National Court Register registered the changes to the Company's Statutes made on the ground of the resolution no 32 of the Ordinary General Meeting of the Company of June 24, 2015.

Changes related mainly to:

- amendments of the editorial, legislative and formal character
- introduction of an open catalogue of the most common activities beyond ordinary management, as activities requiring the resolution of the Management Board, aiming to clarify the rules for internal management of the Company's affairs
- change of minimal composition of the Management Board (previously 2 persons, currently 1 person)
- extending competencies of the Supervisory Board and clarifying and supplementing the competence to evaluate the Management Board's reports on the activities of the PGE Capital Group and to appoint the statutory auditor.
- establishing a duty for a shareholder of the Company to submit a written statement confirming that the candidate meets the independence criteria
- adding a provision that meetings of the Supervisory Board may be held without a formal convening
- clarification of the rules for remuneration of a Supervisory Board member temporarily delegated to perform the duties of the Management Board member
- introduction of guidelines with regard to calculation of value of liabilities resulting from agreements and other commitments.

The Supervisory Board determined a consolidated text of the Statutes of the Company and adopted it in a resolution of August 26, 2015.

6.12 Description of material agreements

No material agreements occurred in the first half of 2015.

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

Within the Group, in the 6-month period ended June 30, 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.

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

As at June 30, 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.12.4 to the consolidated financial statements.

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

Information on issue, redemption and repayment of debt securities and other securities were described in Note B.13.2 to the consolidated financial statements and p. 5.1. of the foregoing report.

7 Statements of the Management Board

7.1 Statement on the reliable preparation of the financial statements

To the best knowledge of the Management Board of PGE S.A., the half-year consolidated and separate 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.

7.2 Statement on the entity authorised to audit the financial statements

The Management Board of PGE Polska Grupa Energetyczna S.A. declares that the entity authorised to audit the financial statements, that reviews the interim consolidated and stand-alone financial statements, has been appointed in accordance with provisions of the law. The entity and the statutory auditors fulfilled all the requirements for issuing an unbiased and independent report on the review, in accordance with the governing provisions and professional standards.

8 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 August 31, 2015.

Warsaw, August 31, 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.
CAPEX	Capital expenditures
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 CO2 emissions Allocation Plan for the years 2008-2012 prepared for the EU emission trading system adopted by the Ordinance of the Council of Ministers of July 1, 2008 (Dz. U. of 2008, No. 202, item 1248).
Nm ³	normal cubic meter; a unit of volume from outside the SI system signifying the quantity of dry gas in 1 m3 of space at a pressure of 101.325 Pa and a temperature of 0°C.
NO _x	nitrogen oxides.
OPEX	Operating expenses
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 PSE S.A.
Property rights	negotiable exchange-traded rights under green and co-generation certificates (green, yellow, red, violet and white).
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.