

**Management Board's report on  
activities of the Capital Group of  
PGE Polska Grupa Energetyczna S.A.  
for the 3-month and 9-month period**

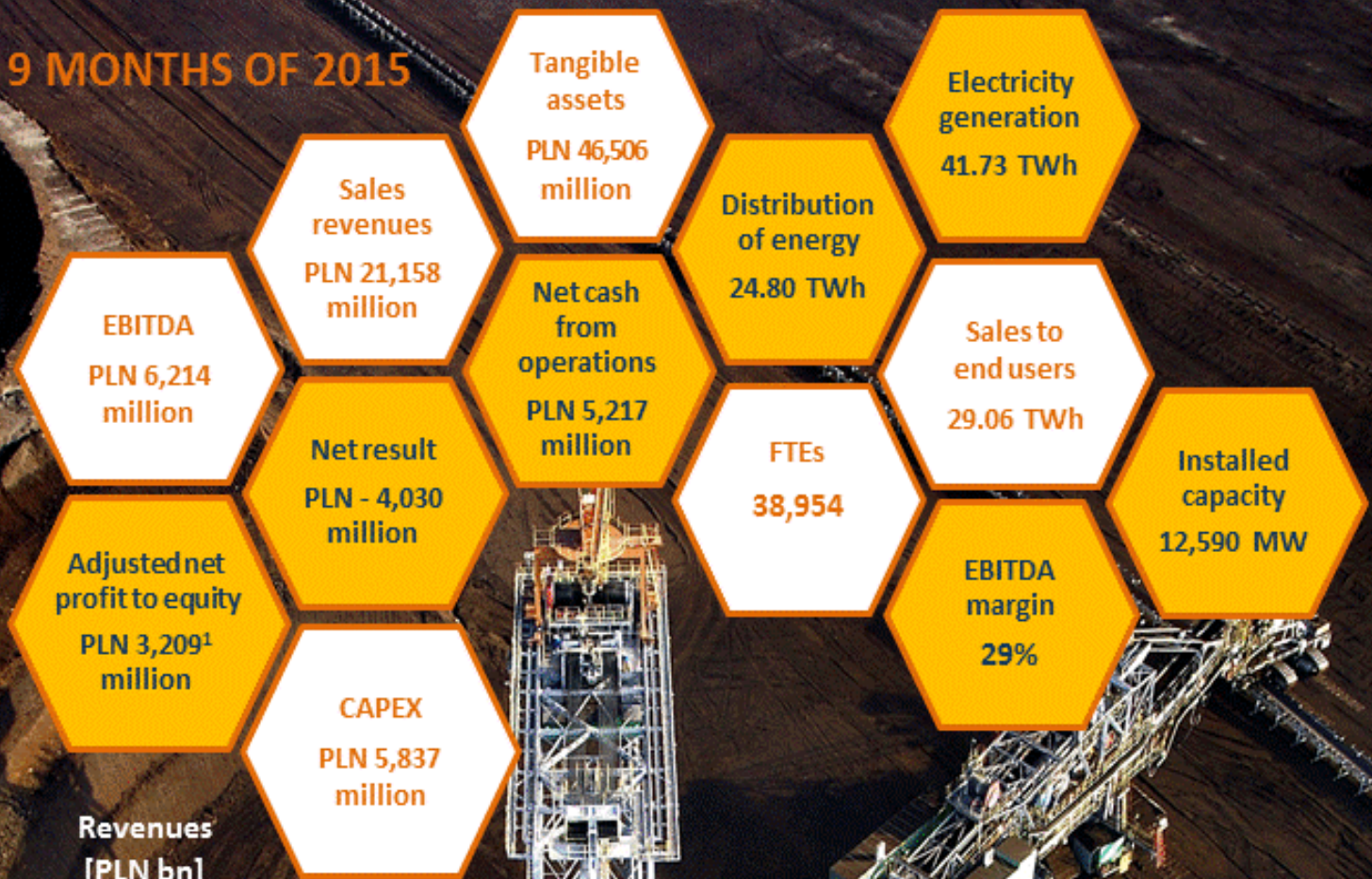
**ended September 30, 2015**

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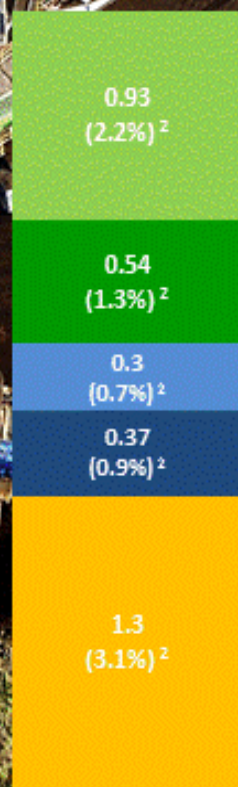
# 9 MONTHS OF 2015



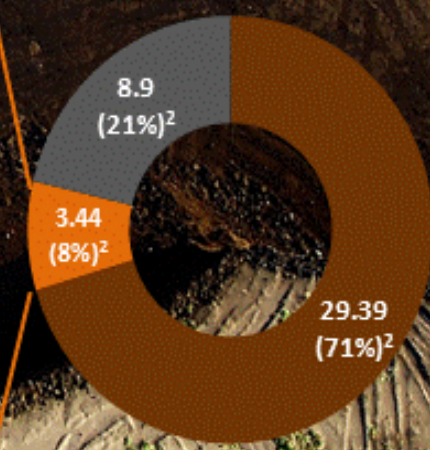
Revenues [PLN bn]



Net electricity production [TWh]



GENERATION STRUCTURE BY FUELS [TWh]



<sup>1</sup> net profit adjusted by impairment of property, plant and equipment  
<sup>2</sup> share of fuel in production



## CONVENTIONAL GENERATION



### Operations

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

### Key assets of the segment

4 conventional power plants  
8 CHPs  
2 lignite mines

## RENEWABLE ENERGY



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

11 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.

282.975 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 three quarters 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 three quarters 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:

<b>Market environment</b>		<b>Description in p.</b>
<b>Demand</b>	● demand for electricity and heat	1.2.1
	● seasonality and weather conditions	
<b>Electricity market</b>	● wholesale electricity prices	1.2.4
	● prices and tariffs of electricity and heat on retail sale markets	1.2.3
	● tariffs for transmission and distribution of heat and tariffs for electricity distribution	1.2.3
<b>Related markets</b>	● prices of property rights (certificates of origin of electricity)	1.2.5
	● availability and prices of fuels used in generation of electricity and heat, in particular prices of hard coal, fuel gas and biomass, as well as costs of fuels transportation to the generating units	1.2.2
	● prices of CO2 emission rights	1.2.6
<b>Power infrastructure</b>	● availability of cross-border transmission capacities	1.2.4
	● growth of generating capacity in national electro-energy system, including renewable energy sources ("RES") and cogeneration	1.2.4
	● development and modernisation of energy grid	
<b>Macroeconomic environment</b>	● GDP dynamics, particularly in industrial production	1.2.1
	● interest rates and exchange rates, values of which affect evaluation of assets and liabilities shown by the Group	
<b>Regulatory environment</b>		
<b>Domestic</b>	● implementation and possible changes to the Poland's energy policy	
	● changes in scope of services like: <ul style="list-style-type: none"> <li>▪ modification of current Operational Reserve mechanism</li> <li>▪ implementation of cold reserve mechanism</li> <li>▪ implementation of further packages for demand reduction services</li> </ul>	
	● 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 CO <sub>2</sub> 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, inter alia, 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% CO<sub>2</sub> reduction targets, 27% RES share target, 27% efficiency improvement target; possibility of granting free CO<sub>2</sub> allowances for energy sector (so called derogations), possible allocation of funds for energy sector modernization. There is a necessity to develop detailed rules for allocation of aid.
- works on introduction of Market Stability Reserve on CO<sub>2</sub> allowances market
- revision of BAT (Best Available Techniques) – uncertainty with regard to future norms of SO<sub>2</sub>, NO<sub>x</sub>, dust and new pollutions (including mercury) emissions from 2020
- draft NEC Directive with regard to national limits of emissions of pollution to the atmosphere and its impact on the power sector
- process of European markets connection, works on standardized model of electricity market, unified trading areas and the trading rules between them. Currently, works are being pursued on connection of Poland to market coupling mechanisms, which is based on combining of energy sale and energy purchase offers from two or more markets, taking into account the transmission capacity available on the connections of these markets and determining the price of electricity based on a common algorithm.

## 1.2 Factors and events affecting results

### 1.2.1 Macroeconomic situation

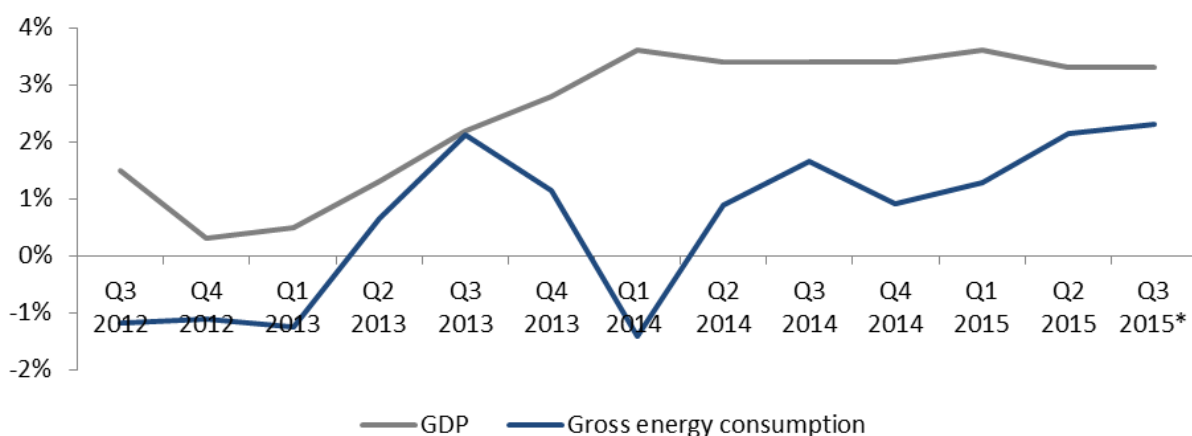
PGE Group's main operating area is Poland, and the domestic macroeconomic backdrop has a substantial impact on Group's results. At the same time, the condition of Poland's economy remains largely tied to the situation across the European Union and in global markets. The Group's financial results are 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 third quarter of 2015, gross electricity consumption was 2.3% higher than in the same period of the previous year. Since the beginning of the year, the electricity consumption has grown by 2.0% y-o-y.

The relatively high growth in electricity consumption results from both the weather conditions and the generally positive economic trends. Analysts predict that GDP growth in the third quarter of 2015 years will amount to 3.3%, what means dynamics from the second quarter of this year shall be sustained. Forecast of National Bank of Poland ("NBP") assumes that in years 2015 to 2017, the GDP growth will amount to an average level of 3.6%.

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 moderately optimistic condition of Polish industry, which is responsible for approx. 45% of domestic electricity use. Industrial PMI in the third quarter fell to the lowest level in this year (50.9 points in September) but remained above the 50-point mark, above which the surveyed managers expect an improvement in the sector. Three of the five components of the index showed improvement: new orders, production and employment while delivery time and inventories slumped. Results of Polish industry should be supported by performance across the Eurozone, for which the PMI remains around 52 points for two quarters, its highest level since April 2014.

Diagram: Manufacturing PMI in Poland and Eurozone (in points).



Source: Markit Economics

From PGE Group's perspective, another positive development is the stronger growth in overall industrial production. In the third quarter of 2015, it went up by 4.4%, compared to 1.8% in the same period last year. Production dynamics in the whole energy sector also improved and for the first time since 2013 it grew in the third quarter of 2015 (by 0.6% y-o-y). The value of industrial manufacturing depends on volumes of goods produced and prices. PPI's dynamics remains negative for more than a year. In the third quarter of 2015 PPI decreased by 2.5% due to, inter alia, low prices of oil, gas and petroleum and gas-related products.

The third quarter of 2015 was already the fifth consecutive quarter with a negative CPI reading. During three months CPI decreased by 0.7% due to, inter alia, decline in prices of food and energy. In a July 2015 forecast, the National Bank of Poland assumes CPI decrease by the end of 2015 on account of low prices of oil, high supply of agricultural products and low demand pressure. In the third 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)	Q3 2015	Q3 2014
GDP <sup>1</sup>	3.3	3.4
CPI <sup>2</sup>	-0.7	-0.3
PPI <sup>2</sup>	-2.5	-1.7
Sold industrial production <sup>2</sup>	4.4	1.8
Sold production – manufacturing <sup>2</sup>	5.1	2.4
Sold production – energy <sup>3</sup>	0.6	-2.8
Gross domestic electricity consumption <sup>4</sup>	2.3	1.7
Gross domestic electricity consumption (TWh) <sup>4</sup>	39.3	38.4
EUR/PLN <sup>5</sup>	4.19	4.17

Source: <sup>1</sup> Value for Q3 2014 – Central Statistical Office of Poland, value for Q3 2015 – average from analysts' forecasts, <sup>2</sup> Central Statistical Office of Poland, <sup>3</sup> Central Statistical Office of Poland - Energy generation and supply of electricity, gas, steam and hot water supply, <sup>4</sup> PSE S.A. <sup>5</sup> National Bank of Poland



### 1.2.2 Fuel purchase costs

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

Type of fuel	Q3 2015		Q3 2014	
	Volume (tons 000')	Cost (PLNm)	Volume (tons 000')	Cost (PLNm)
Hard coal	1,414	329	1,575	379
Gas (cubic metres ths)	75,712	35	69,210	27
Biomass	236	63	300	87
Fuel oil (heavy and light)	4	4	9	16
<b>TOTAL</b>		<b>431</b>		<b>509</b>

Table: Volume and cost of purchase of fuels from third party suppliers in period of three quarters of 2015 and 2014.

Type of fuel	Q1 – Q3 2015		Q1 – Q3 2014	
	Volume (tons 000')	Cost (PLNm)	Volume (tons 000')	Cost (PLNm)
Hard coal	3,781	900	4,485	1,107
Gas (cubic metres ths)	375,894	308	177,304	60
Biomass	932	261	945	267
Fuel oil (heavy and light)	18	23	27	52
<b>TOTAL</b>		<b>1,492</b>		<b>1,486</b>

In the first three quarters of 2015 the costs of purchasing primary fuels from providers outside the Group amounted to PLN 1,492 million and were at similar level as for the first three quarters of 2014, wherein the cost of gas purchases increased by PLN 248 million and the cost of other fuels fell by PLN 242 million.

#### ■ Gas

- The higher average price (PLN +181 million)

The increase of average gas purchase price in the three quarters of 2015 was caused by launching of units which use methane-rich gas derived from dispatch in connection with the the reinstated cogeneration support scheme. Support concerns gas-fuelled cogeneration units what improves generation efficiency of these producers. Unit price of methane-rich gas is higher than price of gas from local sources that was used in the three quarters of 2014.

- Higher purchase volume (PLN +67 million)

The increase of gas purchase volume in the three quarters of 2015 was also caused by the reinstated support scheme. In the three quarters of 2014 production in gas-fired CHPs was 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.

#### ■ Hard coal

- The volume of hard coal purchase lowered by 16% (PLN -174 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% (PLN -33 million)

Lower hard coal price results chiefly from the situation on the mining market that is connected with the oversupply of hard coal and liquidation of stock by mining companies what pulls the global prices down.

#### ■ Fuel oil

- Average price lower by 34% (PLN -12 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 33% (PLN -17 million).

- Biomass
  - Lower volume of biomass purchase by 1% (PLN -4 million)
  - Average price lower by 1% (PLN -2 million)

In the three quarters 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 three quarters 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 three quarters 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. 3% in comparison to the prices binding in the three quarters 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 three quarters of 2015 decreased by 2%, as compared with the analogical period of 2014 and by 8% comparing with the second quarter of 2015.

