

**Management Board's report on
activities of
PGE Polska Grupa Energetyczna S.A.
for the year 2015**

ended December 31, 2015

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1 Activities of PGE S.A.

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

Core operations of the Company comprise:

- activity comprising of tasks of the parent company of the Capital Group, including development strategy and strategic management of the Capital Group, focusing on efficient management of the Group portfolio,
- wholesale trading of electricity on the market and in the Capital Group; Activity with regard to the electricity trading is carried out pursuant to the requirements resulting from the Energy Law of April 10, 1997 and related regulations, as amended,
- trading of related products and fuels i.e. emission rights (CO₂), energy certificates of origin (Property Rights), executed mainly in order to fulfill legal obligations of purchase and redemption of these assets by the Group companies and market trading of gas realized for the needs of electricity and heat generation in CHPs of PGE GIEK S.A.,
- rendering of services for the Group companies with regard to commercial management of generation capacities and electricity produced, running of the balancing group and rendering scheduling coordinator services for the PGE Group companies.

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

- Conventional Generation
- Renewable Energy
- Supply
- Distribution

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

The controlling entity of the Company is the State Treasury, which held 58.39% of the share capital as at December 31, 2015.

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

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

Market environment

Electricity market

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

Related markets

- prices of property rights (certificates of origin of electricity) and price trends allowing for trading optimisation on these markets with account taken to benefits for the end users and the entities of the Capital Group
- prices of fuels used in generation of electricity and heat, as well as price relations on particular fuels, that will allow optimising of generation costs and creating optimal fuel mix.
- prices of CO₂ emission rights

Regulatory environment

Domestic

- possible changes to the Poland's energy policy as a result of creation of new Energy Policy for Poland up to year 2050 („PEP 2050”).
- changes in scope of services like:
 - modification of current Operational Reserve mechanism
 - implementation of cold reserve mechanism
 - implementation of further packages for demand reduction services
- delayed effective date for provisions of the Law on Renewable Energy Sources, changing support scheme for energy generation in renewables
- results of proceedings conducted by the European Commission with regard to notification of support schemes for c-generation and renewable Energy sources
- results of explanatory proceedings before the Energy Regulatory Office (“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.”)
- 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 and connection time
- possible different decision in law disputes, from which most relevant were presented in Note 24.3 of the financial statements of PGE S.A. for 2015

International

- regulations of 2030 climate and energy package – including EU climate summit decisions from October 2014 particularly: at least 40% CO₂ reduction targets, 27% RES share target in total energy consumption, 27% efficiency improvement target, including:
 - draft revision of the EU Emission Trading System (EU ETS) Directive – formula for compensation mechanisms – Modernisation Fund and free allocation of emission allowances
 - appeal by Poland to the European Court of Justice regarding a decision to establish a Market Stability Reserve for the CO₂ emission allowance market – possible impact on CO₂ prices and procedure for determining climate policy
 - draft revision of the Renewable Energy (REDII) Directive, including setting out the means by which Poland is to contribute to the 27% share of renewable energy in the energy mix at EU level by 2030
 - draft revision of the Energy Efficiency Directive (EED), including setting out the means by which Poland is to contribute to the 27% improvement in energy efficiency at EU level by 2030

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- regulations connected with the reduction of emissions of other pollutions, including:
 - process of revising the Best Available Techniques (BAT) – uncertainty regarding the final date for publication of the BAT conclusions and, therefore, the date for adapting production assets to the new requirements. A preferred deadline for adapting to the requirements stemming from the BAT conclusions is 2024, meaning that publication of the BAT conclusions ought to be delayed to the end of 2019
 - Draft National Emission Ceilings (NEC) Directive regarding national limits for the emission of certain pollutants into the air and its impact on the electricity sector, including establishing the final content of provisions regulating the emission ceilings and the means by which national authorities are to implement these
 - implementation of the Energy Union concept, including:
 - 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.
 - a new directive aiming to ensure the security of supply (SoS), which might include a legally binding requirement to expand interconnectors to 10% by 2020 and to 15% by 2030;
 - harmonisation of capacity mechanisms in the EU.
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1.2 Factors and events affecting results