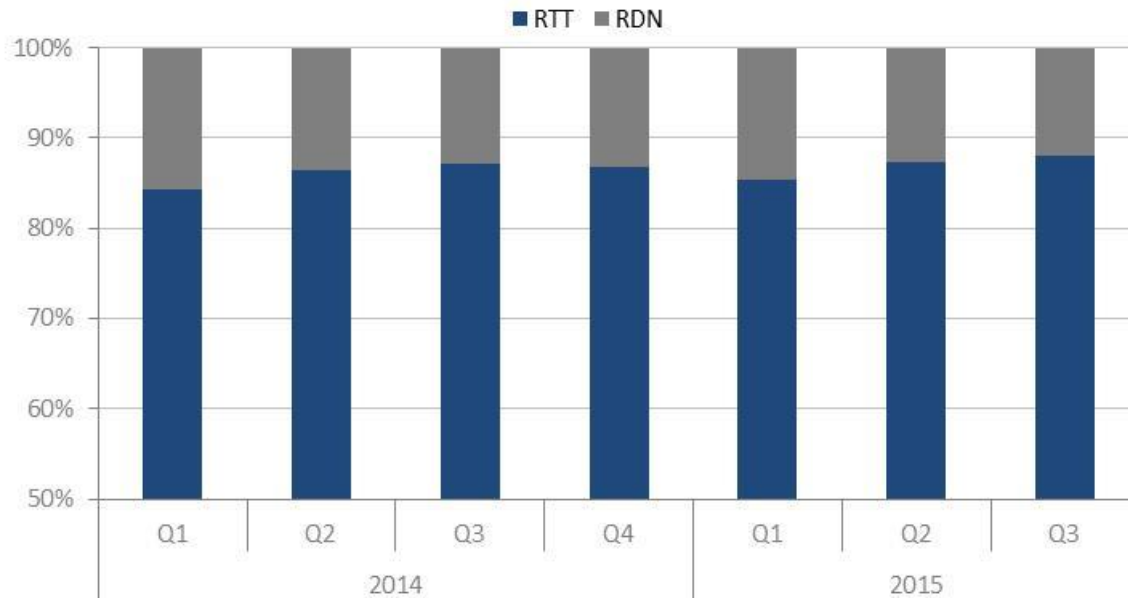
The trading volumes on the futures market grew by 7% compared to the corresponding period of 2014. Liquidity was lower by 1% compared to the second quarter of 2015 and amounted to 39.5 TWh. Trading volume of PEAK products in relation to BASE products constitutes 10%, meaning that the trend from 2014 remained valid. Total combined trading volume for the day-ahead market and the futures market was up by 6% y/y, reaching 138.55 TWh in the three quarters of 2015. This means



that TGE trading volumes exceeded domestic electricity consumption, which amounted to 119.19 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.



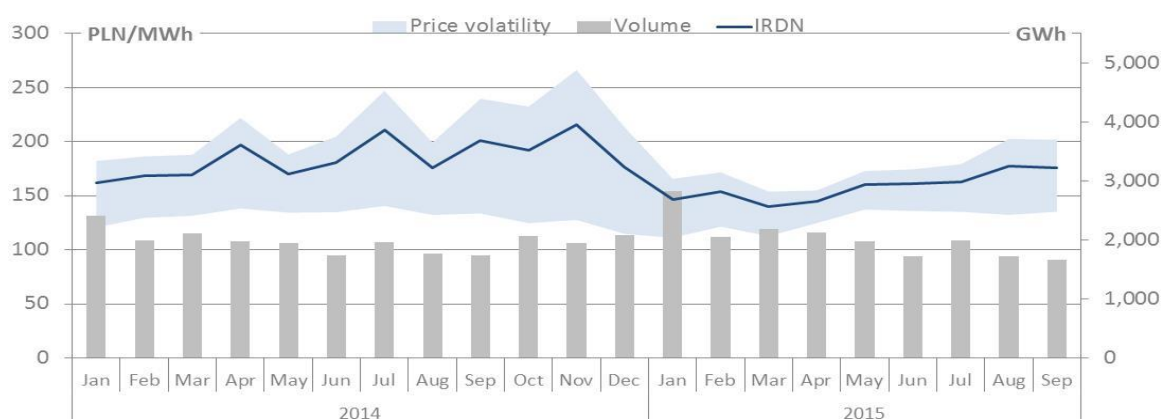
## Domestic market - Prices

### Day-ahead market

In the the three quarters of 2015, prices on the day-ahead market were in an upward trend. The average day-ahead price (the IRDN index) was PLN 171.72/MWh, as compared with PLN 155.26/MWh in the second quarter of 2015. Trading volume has been gradually decreasing and in the third quarter amounted to 5.38 TWh. The increase in prices was caused by continued lower level of power capacity reserve than in the first half of the year, especially during periods of peak demand for power. The unique situation from the price perspective was observed on the day ahead market in August. Persistently high temperatures and low rainfall led to increases in demand (due to air conditioning and ventilation) with limited production capacities (low generation from wind sources and losses of power in conventional sources), which in turn increased the hourly prices to over PLN 1000/MWh. Despite the unusual situation in the National Power System in August 2015, the average price in the third quarter of 2015 years was 13% lower y-o-y. The decline in electricity prices, both in peak and off-peak hours in 2015 in comparison to the analogical period of 2014, resulted from, among others:

- higher level of operational capacity reserve
- lower 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)\*.



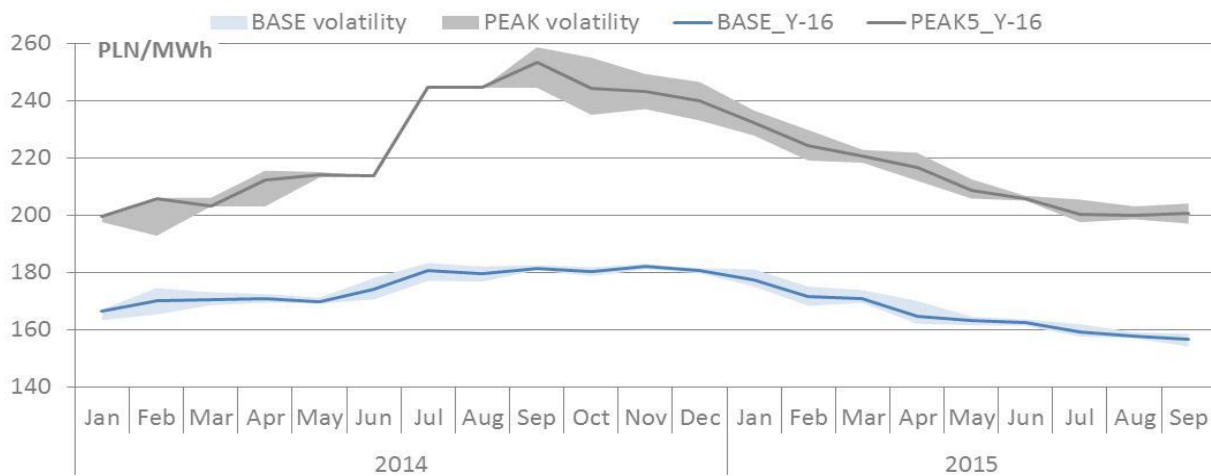
\* arithmetic average price from all power exchange transactions concluded at the session (IRDN) and prices spread (sIRDN, offIRDN)

## Futures market

In the third quarter of 2015, both BASE and PEAK contracts were priced lower. The BASE\_Y-16 and PEAK5\_Y-16 futures contracts for 2016 have been in a downward trend since the beginning of the year. Since the beginning of the year these contracts decreased by respectively 11% and 13%. In January, the BASE\_Y-16 product was priced at an average of PLN 177.39/MWh, whilst in September it was PLN 156.55/MWh. 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 September fell to PLN 197.00/MWh. The last time such a low price on the RTT market were observed in mid-2013. The decline of prices on the futures market was driven by:

- low electricity prices on the day-ahead market
- decreasing prices of hard coal
- expected growth of RES installed capacity
- commissioning of the power link Lithuania – Poland („LitPol Link“)

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



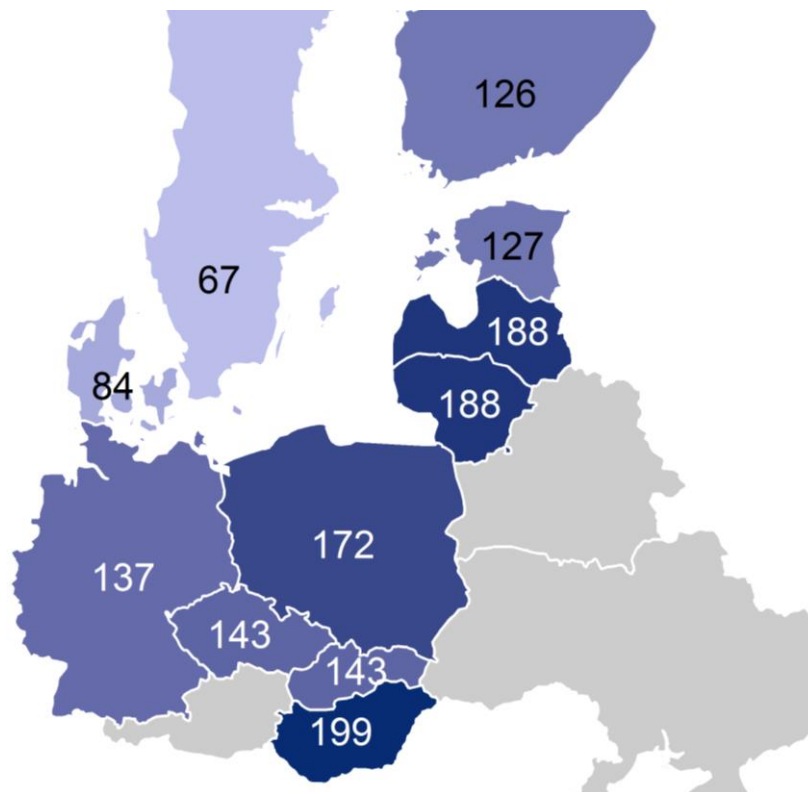
## International markets

### Wholesale market

Wholesale prices on the Polish market remained above those in Sweden, Germany, Czech Republic and Slovakia. The average spot price on the German market grew by 7% y-o-y on account of extremely high temperatures affecting growth in electricity demand, limitation of production in nuclear power plants and an increase in exports due to new trade optimization model (i.e. the flow-based market coupling). Swedish spot market showed downward trend due to exceptionally favourable hydrological situation and the increase of wind generation, what resulted in the quarterly average price of PLN 66.75/MWh - a level close to historic lows. Polish wholesale market was one of the most expensive ones. Use of advantages of the low prices on neighboring markets is limited by carousel flows on the Poland - Germany border. This means that electricity generated by wind farms in Germany near the Polish border reaches into the Polish system, undesirably blocking a rational trade exchange between Poland and Germany.



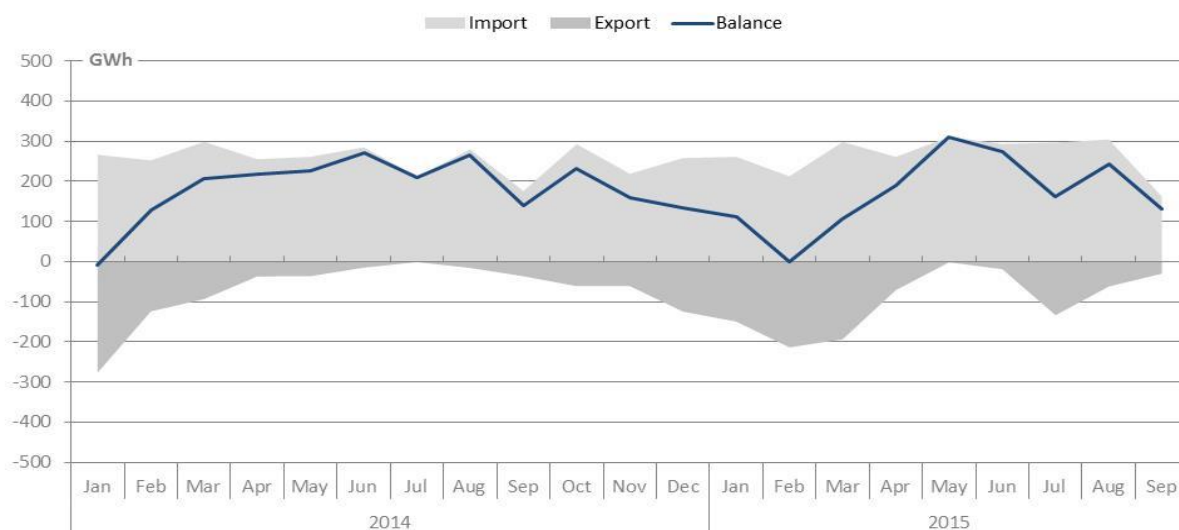
Chart: Comparison of average prices on Polish market and on European markets in the third quarter of 2015 (prices in PLN/MWh).



Source: TGE, EEX, OTE, NordPool Spot.

These price relations in the third quarter of 2015 between Poland and its neighbouring markets were reflected in cross-border exchange volumes. Poland remained net energy importer. Invariably, most energy was purchased from Sweden although there was a 12% drop q-o-q in imports due to the unavailability of power link between Sweden-Poland ("SwePol Link") in the second half of September. Exports increased two and a half times in the third quarter of 2015 compared to the second quarter of 2015 resulting from higher sales flow to Germany, the Czech Republic and Slovakia. Export on those trade sections occurs mainly in hours directly before sunrise and after sunset, when the price on the German market rises to the highest levels. An increased export also occurs on low wind generation days in Germany, what causes a significant increase in prices on the German spot market (exceeding prices on the Polish market).

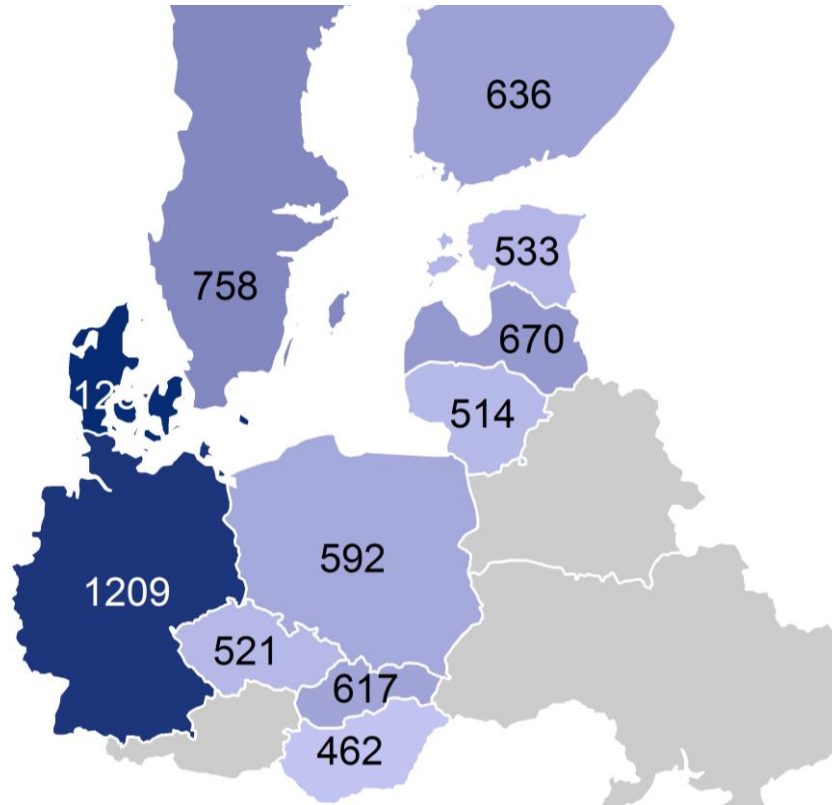
Chart: Monthly imports, exports and cross-border exchange balance in 2014-2015.



## Retail market

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 first half of 2015, an additional burden for individual customers accounted for 24% of the electricity price, compared to the EU average of 30%. 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 including the cost of electricity distribution in selected EU countries in the first half of 2015 (prices in PLN/MWh).



Source: own work based on Eurostat data

Diagram: The share of additional charges in electricity prices for the individual customers in selected EU countries in the first half of 2015 (prices in PLN/MWh).



Source: own work based on Eurostat data

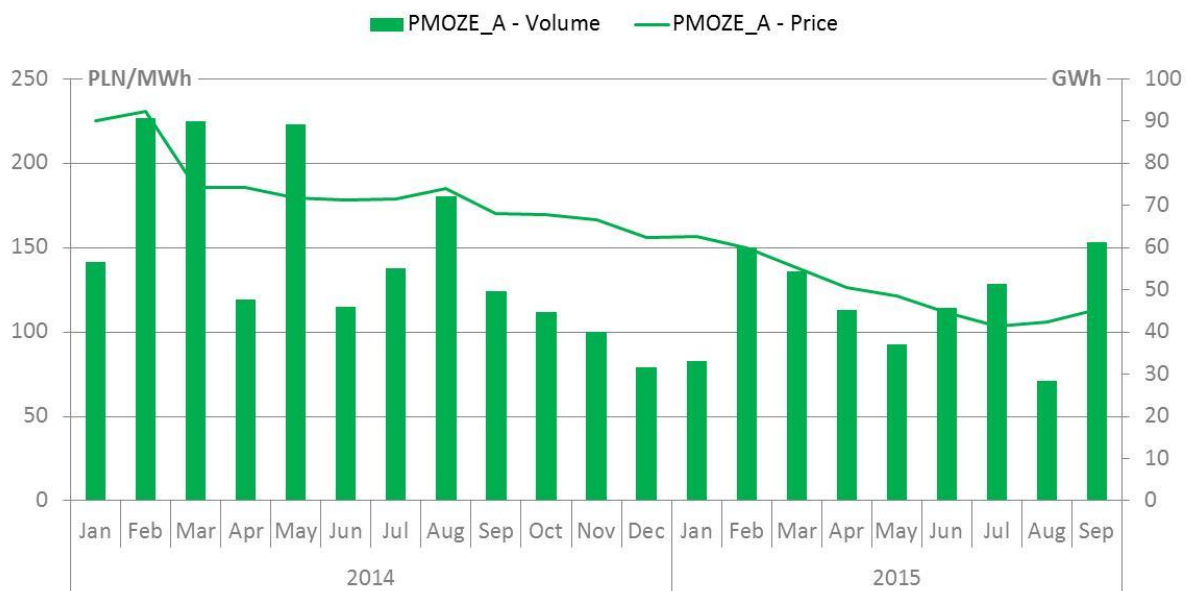


### 1.2.5 Prices of property rights

#### Green certificates – Renewable Energy Sources

A decline in the value of property rights deriving from renewable energy sources (PMOZE\_A) was observed in the three quarters of 2015. The downtrend initiated in March 2014 continued, as a result of which the average quarterly price for property rights reached PLN 108.38/MWh in the third quarter of 2015. This marks a 10% drop in the value of allowances from the previous quarter and a 39% decline year-on-year. The lower prices resulted from a continuing surplus of allowances available on the market.

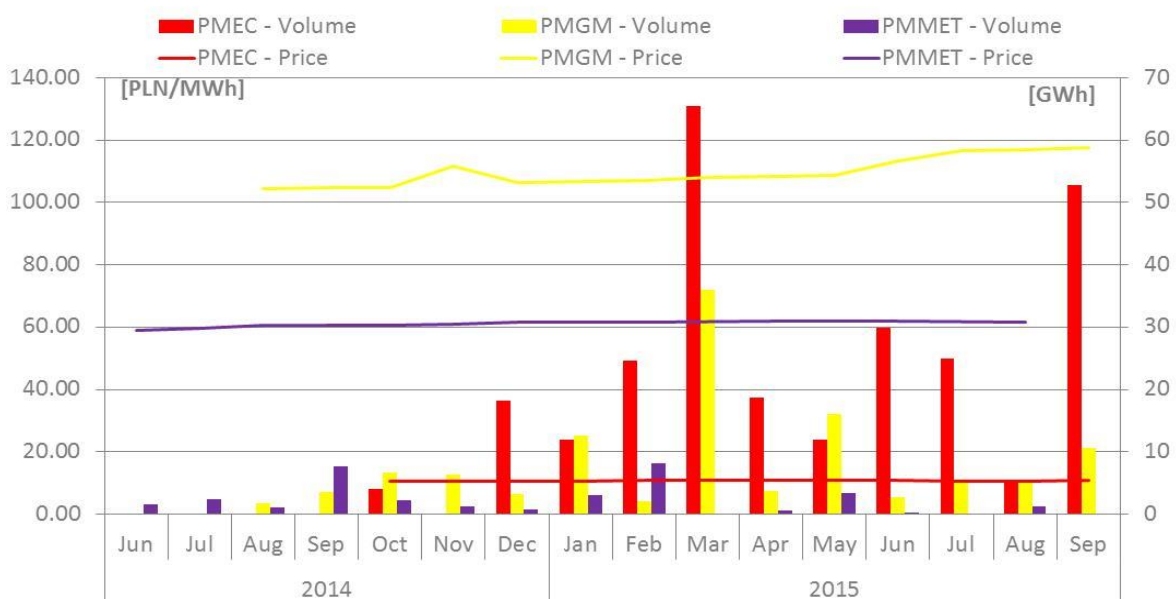
Chart: Monthly prices and trading volumes of green certificates in 2014-2015.



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

The prices of yellow (PMGM), purple (PMMET) and red (PMEC) cogeneration certificates remained at levels approximating unit substitute fees. The average price for yellow certificates in the third quarter of 2015 reached PLN 117.25/MWh (substitute fee PLN 121.63/MWh), violet certificates PLN 61.70/MWh (substitute fee PLN 63.26/MWh) and red property rights PLN 10.64/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.



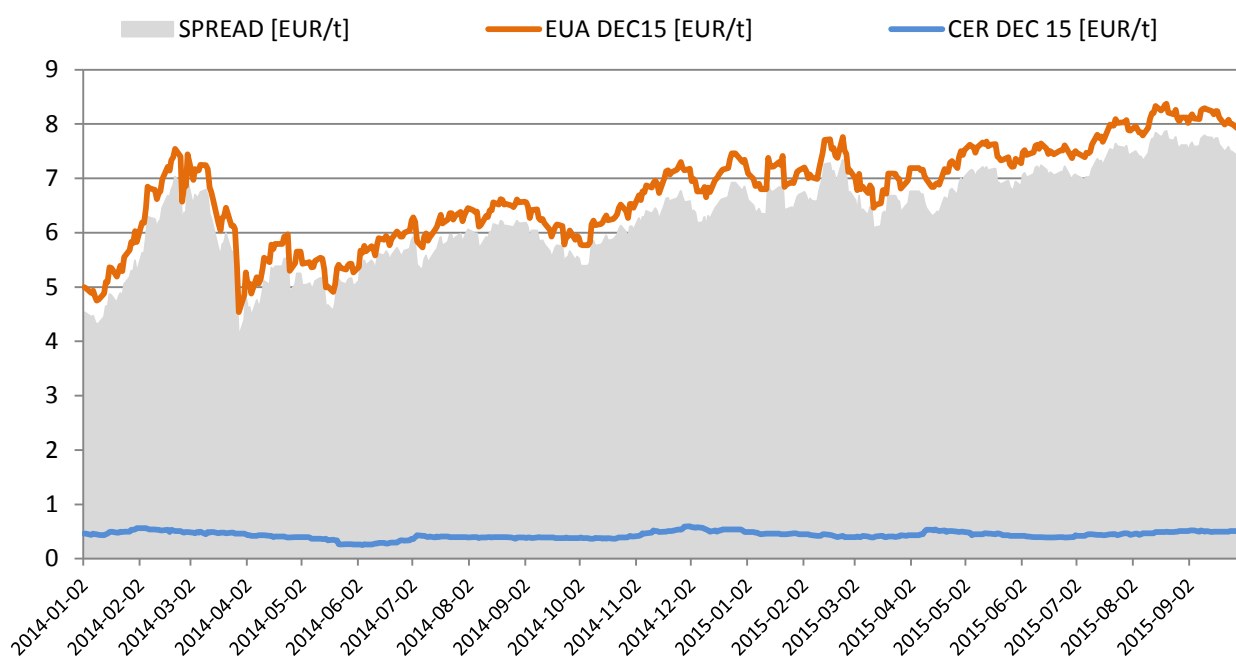
### 1.2.6 Prices of CO<sub>2</sub> emission rights

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.

Factor, which affected the volatility of prices of CO<sub>2</sub> emission rights in the three quarters 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.

In July 2015 a draft amendment to the EU ETS directive was published - it is to define rules in a subsequent settlement period 2021-2030. In September 2015, proposals for the establishment of MSR from 2019 years were formally approved. At that time, amendments to the Act on trading scheme for greenhouse gas emissions entered into force.

Chart: Prices of CO<sub>2</sub> emission rights in 2014 and in the three quarters of 2015, for EUA DEC15 and CER DEC15.



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

In period January-September 2015, prices of EUA units in future contracts with delivery in December 2015 were priced in range EUR 6.44-8.37/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 CO<sub>2</sub> emission allowances will mainly be affected by discussion on future of EU ETS.

### 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 CO<sub>2</sub> emissions in 2014 was completed in April 2015.



The following table presents data concerning CO<sub>2</sub> emission from major Group installations in the third quarter and three quarters of 2015 in comparison to the allocations.

Table: Emission of CO<sub>2</sub> from major Group installations in the third quarter and three quarters of 2015 in comparison to allocation of CO<sub>2</sub> emission rights for 2015 (in Mg).

Operator	CO <sub>2</sub> emissions Q3 2015*	CO <sub>2</sub> emissions Q1-Q3 2015*	Allocation of CO <sub>2</sub> emis- sion rights for 2015**
Bełchatów Power Plant	9,605,366	28,236,481	13,501,970
Turów Power Plant	1,949,718	5,731,393	5,431,204
Opole Power Plant	1,717,026	4,547,348	3,118,922
ZEDO	1,496,745	3,927,167	2,543,421
Bydgoszcz CHPs	118,579	546,470	608,949
Lublin Wrotków CHP	22,161	283,125	328,762
Gorzów CHP	69,869	298,851	255,812
Rzeszów CHP	23,362	192,760	141,729
Zgierz CHP	34,882	143,511	40,830
Kielce CHP	12,294	109,805	105,552
<b>TOTAL</b>	<b>15,050,002</b>	<b>44,016,911</b>	<b>26,077,151</b>

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

\*\* amount of granted CO<sub>2</sub> 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
<b>TOTAL</b>		<b>6,317</b>

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

The impact of LTC compensations on results achieved by the PGE Group is described in Note B.15.1 to the consolidated financial statements and in p. 5.12 of this report.

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

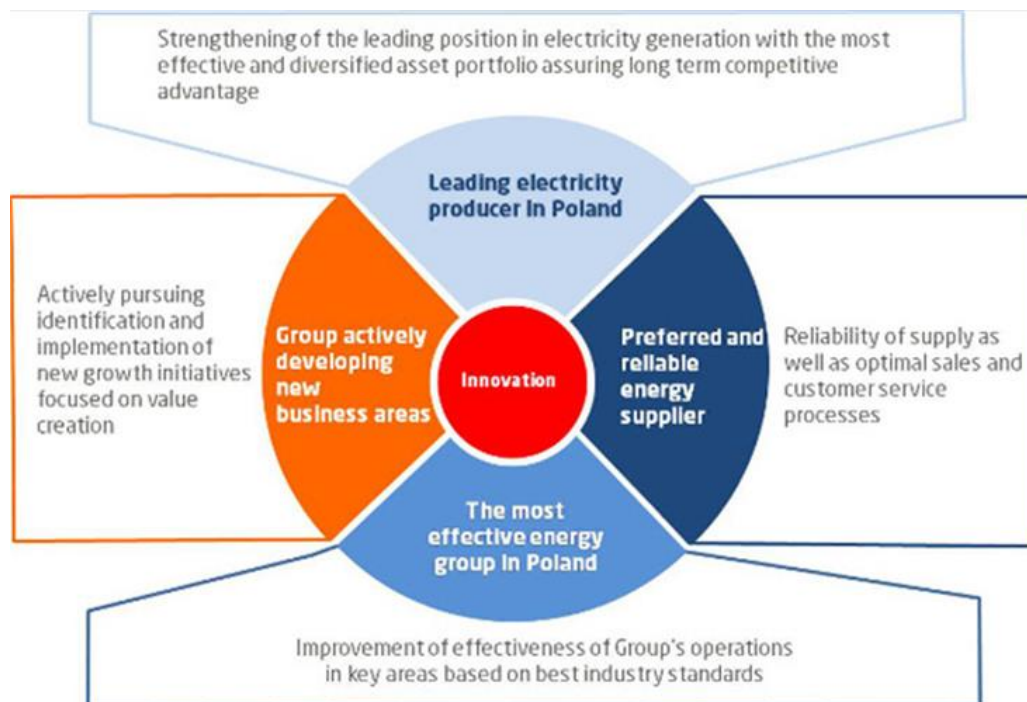
In particular, it is required to accelerate restructuring initiatives and efficiency improvement in operations of the whole organisation that are necessary for faster diversification of the Group's generation fleet. The Company analyses its development plans in the context of the market situation and 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 spending 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 178 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 a 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.

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### Key projects in Q1-Q3 of 2015

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Construction of new units in Opole power plant	<ul style="list-style-type: none"> <li>● construction of two power units of 900 MW each</li> <li>● budget: approx. PLN 11 billion (net, without costs of financing)</li> <li>● capital expenditures incurred: approx. PLN 2.5 billion</li> <li>● <b>fuel:</b> hard coal</li> <li>● <b>efficiency:</b> 45.5%</li> <li>● <b>contractor:</b> syndicate of companies: Rafako, Polimex-Mostostal and Mostostal Warszawa; main subcontractor: Alstom</li> <li>● commissioning: unit 5 – Q3 2018; unit 6 – H2 2019</li> <li>● January 31, 2014 – issue of Notice to Proceed</li> <li>● status: assembly of steel structure of the boiler and engine of unit no. 5; work continues on boiler room and turbine hall foundations unit no. 6; 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</li> </ul>
Construction of new unit in Turów power plant	<ul style="list-style-type: none"> <li>● construction of power unit with a capacity of 490 MW</li> <li>● budget: approx. PLN 3.65 billion (net, without costs of financing)</li> <li>● capital expenditures incurred: approx. PLN 0.09 billion</li> <li>● <b>fuel:</b> lignite</li> <li>● <b>efficiency:</b> 43.4%</li> <li>● <b>contractor:</b> syndicate of companies: Mitsubishi-Hitachi Power Systems Europe, Budimex and Tecnicas Reunidas</li> <li>● commissioning: H2 2019</li> <li>● December 1, 2014 - issue of Notice to Proceed</li> <li>● status: project documentation development stage; demolition work on cooling tower basins and the rest of underground cooling water infrastructure around the construction site completed; excavation work for the main facilities of the new unit commenced; reconciliation with the General Contractor continues with regard to adjustment of basic parameters of new unit no 11, in such way that it would meet new requirements (BAT conclusions), that are to be effective after 2021.</li> </ul>
Construction of new unit in Gorzów CHP	<ul style="list-style-type: none"> <li>● construction of cogeneration CCGT unit with a capacity of 138 MWe and 88 MWt</li> <li>● budget: approx. PLN 625 million (net, without costs of financing)</li> <li>● capital expenditures incurred: approx. PLN 140 million</li> <li>● <b>fuel:</b> local nitrogen-rich gas or methane-rich gas (Group E)</li> <li>● <b>general efficiency:</b> 84%</li> <li>● <b>contractor:</b> Siemens</li> <li>● commissioning: H1 2016</li> <li>● October 3, 2013 - issue of Notice to Proceed</li> <li>● status: project in advanced stage, installation and electrical work continued. The finishing work at all of the buildings of the new unit is on-going.</li> </ul>

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Investments in  
renewable energy  
sources

**Karwice wind farm**

- budget: ok. PLN 256 million (net, without costs of financing)
- capacity: 40 MW (16 turbines with a capacity of 2.5 MW)
- May 2014 – turnkey contract for construction of the wind farm (Aldesa)
- status: commissioned in July 2015

**Gniewino Lotnisko wind farm**

- budget: approx. PLN 530 million (net, without costs of financing)
- capacity: 90 MW (30 turbines with a capacity of 3 MW)
- June 2014 – contract for supply of wind turbines (Alstom)
- August 2014 – contract for construction works (CJR)
- Q4 2015 - projected obtaining of occupancy permit
- status: the assembly of all the towers, wind turbines, end-user substation and high voltage power connection line completed, wind turbines testing commenced

**Resko II wind farm**

- budget: approx. PLN 386 million (net, without costs of financing)
- capacity: 76 MW (38 turbines with a capacity of 2 MW)
- October 2014 - contract for supply of wind turbines (Vestas)
- November 2014 - contract for construction works (Mega, Elektrobudowa)
- Q4 2015 - projected obtaining of occupancy permit
- status: end-user substation acceptance, assembly and technological start-up of wind turbines in Łobez commune (16 pieces) and Brzezno commune (15 pieces), assembly of next 7 turbines close to completion, request submitted for permission to use the connection line of medium voltage and power stations

**Kisielice II wind farm**

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

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 p.p.
- budget: approx. PLN 4.7 billion (net, without costs of financing)
- work progress: units no. 7, 8, 11 and 12 commissioned, units no. 9 and 10 - in modernization
- fuel: lignite
- Completion: 2016

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

- **project's objective:** to decrease the SO<sub>2</sub> emission level to the level required in IED (<=200 mg/Nm<sup>3</sup>)
- 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<sub>x</sub> emission - units 1, 2 and 4 Opole power plant**

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

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

- **project's objective:** to decrease the SO<sub>2</sub> emission level to standard required in IED (<=200 mg/Nm<sup>3</sup>).
- 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<sub>x</sub> and SO<sub>x</sub> 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<sub>x</sub> and SO<sub>x</sub> 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 Q1-Q3 of 2015

Trading strategy update	<p>The following will be developed in the course of the project:</p> <ul style="list-style-type: none"> <li>● <b>value chain management strategy</b>, including: <ul style="list-style-type: none"> <li>■ defined commercial process for managing the value chain</li> <li>■ developed decision-making mechanisms and operating procedures for processes that ensure the direct margin optimisation</li> </ul> </li> <li>● <b>wholesale trading strategy</b>, including: <ul style="list-style-type: none"> <li>■ developed operational model for wholesale trading</li> <li>■ specification of the scope of IT support tools</li> <li>■ developed overall wholesale trading strategy and contracting strategy</li> </ul> </li> <li>● <b>supply strategy</b>, including: <ul style="list-style-type: none"> <li>■ developed strategy for the retail sales area and customer service</li> </ul> </li> <li>● <b>risk management strategy</b>, including: <ul style="list-style-type: none"> <li>■ identification of risks</li> <li>■ developed recommendation for a risk management model and methodology with regard to wholesale trade in electricity and related products</li> </ul> </li> </ul>
Project of network losses reduction	<ul style="list-style-type: none"> <li>● <b>the project is intended to</b> reduce electricity procurement costs for balancing differences</li> <li>● <b>activities undertaken:</b> <ul style="list-style-type: none"> <li>■ replacement of transformers with low-loss units</li> <li>■ 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</li> <li>■ 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</li> </ul> </li> </ul>
CRM Billing	<ul style="list-style-type: none"> <li>● <b>the aim of the program is deployment of support systems</b> for settlements and customer service in Supply and Distribution segments</li> <li>● <b>the program will yield:</b> <ul style="list-style-type: none"> <li>■ improved operational performance and support tools for processes dealing with settlements and customer service</li> <li>■ stronger competitive position on the back of an expanded product offering</li> <li>■ higher customer service quality</li> </ul> </li> <li>● the above objectives will be attained through the centralisation of operations and deployment of IT tools that support CRM, customer service, settlement processes, post-sales services, receivables management, exchange of metering data and information concerning technical operations</li> </ul>



## The most effective energy group in Poland

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

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

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## Key projects in Q1-Q3 of 2015

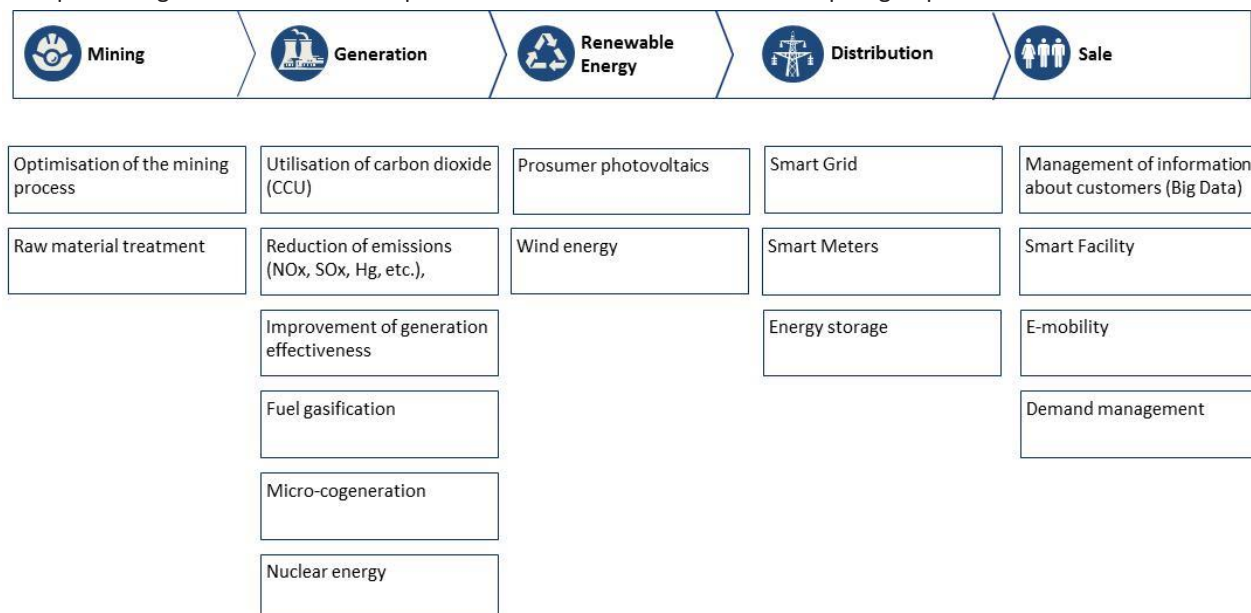
Operating model	<ul style="list-style-type: none"><li>● <b>the aim of this project</b> is: organisational performance improvement across PGE Group centralisation of management, decision-making and planning functions at the Corporate Centre, alongside a synergetic combination of potential of the Group's key value drivers – capital, experience, competences and knowledge – which are embedded across Business Lines</li><li>● 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.</li><li>● as part of the project, a defined portfolio of 51 implementation projects was launched, the result of which will be permanent deployment of the designed changes to business processes. 43 projects have been implemented by the end of September 2015.</li></ul>
Human Capital Management Strategy („HCM Strategy”)	<ul style="list-style-type: none"><li>● <b>the aim of this project</b> is supporting the business strategy goals through:<ul style="list-style-type: none"><li>■ <b>enhancing the effectiveness of human resources management</b></li><li>■ <b>reinforcing strategic HR management</b></li><li>■ <b>optimisation and standardisation of HR processes in terms of:</b> maximising the benefits through operational scale and specialisation (integration of IT tools and systems), harmonised operating standards, optimal use of resources</li></ul></li><li>● In the three quarters 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. Activities related to elaboration of HCM solutions, that are part of I group of strategic initiatives, are also carried out. During the initial period, HR policies standardising the human resources management area across the Group will be of key importance.</li></ul>
Program SAP	<ul style="list-style-type: none"><li>● <b>the aim of the project</b> is:<ul style="list-style-type: none"><li>■ <b>improved operational efficiency through:</b> standardisation of processes within the Group, the aim of the project, optimisation of the technical assets efficiency, more efficient maintenance and development of the system</li><li>■ <b>improved transparency through:</b> creation of uniform records of economic events, access to the ongoing and compact of management information, streamlining and accelerating of decision making process</li><li>■ <b>base creation for:</b> creation of SSC within PGE Group, maintaining a dominant market position while facing the growing competition</li></ul></li></ul> <p>Implementation process of modules: Accounting and Logistics, HCM Strategy and Asset Management was continued in the three quarters of 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. Work has begun in the field of SAP Fiori (software enabling mobile access to SAP tools) implementation. In the next quarter continuation of the implementation works is planned.</p>

- 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 March 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 Kieselice 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 and 6 subsidiaries)
    - PGE S.A. made a contribution in kind of 100% shares of PGE EN sp. z o.o. to PGE EO S.A.
    - Extraordinary General Meeting of PGE EO S.A. issued consent for incorporation to PGE EO S.A. following subsidiaries: PGE Energia Natury Kappa sp. z o.o., PGE Energia Natury Bukowo sp. z o.o., PGE Energia Natury Karnice sp. z o.o., PGE Energia Natury Olecko sp. z o.o.

### 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 three quarters of 2015, 20 of these projects were launched. Additionally, 27 R&D projects that were commenced in previous periods are still on-going.

### Key projects in Q1-Q3 of 2015

„Power-to-Gas” concept	<ul style="list-style-type: none"><li>● <b>Aim of the project:</b> 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.</li></ul>
Cooperation with the National Centre for Research and Development ("NCBiR")	<ul style="list-style-type: none"><li>● one of the <b>key assumptions</b> is the use by PGE Group of public funds available in the Intelligent Development Operational Programme (POIR), where NCBiR is the implementing authority</li><li>● <b>main activities:</b><ul style="list-style-type: none"><li>▪ On July 1, 2015 a settlement on execution of Joint Venture was signed. Works on Joint Venture agreement are carried out, which will regulate all formal and legal issues of the program. Aim of the Joint Venture is to advance the level of innovativeness in the Polish energy sector through implementing a research agenda that falls outside the Sector Programme for Energy. Agenda is being drafted on the basis of subject areas proposed by PGE S.A., which are aligned with the SOBIR&amp;NB areas.</li><li>▪ Feasibility study of the Sector Programme for Energy was submitted to NCBiR on July 14, 2015. The study was prepared under the auspices of the Polish Electricity Association. It is a coherent plan of 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 and approved by all of the key energy market participants. Currently NCBiR is expected to make decision on approval of the Sector Programme Report for implementation.</li><li>▪ On October 21, 2015 NCBiR completed the full assessment procedure of feasibility study of sector programme called PBSE Power Sector Research Programme. As a result PBSE received a positive recommendation for commencement of works leading to its establishing.</li><li>▪ 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.</li></ul></li></ul>



### 3 Results achieved in PGE Capital Group

#### 3.1 Financial results of PGE Capital Group

Key financial data	Unit	Q3 2015	Q3 2014*	% change	Q1-Q3 2015	Q1-Q3 2014*	% change
Sales revenues	PLN million	6,914	6,649	4%	21,158	20,857	1%
<b>EBIT</b>	<b>PLN million</b>	<b>1,312</b>	<b>937</b>	<b>40%</b>	<b>-4,862</b>	<b>4,463</b>	<b>-</b>
<b>EBITDA**</b>	<b>PLN million</b>	<b>1,995</b>	<b>1,740</b>	<b>15%</b>	<b>6,214</b>	<b>6,813</b>	<b>-9%</b>
Net profit/loss attributable to equity holders of the parent company	PLN million	1,029	378	172%	-4,026	3,199	-%
Adjusted net profit attributable to equity holders of the parent company ***	PLN million	1,065	401	266%	3,209	3,265	-2%
LTC compensations	PLN million	142	192	-26%	443	1,600	-72%
<b>Capital expenditures</b>	<b>PLN million</b>	<b>2,505</b>	<b>1,627</b>	<b>54%</b>	<b>5,837</b>	<b>3,859</b>	<b>51%</b>
Net cash from operating activities	PLN million	2,225	2,849	-21%	5,217	4,433	18%
Net cash from investing activities	PLN million	-1,953	415	-	-6,105	-4,635	-
Net cash from financial activities	PLN million	-26	-1,904	-	-299	189	-
Net earnings per share	PLN	0.56	0.20	180%	-2.15	1.71	-
Adjusted net earnings per share	PLN	0.57	0.21	171%	1.72	1.75	-2%
<b>EBITDA margin</b>	<b>%</b>	<b>29%</b>	<b>26%</b>		<b>29%</b>	<b>33%</b>	

Key financial data	Unit	As at	As at	%
		September 30, 2015	December 31, 2014	change
Working capital	PLN mil- lion	4,981	6,753	-26%
<b>Net debt/LTM EBITDA****</b>	<b>x</b>	<b>0.01x</b>	<b>-0.11x</b>	

\* Data restated

\*\*methodology of EBITDA calculation for the first half of 2015 was adjusted due to necessity of adaptation of presentation of Q3 2015 to the one applied for three quarters of 2015 (without amortisation which is capitalized in property, plant and equipment)

\*\*\* Net profit adjusted by impairment loss

\*\*\*\* LTM EBITDA - Last Twelve Months EBITDA

### 3.1.1 Consolidated statement of comprehensive income

In the third quarter of 2015 total sales revenues of the Group amounted to PLN 6,914 million compared to PLN 6,649 million in the third quarter of 2014.

#### Sales revenues – increase by PLN 265 million

Positive impact	<ul style="list-style-type: none"><li>● increased revenues from sales of electricity by PLN 307 million</li><li>● increased revenues from the distribution services and core operations impacting EBITDA by PLN 49 million</li><li>● increase of revenues from sale of gas by PLN 35 million</li><li>● increased revenues from ancillary control services by PLN 22 million</li></ul>
Negative impact	<ul style="list-style-type: none"><li>● decreased revenues from sales of certificates of energy origin by PLN 80 million</li><li>● decreased revenues from LTC compensations by PLN 50 million</li></ul>

Cost of goods sold in the third quarter of 2015 amounted to PLN 5,123 million compared to PLN 5,142 million in the third quarter of 2014.

#### Cost of goods sold – decrease by PLN 19 million

Positive impact	<ul style="list-style-type: none"><li>● lower amortisation and depreciation and impairment losses by PLN 75 million</li><li>● lower costs of materials used for repair and maintenance by PLN 47 million</li><li>● lower personnel expenses by PLN 38 million</li></ul>
Negative impact	<ul style="list-style-type: none"><li>● higher merchandise and materials sold (including energy purchased for resale) by PLN 81 million</li><li>● higher costs of production fuel and transport services by PLN 30 million</li></ul>

Gross profit on sales in the third quarter of 2015 amounted to PLN 1,791 million compared to gross profit of PLN 1,507 million in the third quarter of 2014, what means an increase by PLN 284 million.

In the third quarter of 2015 distribution and selling expenses of PGE Group amounted to PLN 322 million and were lower by approx. 16% in comparison to the third quarter 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 third quarter of 2015 general and administrative expenses amounted to PLN 181 million, what means a decrease of approx. 6% in comparison to the third quarter of 2014.

Result on other operating activities in the third quarter of 2015 was positive and amounted to PLN 24 million in comparison to positive result of PLN 5 million in the third quarter of 2014.

Other operating revenues of the Group in third quarter of 2015 amounted to PLN 73 million, what means decrease by approx. 11% in relation to PLN 82 million achieved in the comparable period of 2014. Reversal of provisions in amount of PLN 6 million is the main reason for revenues decline.

Other operating expenses of the Group from July to September 2015 amounted to PLN 49 million compared to PLN 77 million in the third quarter of 2014, what means a decrease by approx. 36%. Decrease of other operating expenses by PLN 28 million was mainly caused by lower impairment of receivables.

In the first half of 2015 result on financial activities was negative and amounted to PLN (-) 49 million, in comparison to negative result in the amount of PLN (-) 452 million in the comparable period of 2014.

The Group's financial revenues in the third quarter of 2015 amounted to PLN 24 million, what means a decrease by approx. 77% in relation to PLN 106 million achieved in the third quarter of 2014.

#### Financial revenues - decrease by PLN 82 million

Negative impact	<ul style="list-style-type: none"><li>● lower foreign exchange gains by PLN 35 million</li><li>● lower interest on loans and receivables by PLN 25 million</li><li>● recognition of revaluation of CCIRS transaction by PLN 14 million</li></ul>
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Financial expenses of the Group in the period July - September 2015 amounted to PLN 73 million, what means a decrease by 87% w in comparison to the value of PLN 558 million in the comparable period of 2014.

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#### Financial expenses - decrease by PLN 485 million

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Positive impact	<ul style="list-style-type: none"><li>● lower level of impairment loss by PLN 385 million (in the comparative period the Group recognised estimated loss of value of bonds issued by Autostrada Wielkopolska S.A.)</li><li>● lower foreign exchange losses by PLN 28 million</li></ul>
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As a result of the factors discussed above, the **gross profit** of the Group in the third quarter of 2015 amounted to PLN 1,263 million, compared to gross profit of PLN 485 million in the third quarter of 2014.

**Net profit** of the PGE Capital Group in the period July-September 2015 amounted to PLN 1,029 million compared to net profit of PLN 380 million in the comparable period of 2014.

**Net profit attributable to the equity holders of the parent company** in the third quarter of 2015 amounted to PLN 1,029 million, what means increase by PLN 651 million in comparison to the third quarter of 2014.

**Total comprehensive income** of the Group amounted to PLN 1,028 million in the third quarter of 2015, in comparison to PLN 347 million in the third quarter of 2014.

#### 3.1.2 Consolidated statement of financial position

**Non - current assets** of the Group as at September 30, 2015 and as at December 31, 2014 amounted respectively to PLN 46,506 million and PLN 52,182 million.

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#### Non - current assets - decrease by PLN 5,676 million

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Decline	<ul style="list-style-type: none"><li>● impairment losses and amortisation and depreciation of fixed assets, intangible assets and investment properties and depreciation charges and in the amount of PLN 11,228 million</li></ul>
Growth	<ul style="list-style-type: none"><li>● capital expenditures incurred for property, plant and equipment and intangible assets in the amount of PLN 5,837 million, including:<ul style="list-style-type: none"><li>▪ Conventional Generation – PLN 4,014 million</li><li>▪ Distribution – PLN 1,138 million</li><li>▪ Renewable Energy - PLN 565 million</li></ul></li><li>● advances for construction in progress by PLN 80 million</li></ul>

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**Current assets** of the Group as at September 30, 2015 and as at December 31, 2014 amounted respectively to PLN 13,351 million and PLN 14,019 million.

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#### Current assets – decrease by PLN 668 million

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Decline	<ul style="list-style-type: none"><li>● cash and cash equivalents by PLN 1,198 million</li><li>● CO<sub>2</sub> emission rights by PLN 258 million</li></ul>
Growth	<ul style="list-style-type: none"><li>● inventories by PLN 541 million</li><li>● other loans and financial assets by PLN 99 million</li><li>● other short term assets by PLN 82 million</li></ul>

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

Decrease in greenhouse gases emission rights for the Group's own needs results mainly from redemption of CO<sub>2</sub> emission rights for 2014.

Higher inventories resulted mainly from increased value of certificates of energy origin by PLN 436 million and higher CO<sub>2</sub> emission rights intended for trade by PLN 121 million, with a decrease in the value of hard coal by PLN 93 million.

Change in other loans and financial assets results from higher deposits over 3 months by PLN 97 million, higher LTC receivables by PLN 37 million and lower other receivables by PLN 35 million.

Growth in other short-term assets results from higher excise tax and VAT 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 September 30, 2015 and as at December 31, 2014 amounted respectively to PLN 39,554 million and PLN 44,884 million, what means decline by PLN 5,330 million.

Total equity of the Group in the period January-September 2015 was negatively affected by recognition of net loss in amount of PLN (-) 4,030 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 September 30, 2015 and as at December 31, 2014 amounted respectively to PLN 99 million and PLN 116 million.

**Long-term liabilities** as at September 30, 2015 and as at December 31, 2014 amounted respectively to PLN 11,933 million and PLN 14,051 million.

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#### **Long-term liabilities – decrease by PLN 2,118 million**

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Decline	<ul style="list-style-type: none"><li>● provisions for deferred tax liability by PLN 1,429 million</li><li>● level of provisions by PLN 620 million</li><li>● interest - bearing loans, borrowings, bonds and lease by PLN 103 million</li></ul>
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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 (detailed description is presented in note B.4.2 to the consolidated financial statements).

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 September 30, 2015 and as at December 31, 2014 amounted respectively to PLN 8,370 million and PLN 7,266 million.

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#### **Short-term liabilities – increase by PLN 1.104 million**

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Growth	<ul style="list-style-type: none"><li>● other non-financial liabilities by PLN 1,234 million</li><li>● income tax liabilities by PLN 190 million</li><li>● level of provisions by PLN 123 million</li></ul>
Decline	<ul style="list-style-type: none"><li>● trade receivables by PLN 424 million</li><li>● current account credits by PLN 134 million</li></ul>

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Higher non-financial liabilities results mainly from increase of dividend payable by PLN 1,458 million and liabilities arising from VAT by PLN 110 million, with simultaneous lower level of liabilities related to current employment benefits by PLN 243 million and lower environmental fees – by PLN 76 million.

Increased income tax liabilities occurred mainly in PGE S.A. in connection with being a tax payer in the Tax Capital Group.

Higher short-term provisions mainly result from higher provision for purchase of certificates.

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

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

### **3.1.3 Consolidated statement of cash flows**

**The total net cash flows from operating activities** for the third quarter of 2015 amounted to PLN 2,255 million in comparison to PLN 2,849 million in the third quarter of 2014.

Lower cash from operating activities is connected mainly with lower revenues from LTC compensations, higher expenses for production fuels and for CO<sub>2</sub> emission rights, what is partly compensated by higher revenues from sale of electricity and heat.

**Negative net cash flow from investing activities** for the third quarter of 2015 amounted to PLN 1,953 million compared to positive net cash flow in amount of PLN 415 million in comparable period of 2014.

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#### **Cash flow from investing activities**

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Negative impact	<ul style="list-style-type: none"><li>● lower difference in level of deposits over 3 months (deposits amounting to PLN 1,985 million made in the second quarter of 2014 were terminated in the third quarter of 2014)</li><li>● increase of purchase of tangible and intangible assets by PLN 325 million</li></ul>
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**Negative net cash flow from financial activities** for the third quarter of 2015 amounted to PLN 26 million compared to negative net cash flow in amount of PLN 1,904 million in the third quarter of 2014.

Change in cash flow from financial activities in the third quarter of 2015 compared with the comparable period of the previous year, was mainly affected by shifting of dividend payment to October 15, 2015, what was partly offset by lower repayment of loans, borrowings, bonds and financial lease.

### 3.2 Operational figures of PGE Capital Group

Table: Key operational figures.

Key figures	Unit	Q3 2015	Q3 2014	% change	Q1-Q3 2015	Q1-Q3 2014	% change
Lignite extraction	Tons m	12.54	12.96	-3%	37.56	37.09	1%
Net electricity production	TWh	14.11	13.80	2%	41.73	40.42	3%
Heat sales	GJ m	1.44	1.32	9%	12.04	11.38	6%
Sales to final customers*	TWh	9.77	9.81	0%	29.03	29.37	-1%
Distribution of electricity**	TWh	8.35	8.11	3%	24.80	24.06	3%

\* 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	Q3 2015	Q3 2014	% change	Q1-Q3 2015	Q1-Q3 2014	% change
<b>SALES IN TWh, including:</b>	<b>25.66</b>	<b>24.83</b>	<b>3%</b>	<b>75.88</b>	<b>73.97</b>	<b>3%</b>
Sales to end-users*	9.79	9.81	0%	29.06	29.34	-1%
Sales on the wholesale market, including:	15.43	14.74	5%	45.58	43.79	4%
<i>Sales on the domestic wholesale market - power exchange</i>	14.70	13.93	6%	43.27	41.07	5%
<i>Other sales on the domestic wholesale market</i>	0.69	0.77	-10%	2.23	2.38	-6%
<i>Sales to foreign customers</i>	0.04	0.04	0%	0.08	0.34	-76%
Sales on the Balancing Market	0.44	0.28	57%	1.24	0.84	48%

\* after elimination of internal sales within PGE Group

Increased sales volume of PGE Capital Group in the three quarters of 2015 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	Q3 2015	Q3 2014	% change	Q1-Q3 2015	Q1-Q3 2014	% change
<b>PURCHASES IN TWh, including:</b>	<b>12.59</b>	<b>11.97</b>	<b>5%</b>	<b>37.55</b>	<b>37.07</b>	<b>1%</b>
Purchases on the domestic wholesale market – power exchange	10.29	9.19	12%	30.21	27.49	10%
Purchases on the domestic wholesale market, other	0.66	1.28	-48%	2.62	3.94	-34%
Purchases from abroad	0.01	0.04	-75%	0.03	0.29	-90%
Purchases from Balancing Market	1.63	1.46	12%	4.69	5.35	-12%

Increased purchases on the domestic wholesale market - power exchange results from repo transactions on futures realized by the Conventional Generation segment and higher purchases on the power exchange pursued by the Supply segment.

Decreased purchases on the domestic wholesale market, other in the third quarter of 2015 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	Q3	Q3	% change	Q1-Q3	Q1-Q3	% change
	2015	2014		2015	2014	
<b>ENERGY GENERATION IN TWh, including:</b>	<b>14.11</b>	<b>13.80</b>	<b>2%</b>	<b>41.73</b>	<b>40.42</b>	<b>3%</b>
Lignite-fired power plants	10.03	10.44	-4%	29.64	29.15	2%
<i>including co-combustion of biomass</i>	0.04	0.10	-60%	0.25	0.28	-11%
Coal-fired power plants	3.18	2.59	23%	8.32	8.54	-3%
<i>including co-combustion of biomass</i>	0.12	0.09	33%	0.34	0.32	6%
Coal-fired CHP plants	0.25	0.14	79%	0.92	0.78	18%
Gas-fired CHP plants	0.20	0.18	11%	1.30	0.40	225%
Biomass-fired CHP plants	0.11	0.11	0%	0.34	0.35	-3%
Pumped storage power plants	0.15	0.11	36%	0.37	0.39	-5%
Hydroelectric plants	0.04	0.10	-70%	0.30	0.34	-12%
Wind power plants	0.15	0.13	15%	0.54	0.47	15%

Level of electricity production in the three quarters of 2015 compared to 2014 was mainly driven by **resumption of generation in gas-fired CHP plants**: (i) in Rzeszów CHP starting from September 2014 and (ii) in 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 in production of electricity at lignite - fired power plants results mainly from **higher production in Bełchatów Power Plant** as a consequence of outage of unit no. 11 in modernization from December 2013 to September 2014.

**An increase in production at coal-fired CHP plants** is mainly a result of commissioning, of an extraction-condensing turboset together with a peak-load and reserve boiler in Zgierz CHP in December 2014. Additionally, higher production was reached on unit no. 2 in Pomorzany CHP plant, which remained in the planned overhaul in the third quarter of 2014 and in Bydgoszcz CHP plants due to higher utilization of CHP plants by PSE S.A.

**An increase of production in wind power plants is a result of favourable wind conditions** as well as arise from the commissioning of Karwice wind farm in July 2015, what increased installed capacity by 40 MW.

**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 5, 2015 and from lower utilization of Opole power plant by PSE S.A. in 2015.

**A decrease of production in hydroelectric power plants** is a consequence of unfavourable hydrological conditions.

**Lower production in pumped storage power plants** results from the nature of these generation units, which in the three quarters of 2015 were used to a lower extent by PSE S.A.

### 3.2.2 Sales of heat

In the three quarters of 2015 the heat sales in PGE Capital Group totaled 12.04 GJ million and were higher by 0.66 GJ million than in the analogical period 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 third quarter of 2015 and 2014.

in PLN million	Total income		
	Q3 2015	Q3 2014*	% change
Conventional Generation	3,052	2,909	5%
Renewable Energy	168	178	-6%
Supply	3,801	3,543	7%
Distribution	1,477	1,405	5%
Other operations	172	469	-63%
<b>TOTAL</b>	<b>8,670</b>	<b>8,504</b>	<b>2%</b>
<b>Consolidation adjustments</b>	<b>-1,756</b>	<b>-1,855</b>	<b>-</b>
<b>TOTAL AFTER ADJUSTMENTS</b>	<b>6,914</b>	<b>6,649</b>	<b>4%</b>

\*data restated

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

in PLN million	EBITDA	EBIT	Capital expenditures	Assets of the segment*
			Q3 2015	
Conventional Generation	1,126	789	1,656	28,843
Renewable Energy	76	17	346	4,588
Supply	144	138	9	4,372
Distribution	622	360	450	16,050
Other operations	25	-5	61	994
<b>TOTAL</b>	<b>1,993</b>	<b>1,299</b>	<b>2,522</b>	<b>54,847</b>
<b>Consolidation adjustments</b>	<b>2</b>	<b>13</b>	<b>-17</b>	<b>-1,908</b>
<b>TOTAL AFTER ADJUSTMENTS</b>	<b>1,995</b>	<b>1,312</b>	<b>2,505</b>	<b>52,939</b>

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

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

in PLN million	EBITDA	EBIT	Capital expenditures	Assets of the segment*
			Q3 2014**	
Conventional Generation	956	495	1,219	34,015
Renewable Energy	90	34	87	3,849
Supply	40	36	3	3,411
Distribution	606	344	318	15,197
Other operations	43	12	32	1,371
<b>TOTAL</b>	<b>1,735</b>	<b>921</b>	<b>1,659</b>	<b>57,843</b>
<b>Consolidation adjustments</b>	<b>5</b>	<b>16</b>	<b>-32</b>	<b>-1,553</b>
<b>TOTAL AFTER ADJUSTMENTS</b>	<b>1,740</b>	<b>937</b>	<b>1,627</b>	<b>56,290</b>

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

\*\* data restated



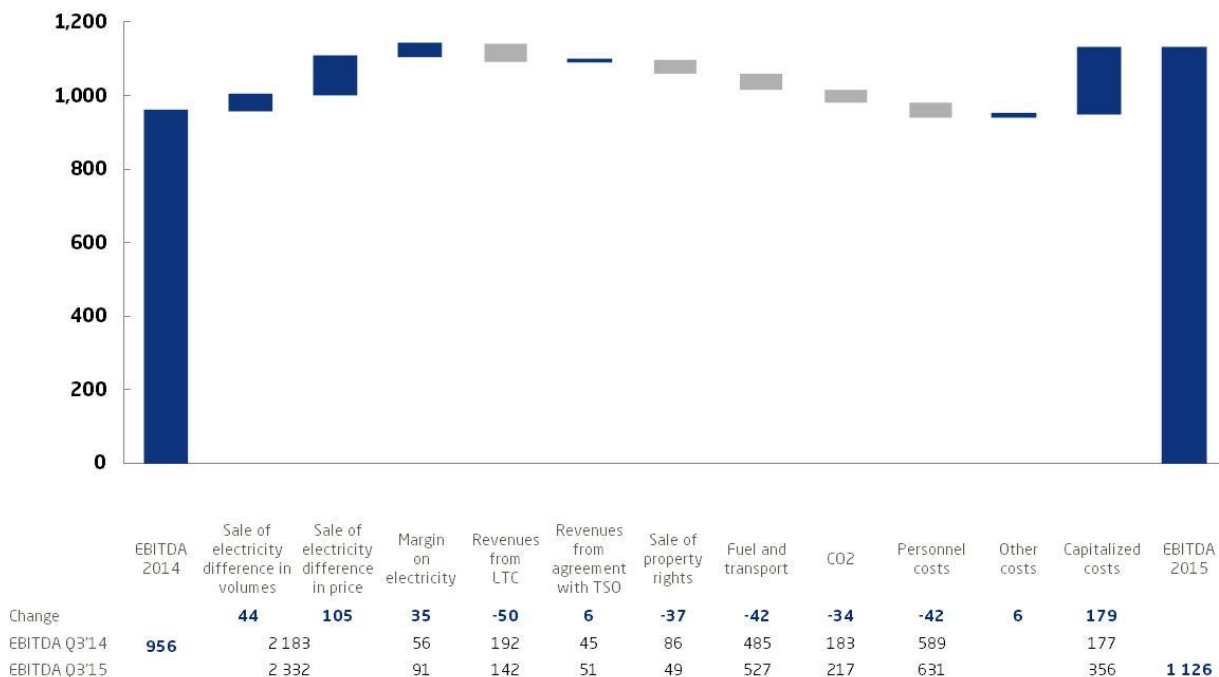
### 3.3.1 Conventional Generation

Table: Key figures for Conventional Generation.

PLN million	Q3 2015	Q3 2014*	% change
Sales revenues	3,052	2,909	5%
EBIT	789	495	59%
EBITDA	1,126	956	18%
Capital expenditures	1,656	1,219	36%

\* data restated

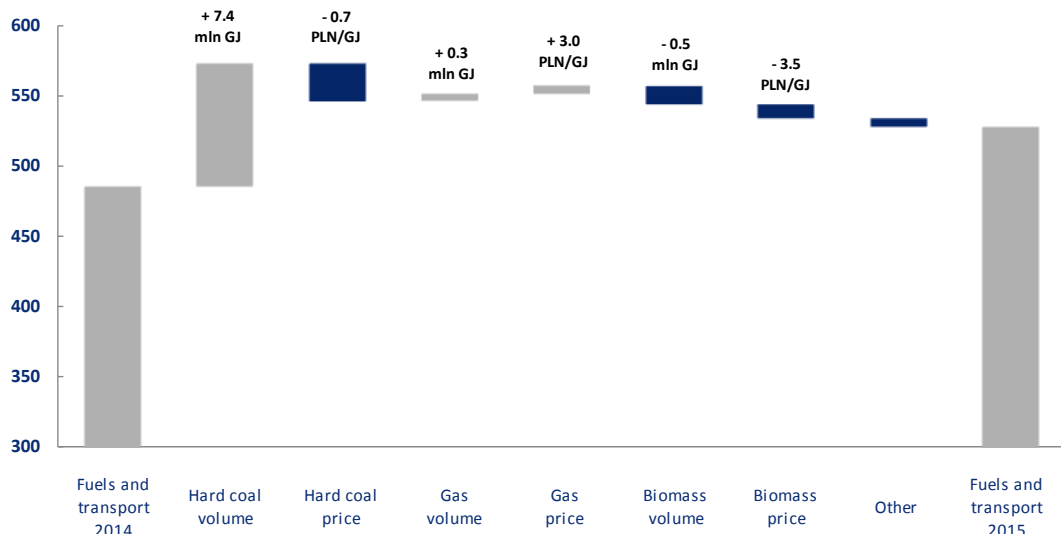
Chart: Key changes of EBITDA in Conventional Generation [in PLN million].



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

- **Higher electricity sales volume** from own production 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 third quarter of 2015 was PLN 174.04/MWh while it amounted to PLN 166.18/MWh in the third quarter of 2014.
- **Higher result on resale of electricity** – change on volume PLN 10.7 million, change on price PLN 24.7 million.
- **Higher capitalised costs**, inter alia due to higher costs of overburden removal in mines that were recognized as asset.
- **Lower revenues from certificates** – mainly due to lower generation – by 55 GWh – of green certificates and lower price by PLN 41.72/MWh.
- **Higher CO<sub>2</sub> costs** – as a result of lower amount of allowances granted free of charge and higher volume of electricity generation.
- **Higher personnel expenses** – resulting from recognition of costs of companies rendering auxiliary services that were shifted to Conventional Generation from Other operations segment.
- **Higher costs of fuels used**, including mainly hard coal (with transport) as a result of higher production based on that fuel (volume used higher by 7.4 GJ million). Main changes on different types of fuel are presented on the chart below.

Chart: Costs of fuels consumption (including transport) in Conventional Generation [in PLN million].



Change	87	-26	4	6	-13	-10	-6
Fuels and transport Q3 2014	485	333	27	86			
Fuels and transport Q3 2015		394	37	63			527

### Capital expenditures

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

in PLN million	Capital expenditures		
	Q3 2015	Q3 2014	% change
Investments in generating capacities, including:	1,424	868	64%
▪ Development	808	274	195%
▪ Modernization and replacement	616	594	4%
Purchase of finished capital goods	17	13	31%
Vehicles	5	0	-
Other	23	214	-89%
<b>TOTAL</b>	<b>1,469</b>	<b>1,095</b>	<b>34%</b>
Capitalized costs of overburden removal in mines	187	124	51%
<b>TOTAL with capitalized costs of overburden removal in mines</b>	<b>1,656</b>	<b>1,219</b>	<b>36%</b>

Highest capital expenditures in the third quarter of 2015 were incurred for the following projects:

- construction of units 5 and 6 in Opole power plant PLN 708 million;
- comprehensive modernization of units 7-12 - Bełchatów power plant PLN 240 million;
- construction of desulphurization installations of units 4 - 6 in Turów power plant PLN 94 million;
- construction of CCGT unit in Gorzów CHP PLN 38 million;
- construction of unit no. 11 in Turów power plant PLN 35 million.

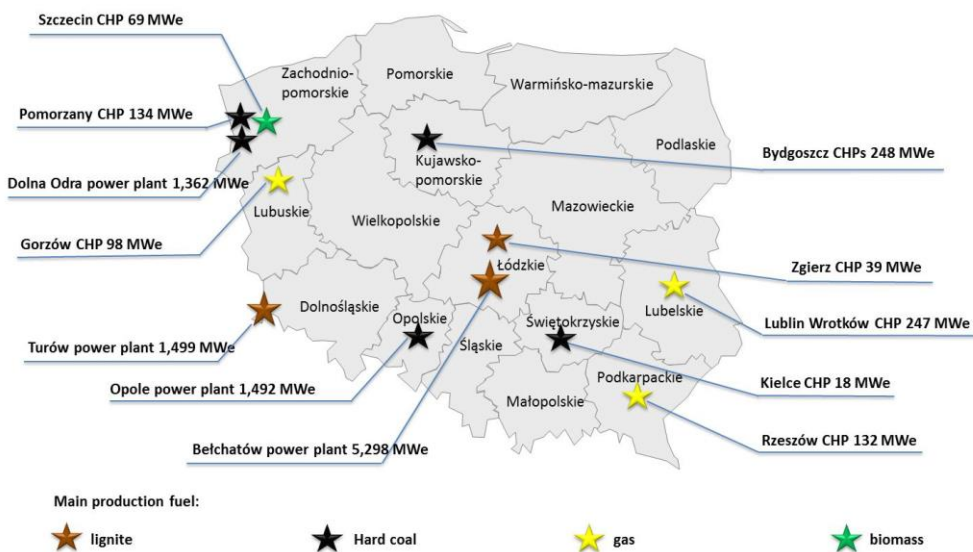
Key developments in the third quarter of 2015 in Conventional Generation:

- in August 2015 unit no. 10 in Bełchatów power plant was taken out of operation for modernisation;
- in August 2015 modernisation of NOx reduction installation was completed in units no. 5-8 in Dolna Odra power plant - modernisation lasted 3 years;
- in September 2015 unit no. 2 in Opole power plant was taken out of operation for planned Medium Repair.

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

Diagram: Main assets of the Conventional Generation segment.



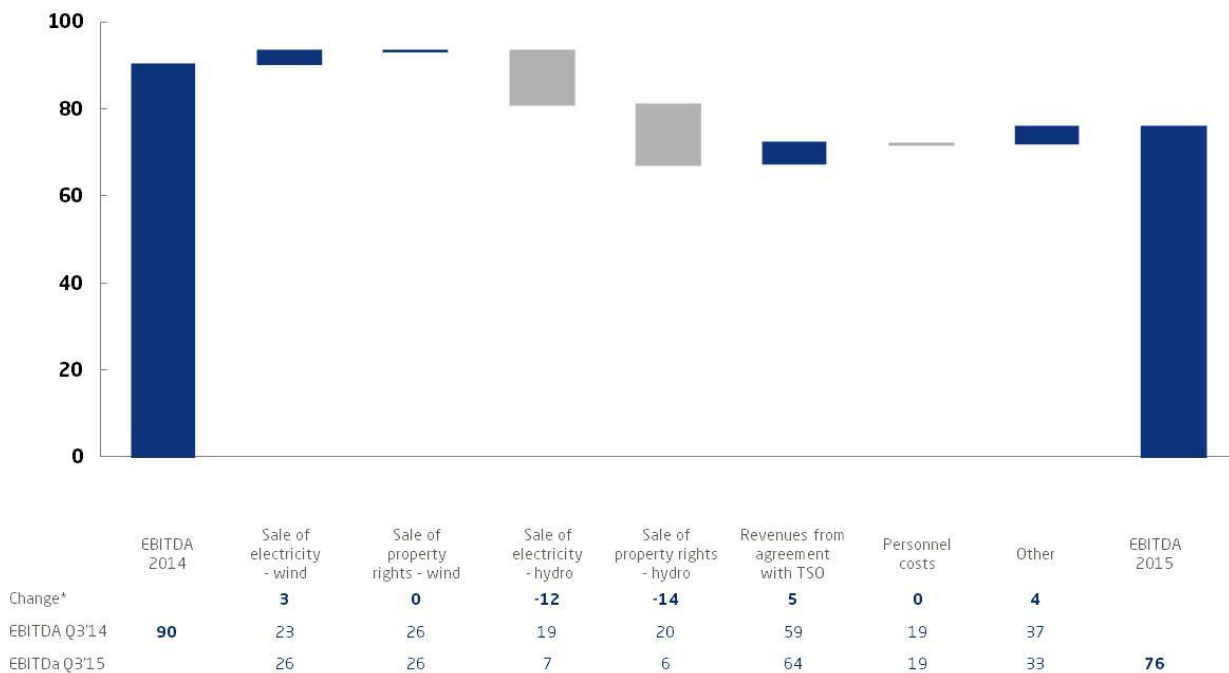
### 3.3.2 Renewable Energy

Table: Key figures for Renewable Energy.

PLN million	Q3 2015	Q3 2014*	% change
Sales revenues	168	178	-6%
EBIT	17	34	-50%
EBITDA	76	90	-16%
Capital expenditures	346	87	298%

\* data restated

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



\* excluding revenues and costs related to the balancing market, not affecting EBITDA

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

- The decline of revenues from sales of certificates**, resulting from the lower realized average sale price in the third quarter of 2015 compared to the third quarter of 2014 by approx. PLN 43.7/MWh. Lower electricity production volume from hydro power plants (by approx. 60%) and certificates production volume due to unfavourable weather conditions also had significant impact.
- The increase of sales of electricity from wind power plants** was caused by the increased volumes generated what is connected with (i) higher availability of generating units, (ii) favourable wind conditions and (iii) commissioning of Karwice wind farm in July 2015 with installed capacity of 40MW. EBITDA generated by the Karwice wind farm in the third quarter of 2015 amounted to approx. PLN 3 million.
- Higher sales revenues from ancillary control services** (agreement with PSE S.A.) mainly due to higher rate for intervention reserve of active power.



## Capital expenditures

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

in PLN million	Capital expenditures		
	Q3 2015	Q3 2014	% change
Investments in generating capacities, including:	345	86	301%
▪ Development	340	74	359%
▪ Modernization and replacement	5	12	-58%
Other	1	1	0%
<b>TOTAL</b>	<b>346</b>	<b>87</b>	<b>298%</b>

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

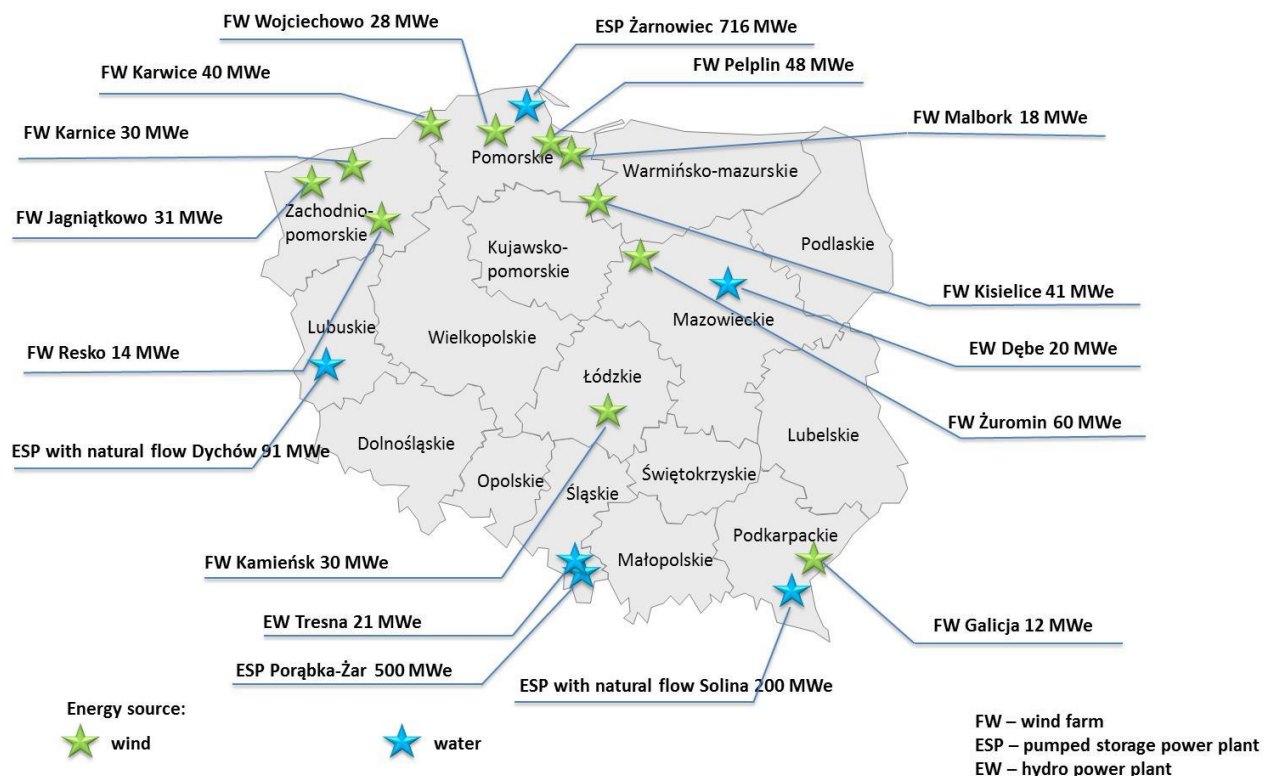
- Construction of Resko II wind farm with capacity of 76 MW PLN 157 million;
- Construction of Lotnisko wind farm with capacity of 90 MW PLN 137 million;
- Construction of Kisielice II wind farm with capacity of 12 MW PLN 34 million;
- Construction of Karwice wind farm with capacity of 40 MW PLN 12 million.

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

- In July 2015 Karwice wind farm of 40 MW commissioned;
- Conclusion of works connected with the construction of foundations, set-up of towers and turbines continued in wind farm projects Lotnisko 90 MW, Resko II 76 MW and Kisielice 12 MW;
- Commissioning of the first photovoltaics power plant with a capacity of 0.6 MW located on Żar mountain in Międzybrodzie Żywieckie.

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.



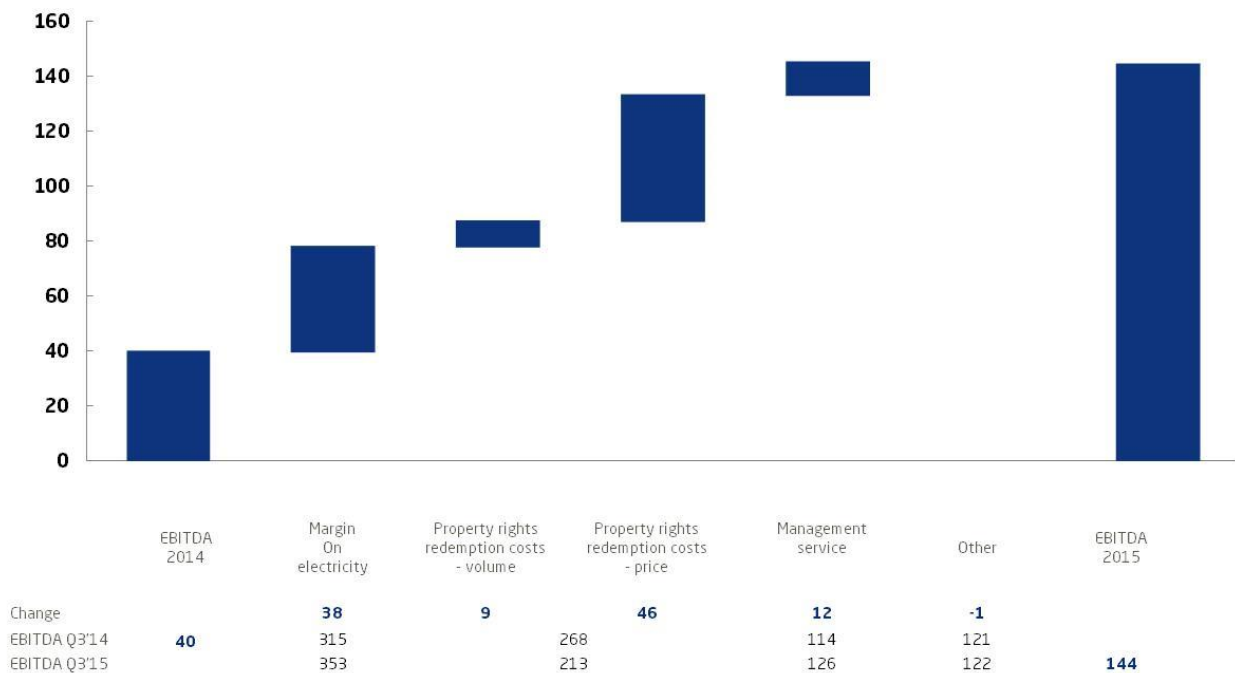
### 3.3.3 Supply

Table: Key figures for Supply.

PLN million	Q3 2015	Q3 2014*	% change
Sales revenues	3,801	3,543	7%
EBIT	138	36	283%
EBITDA	144	40	260%
Capital expenditures	9	3	200%

\* data restated

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



Key factors affecting the results of Supply in the third quarter 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 ("ZHZW")** due to higher trading volume under management and higher market prices of sale under so called power exchange obligation. Starting from April 2015 ZHZW has included PGE EO S.A. what brought additional income for PGE S.A. in amount of PLN 1 million. Increase of revenues from PGE GiEK S.A. amounted to PLN 11 million. It results in respective increase of costs in Conventional Generation and Renewable Energy segment.
- **Decreased costs of certificates redemption** resulting mainly from the falling prices on the green certificates and market reduction in the basis for calculating the redemption duty of green certificates caused by the withdrawal of redemption duty for large industrial customers.

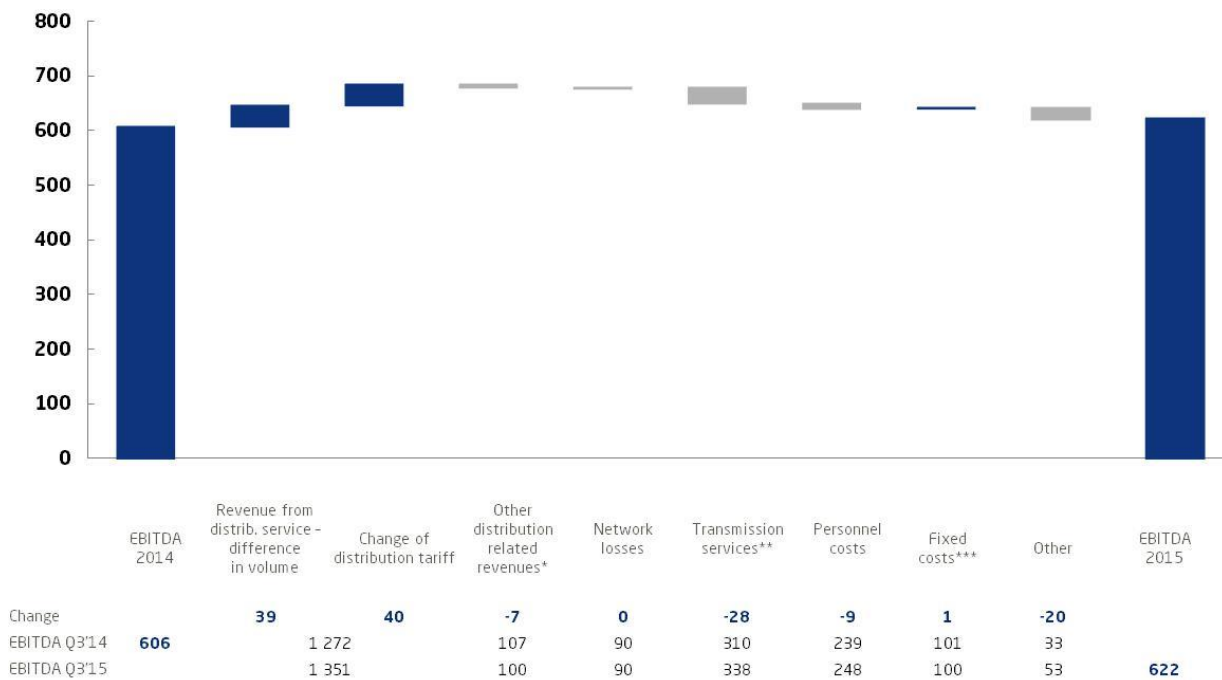
### 3.3.4 Distribution

Table: Key figures for Distribution.

PLN million	Q3 2015	Q3 2014*	% change
Sales revenues	1,477	1,405	5%
EBIT	360	344	5%
EBITDA	622	606	3%
Capital expenditures	450	318	42%

\* data restated

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



\* other revenues (reactive power, excess capacity, additional services), revenues from connection fee, sale of transit services

\*\* no impact on result, balanced by the increased revenue

\*\*\* fixed costs (lowered by cost of own use, fixed costs of transmission by PSE S.A. and personnel expenses)

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

- **Increased volume of distributed energy** by 245.6 GWh resulting from – inter alia – higher number of customers measured by power take-off points (by approx. 2.24 thousand) in comparison to the third quarter of 2014.
- **Decrease of other revenues from distribution services** resulting mainly from lower revenues from reactive power and excess capacity due to: (i) price drop and (ii) optimization of off-takers behaviour in that field, particularly more accurate capacity demand forecasts in relation to power consumption.
- **Change in other** results mainly from (i) higher costs of liquidation of damages caused in the network by strong storms which took place in July 2015 and (ii) higher impairment allowances on receivables.

## Capital expenditures

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

in PLN million	Capital expenditures		
	Q3 2015	Q3 2014	% change
MV and LV power networks	131	92	42%
110/ MV and MV/MV	45	16	181%
110 kV power lines	7	7	0%
Connection of new off-takers	144	126	14%
Purchase of transformers and energy counters	70	45	56%
IT, telemechanics and communication	38	15	153%
Other	15	17	-12%
<b>TOTAL</b>	<b>450</b>	<b>318</b>	<b>42%</b>

Activities related to the implementation of investments pursued in previous reporting periods were continued in the third quarter of 2015.



### 3.3.5 Other operations

in PLN million	Q3 2015	Q3 2014*	% change
Sales revenues	172	469	-63%
EBIT	-5	12	-142%
EBITDA	25	43	-42%
Capital expenditures	61	32	91%

\* data restated

EBITDA lower by PLN 18 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 third quarter of 2014 to Conventional Generation segment in the third quarter of 2015 PLN (-)18 million
- **Lower result of Exatel**, mainly due to increased costs of telecommunication services, resulting from new contracts from public sector that are being pursued with the use of leased infrastructure PLN (-) 3 million.

Decline of EBITDA was partly compensated by:

- **Higher result of Elbest sp. z o.o. and ELBEST Security sp. z o.o.** mainly due to higher revenues from sales of services PLN (+) 2 million.

#### Capital expenditures

The highest capital expenditures were incurred by:

- PGE Systemy S.A. – for IT infrastructure and software development PLN 29 million;
- PGE EJ 1 sp. z o.o. – for nuclear project development PLN 18 million;
- Exatel S.A. – for telecommunication infrastructure development PLN 14 million.

### 3.4 Transactions with related entities

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

### 3.5 Publication of financial forecasts

PGE S.A. did not publish financial forecasts.

### 3.6 Information about shares and other securities

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

According to the best knowledge of the Management Board of the Company, members of management and supervisory authorities of the Company as of the date of submission of this report and as of the date of publishing of the consolidated report for the first half-year 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.

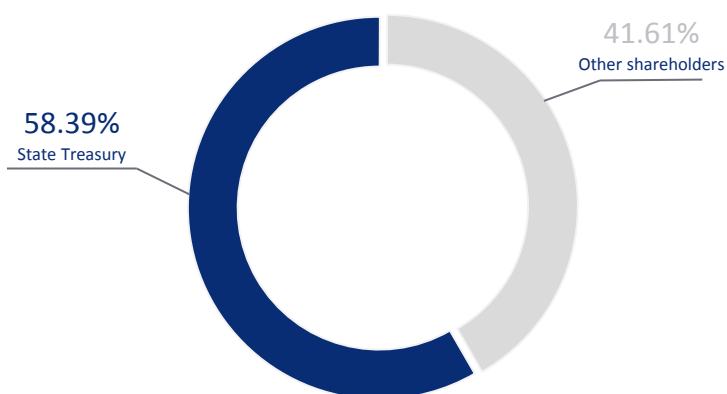
Shareholder	Number of shares as of publication date of the H1 2015 report (i.e. August 31, 2015)	Change in number of owned shares	Number of shares as of submission date of Q3 2015 report	Nominal value of shares as of submission date of Q3 2015 report (PLN)
<b>Management Board</b>	<b>350</b>	<b>no change</b>	<b>350</b>	<b>3,500</b>
Grzegorz Krystek	350	no change	350	3,500

Other members of the Management Board and of the Supervisory Board did not hold shares, apart from Mr. Krzysztof Trochimiuk, who held 873 shares of PGE S.A. as at the publication date of the consolidated report for the first half of 2015.

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

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

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



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

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

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

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

## 4.1 Changes in organisation of the Capital Group

### 4.1.1 Changes in organisation of the Capital Group in the three quarters of 2015

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

#### Shares in subsidiaries and associates

In the three quarters 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 99.96%.
- 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, 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 Natury 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 Natury 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 Natury 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 Natury S.A., the former became the sole shareholder in the following companies:

- PGE Energia Natury Kappa sp. z o. o.,
  - PGE Energia Natury Omikron sp. z o. o.,
  - PGE Energia Natury PEW sp. z o. o.,
  - PGE Energia Natury Karnice sp. z o. o.,
  - PGE Energia Natury Bukowo sp. z o. o.,
  - PGE Energia Natury Olecko sp. z o. o.
- 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 29, 2015 the Extraordinary Assembly of Partners of PGE EJ 1 sp. z o.o. adopted resolution on increase of the share capital of the company from PLN 205,860,000 to PLN 275,859,450, i.e. by PLN 69,999,450, through issue of 496,450 new shares with a nominal value of PLN 141 each. The increase of the share capital was acquired in exchange for cash contribution of the company's partners, i.e. PGE S.A., KGHM, TAURON and ENEA proportionally to their stake in the company. The increase of the share capital was registered by the National Court Register on October 16, 2015.
- On August 19, 2015 the Extraordinary General Meeting of PGE EO S.A. adopted resolution on increase of the share capital of the company from PLN 825,000,310 to PLN 929,218,930, i.e. by PLN 104,218,620, through issue of 10,421,862 new registered shares of the company with a nominal value of PLN 10 each. Newly issued shares were acquired by PGE S.A. in exchange for non-cash contribution in form of 99,576 shares with a nominal value of PLN 1,000 each, with a total nominal value of PLN 99,576,000, in the share capital of PGE Energia Natury sp. z o.o., what constitutes 100% in the share capital of that company, with a value of PLN 104,218,620. On October 8, 2015 the increase of the share capital was registered by the National Court Register.
- In the period from January 1, 2015 to September 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 2,476,819 shares in PGE GiEK S.A. (constituting 0.357% of PGE GiEK S.A.'s share capital). Currently PGE S.A. holds shares representing 99.96% of the share capital of PGE GiEK S.A.

In the three quarters 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.
- 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.

#### 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.

- On April 23, 2015, the District Court for the Capital City of Warsaw, 12<sup>th</sup> 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 three quarters of 2015 PGE Capital Group did not discontinue any of its substantial operations.

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

As at September 30, 2015 the following PGE Group companies had their branches:

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

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

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

### 5.1 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 first half of 2015 the Group identified a number of factors that could have significant impact on a change in the value of assets held.

In the third quarter of 2015 the Group once again verified the indicators that may imply impairment of recoverable value of its assets and found no significant changes in this area as compared to the previous analysis.

In the Group's opinion main factors affecting recoverable value of assets are:

- Restrictive EU climate policy

Increasingly stringent EU approach to climate policy manifests among other things the planned creation of MSR restricting the supply of CO<sub>2</sub> emission rights on the market. It resulted in the increase of prices of CO<sub>2</sub> 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 and in September emission rights amounted to average of 8.4 EUR/t. These changes make the PGE Group expect a stronger and more effective pressure to introduce further modifications in the system of trading in CO<sub>2</sub> 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 CO<sub>2</sub> 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 what is reflected in the persistently low quotations of futures („API2”) on the global market and low transaction prices („PSCMI1”) observed on the Polish market. Oversupply of hard coal 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 three quarters of 2015, the prices of futures contracts for BASE and PEAK products declined by 12% and 14%, respectively. Lower prices on spot markets in Germany and Scandinavia result in maintaining competitiveness of the energy import to Poland. In the first three quarters of 2015, price on domestic spot market was higher than average prices on EEX and Nordpool by PLN 28/MWh and PLN 63/MWh respectively.

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") had been carried out as at June 30, 2015 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),
- CO<sub>2</sub> 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 CO<sub>2</sub> 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 CO<sub>2</sub> emission rights for heat in the reference period 2013-2020, published by Ministry of the Environment,
- taking into account free allocations of CO<sub>2</sub> emission rights in the period 2021-2030 forecasted based on allocation method applied until now,
- taking into account the so-called capacity market, i.e. 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, which were started,
- 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, CO<sub>2</sub> 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
<b>Generation units of Conventional Generation segment</b>			
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
<b>Total</b>	<b>29,329</b>	<b>-8,842</b>	<b>20,487</b>

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 September 30, 2015, the Group recognized impairment losses of PLN 90 million. Total impairment loss of PLN 8,932 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 CO<sub>2</sub> 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, CO<sub>2</sub> 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 <sub>2</sub> 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	-

## 5.2 Description of material agreements – conclusion of long-term loan agreement with the syndicate of banks

On September 7, 2015 PGE concluded a long-term loan agreement with a syndicate of banks composed of: BNP Paribas S.A. Branch in Poland, Société Générale S.A., Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Zachodni WBK S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A. (Organisers and Lenders) and Bank Handlowy w Warszawie S.A. (as the Facility Agent).

Subject matter of the agreement is granting a loan in two parts i.e. term loan facility of up to PLN 3,630 million and revolving loan facility of up to PLN 1,870 million. The agreement expires on September 30, 2023, wherein final repayment date of the revolving loan facility falls on April 30, 2019 and final repayment date of the term loan facility falls on September 30, 2023. Interest rate on the loans will be based on the floating rate based on the relevant WIBOR rate (reference rate) plus margin. The agreement does not provide for contractual penalties.

The agreement meets criteria of the material agreement since it exceeds value of 10% of PGE's equity. The aggregate value of other agreements concluded by PGE and its subsidiaries with the Banks during 12 months preceding the signing of the Agreement amounted to approx. PLN 3.2 billion.

## 5.3 PLN 2 billion loan from the European Investment Bank

On October 27, 2015 PGE S.A. concluded two loan agreements with the European Investment Bank for the total amount of nearly PLN 2 billion.

The amount of PLN 1.5 billion, obtained on the basis of the first of the two agreements, will be intended for projects relating to the modernization and development of distribution grid. The funds from the second agreement, which amount to remaining PLN 0.5 billion, will be intended to finance and refinance the construction of cogeneration units in PGE GiEK's Gorzów CHP as well as in PGE GiEK's Rzeszów CHP. The European Investment Bank loans will be available for disbursement over a period of up to 22 months from the date of signing of the agreements. By the agreed terms, the funds shall be repaid within 15 years from the date of the last tranche.

## 5.4 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.

## 5.5 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.

## 5.6 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.

### **5.7 Extension of operation time of unit no. 1 in PGE GiEK S.A. Branch Elektrownia Bełchatów**

On October 27, 2015 the Management Board of PGE GiEK S.A. issued approval for extension of operation time of unit no. 1 in Bełchatów power plant beyond December 31, 2015 as a “peak-reserve” source. Number of operation hours of the unit is limited to 1,500 per year.

### **5.8 Confirmation of ratings by Fitch Ratings Ltd. and Moody's Investors Service Limited**

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 (CO<sub>2</sub>) 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.

## 5.9 Fitch Ratings assigns a rating for planned Eurobonds issue

On September 10, 2015 Fitch Ratings assigned an expected foreign currency senior unsecured rating of 'BBB+ (EXP)' to PGE Sweden AB (publ)'s planned Eurobonds issue under EUR 2,000,000,000 Euro Medium Term Note Programme established on May 22, 2014.

## 5.10 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

During the three quarters of 2015 works were conducted on initial financing structure of the Project based on updated assumptions regarding capital expenditure and operating costs for the nuclear power plant and revised financing model for the investment. Works were supported by the external consultant.

In 2015 further meetings were held as part of the initial dialogue with syndicates interested in participating in the Project in order to define future business-capital relations.

During the three quarters of 2015 PGE S.A. held initial discussions with financial institutions interested in participating in nuclear projects.

Works for the needs of the integrated proceeding are pursued with regard to qualification criteria and expectations towards financial institutions.

### 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.

In the third quarter of 2015 PGE S.A. submitted to the Ministry of Economy a report titled "Contract for Difference as recommended mechanism of securing economical predictability and profitability of Polish nuclear project implementation - Justification of recommendations from the variant analysis of alternative options for economic, financial and legal structure and conditions of CFD in the context of the Polish nuclear power plant project".

#### **Project management, integration, safety**

Work with the Technical Advisor – AMEC Foster Wheeler Nuclear UK Limited – continued in the three quarters 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 cooperation with the Technical Adviser the first products - necessary for the proper planning, preparation and the construction of a nuclear power plant – were delivered and accepted.

PGE EJ 1 sp. z o.o. began working with an outside consultant on designing and implementing safety architecture in accordance with SABS methodology and 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. was 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 and commenced work on plotting and obtaining approvals for corridors for the infrastructure accompanying the nuclear power plant.

On August 5, 2015 PGE EJ 1 sp. z o.o. submitted to the General Director for Environment Protection ("GDEP") 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.

A report describing results of the of the multi-criteria analysis of Lubiawo-Kopalino site was prepared and work on analysing the power plant site's impact on Natura 2000 areas was continued. In the fourth quarter of 2015 PGE EJ 1 sp. z o.o. plans to obtain GDEP decision defining the scope of the required Report on the environmental impact. In the next reporting period continued mobilisation of site and environmental studies for the needs of Location decision and Environmental decision will be of key importance.

#### **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 three quarters of 2015.

In the three quarters of 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 September work on agreeing the final version of the content of the declaration of participation in the integrated proceeding was completed and declaration was then distributed to the entities participating in the initial dialogue.

Plans for the fourth quarter include conclusion of work on drafting a detailed concept and timetable for the integrated proceeding, qualification documentation, regulations of the integrated proceeding and regulations of the Tender Committee. 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 three quarters of 2015, work was continued with the Technical Advisor on preparing and accepting a plan for obtaining the permits and approvals required in the investment process.

On the basis of the request by PGE EJ 1 Sp. z o.o. filed with GDEP, administrative procedures were initiated to issue a decision on the environmental conditions for the construction and operation of nuclear power plant and for the processing of the cross-border environmental impact of the project. Meetings were held with the supervisory authorities: Office of Technical Inspection ("UDT"), The General Office of Building Control ("GUNB") and were focused on issues related to the norms and standards applicable in the design, construction, commissioning and operation of a nuclear power plant.

In connection with ongoing administrative proceedings to issue a decision on the environmental conditions for the construction and operation of nuclear power and the proceedings on cross-border environmental impact of this project, plans for the fourth quarter of 2015 include involvement in the Q&A process in this regard. Plans also include establishing together with the National Atomic Energy Agency ("PAA") path of conduct in connection with obtaining the general opinion of the President of the PAA for the needs of the General Decision for the nuclear power plant.

### 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.

During three quarters of 2015, consultations were held pertaining to the following legal bills, among other things:

- parliamentary draft of a legislative bill amending the Environmental Protection Law and certain other bills,
- a draft legislative bill amending the Act on Local Government and amending certain other bills,
- a 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,
- a draft Building Code,
- a draft National Programme for the Development of Low-Carbon Economy,
- a draft Polish Energy Policy until 2050.

### 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](http://www.swiadomieoatomie.pl) and a newsletter) and local level (e.g. Location Information Points).

In the three quarters 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. Results of the 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.

## 5.11 Legal aspects

### Claims for annulment of the resolutions of the General Meetings of PGE S.A.

- 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. On July 28, 2015 the shareholder appealed against that verdict. The Company filed reply to that appeal.
- 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. On September 21, 2015 the Company filed response to the claim.
- On October 23, 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 1 of the Extraordinary General Meeting of the Company held on September 14, 2015 concerning the election of the Chairperson of the Extraordinary General Meeting. The Company plans to file a response to the claim.

#### **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 9 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. In September 2015 Socrates Investment S.A. presented its letter constituting a response to the Company's reply to the lawsuit.

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 bank guarantee, the company is entitled to claim towards WorleyParsons for payment of PLN 14 million as a penalty by way of delay.

On August 7, 2015 PGE EJ 1 sp. z o.o. filed with the District Court in Warsaw, Commercial Division a claim against WorleyParsons for the payment of nearly PLN 15 million plus statutory interest for late payment of the amount due. The claimed amount includes the amount of the outstanding contractual penalties and interest for delay capitalized as at the date of filing the claim.

### **5.12 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 and the Supreme Court. These proceedings are currently at various levels of advancement.

In the three quarters 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.
- An unfavourable judgment was passed by the Court of in a matter concerning determining the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2011. The verdict is final and binding. Claim value in this case amounts to nearly PLN 6 million.
- 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 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.

On July 30, 2015 PGE GiEK S.A. sent to the State Treasury - President of ERO an application for a summons to a conciliation hearing addressed in case of payment to the Company the amount of PLN 0.5 million as compensation for lost profits in connection with the issue of an unfavourable decision for 2011. On October 23, 2015 no settlement was reached at the conciliation meeting.

On July 31, 2015 a lawsuit was sent to the District Court in Warsaw in case filed by PGE GiEK S.A. against the State Treasury – ERO President for compensation in amount of approx. PLN 58 million for lost profits of the company, due to issue of unfavourable decisions regarding stranded costs for 2008.

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 24, 2015 the Management Board of PGE GiEK S.A. filed with the ERO President a request for advance for the generating units PGE GiEK S.A. Branch Elektrownia Turów and PGE GiEK S.A. Branch Elektrownia Opole amounting to PLN 229 million. The amount is equal to the maximal value of stranded costs for PGE GiEK S.A. for 2016, that was updated by the ERO President decision of July 21, 2015.

#### **Impact on the financial statements for the period ended September 30, 2015**

In the financial statements for the period ended September 30, 2015, the Group recognized LTC revenue in sales revenue in the amount of PLN 443 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 – September 30, 2015 the PGE Capital Group recognised LTC revenues in total amount of PLN 6,984 million.

### 5.13 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.

### 5.14 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.

On September 14, 2015 an Extraordinary General Meeting was held and adopted resolutions on changes in the composition of the Supervisory Board. As a consequence of the adopted resolutions Ms. Barbara Dybek (Chairman of the Supervisory Board) and Mr. Krzysztof Trochimiuk were recalled. As at the publication date of this report, the Supervisory Board consists of:

Name and surname	Position
Anna Kowalik	Chairman of the Supervisory Board
Jacek Barylski	Vice-Chairman of the Supervisory Board
Małgorzata Molas	Secretary of the Supervisory Board
Małgorzata Mika – Bryska	Supervisory Board Member
Jarosław Gołębiewski	Supervisory Board Member – independent
Piotr Machnikowski	Supervisory Board Member – independent
Jacek Fotek	Supervisory Board Member – independent
Marek Ściążko	Supervisory Board Member – independent

In accordance with the resolutions of the Supervisory Board of October 9, 2015 the composition of the Committees of the Supervisory Board were established.

In accordance with the resolution of the Supervisory Board no. 31/X/2015, the Audit Committee consists of:

<b>Name and surname</b>	<b>Position</b>
Jarosław Gołębiowski*	Chairman of the Committee
Anna Kowalik	Member of the Committee
Jacek Fotek	Member of the Committee

\* On October 22, 2015 Mr. Jarosław Gołębiowski was appointed as the Chairman of the Audit Committee

In accordance with the resolution of the Supervisory Board no. 32/X/2015, the Corporate Governance Committee consists of:

<b>Name and surname</b>	<b>Position</b>
Piotr Machnikowski	Member of the Committee
Małgorzata Mika – Bryska	Member of the Committee
Jacek Barylski	Member of the Committee

In accordance with the resolution of the Supervisory Board no. 34/X/2015, the Strategy and Development Committee consists of:

<b>Name and surname</b>	<b>Position</b>
Małgorzata Mika – Bryska*	Chairman of the Committee
Jarosław Gołębiowski	Member of the Committee
Marek Ściążko	Member of the Committee
Małgorzata Molas	Member of the Committee

\* On October 13, 2015 Ms. Małgorzata Mika-Bryska was appointed as the Chairman of the Strategy and Development Committee

In accordance with the resolution of the Supervisory Board no. 33/X/2015, the Appointment and Remuneration Committee consists of:

<b>Name and surname</b>	<b>Position</b>
Jacek Barylski	Member of the Committee
Małgorzata Molas	Member of the Committee
Piotr Machnikowski	Member of the Committee
Anna Kowalik	Member of the Committee



### 5.15 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.

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

Within the Group, in the 9-month period ended September 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.

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

As at September 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.

### 5.18 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. 4.1. of the foregoing report.

## 6 Statements of the Management Board

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

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

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

## 7 Approval of the Management Board's Report

The foregoing Management Board's Report on activities of the Capital Group of PGE Polska Grupa Energetyczna S.A. was approved for publication by the Management Board of the parent company on November 9, 2015.

Warsaw, November 9, 2015

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

**President of the Management  
Board**

**Marek Woszczyk**

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**Vice-President of the Management  
Board**

**Jacek Drozd**

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**Vice-President of the Management  
Board**

**Grzegorz Krystek**

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**Vice-President of the Management  
Board**

**Dariusz Marzec**

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## GLOSSARY

Ancillary control services (ACS)	services provided to the transmission system operator, which are indispensable for the proper functioning of the national power system and ensure the keeping of required reliability and quality standards.
Achievable capacity	the maximum sustained capacity of a generating unit or generator, maintained continuously by a thermal generator for at least 15 hours or by a hydroelectric generator for at least five hours, at standardized operating conditions, as confirmed by tests.
Balancing market	a technical platform for balancing electricity supply and demand on the market. The differences between the planned (announced supply schedules) and the actually delivered/offtaken volumes of electricity are settled here. The purpose of the balancing market is to balance transactions concluded between individual market participants and actual electricity demand. The participants of the balancing market can be the generators, customers for electricity understood as entities connected to a network located in the balancing market area (including offtakers and network customers), trading companies, electricity exchanges and the TSO as the balancing company.
Base, baseload	standard product on the electricity market: a constant hourly power supply per day in a given period, for example week, month, quarter or year.
Biomass	solid or liquid substances of plant or animal origin, subject to biodegradation, obtained from agricultural or forestry products, waste and remains or industries processing their products as well as certain other biodegradable waste in particular agricultural raw materials.
Black energy	popular name for energy generated as a result of combustion of black coal or lignite.
CAPEX	Capital expenditures
CCS	Carbon Capture and Storage Technology used to capture CO <sub>2</sub> from the emissions of fossil fuel power plants followed by its underground storage.
CDM	Clean Development Mechanisms, one of the flexible mechanisms introduced under Article 12 of the Kyoto Protocol.
CER	Certified Emission Reduction.
Co-combustion	the generation of electricity or heat based on a process of combined, simultaneous combustion in one device of biomass or biogas together with other fuels; part of the energy thus generated can be deemed to be energy generated with the use of renewable sources.
Co-generation	the simultaneous generation of heat and electricity or mechanical energy in the course of one and the same technological process.
Constrained generation	the generation of electricity to ensure the quality and reliability of the national power system; this applies to generating units in which generation must continue due to the technical limitations of the operation of the power system and the necessity of ensuring its adequate reliability.
Distribution	transport of energy through distribution grid of high (110 kV), medium (15kV) and low (400V) voltage in order to supply the customers.
Distribution System Operator (DSO)	a power company engaging in the distribution of gaseous fuels or electricity, responsible for traffic in the gas or electricity distribution systems, current and long-term security of operation of the system, the operation, maintenance, repairs and indispensable expansion of the distribution network, including connections to other gas or power systems.
ERO	Energy Regulatory Office (pol. URE).
ERU	Emission Reduction Units.
EUA	European Union Allowances: transferable CO <sub>2</sub> emission allowances; one EUA allows an operator to release one tonne of CO <sub>2</sub> .
EU ETS	European Union Greenhouse Gas Emission Trading Scheme) EU emission trading scheme. Its operating rules are set out in the ETS Directive, amended by the Directive 2009/29/EC of the European Parliament and of the Council of April 23, 2009 (OJ EU L. of 2009, No. 140, p. 63—87).
Generating unit	a technically and commercially defined set of equipment belonging to a power company and used to generate electricity or heat and to transmit power.
GJ	Gigajoule, a unit of work/heat in the SI system, 1 GJ = 1000/3.6 kWh = approximately 278 kWh.
GPZ	main power supply point, a type of transformer station used for the processing or distribution of electricity or solely for the distribution of electricity.
Green certificate	popular name for energy generated from renewable energy sources.
GW	gigawatt, a unit of capacity in the SI system, 1 GW = 109 W.
Gwe	one gigawatt of electric capacity.
GWt	one gigawatt of heat capacity.
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

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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 (concerns CO <sub>2</sub> )
MW	a unit of capacity in the SI system, 1 MW = 106 W.
Mwe	one megawatt of electric power.
MWt	one megawatt of heat power.
NAP	National emissions Allocation Plan, prepared separately for the national emission trading system and for the EU emission trading system by the National Administrator of the Emission Trading System.
NAP II	National CO <sub>2</sub> emissions Allocation Plan for the years 2008-2012 prepared for the EU emission trading system adopted by the Ordinance of the Council of Ministers of July 1, 2008 (Dz. U. of 2008, No. 202, item 1248).
Nm <sup>3</sup>	normal cubic meter; a unit of volume from outside the SI system signifying the quantity of dry gas in 1 m <sup>3</sup> of space at a pressure of 101.325 Pa and a temperature of 0°C.
NO <sub>x</sub>	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.

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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.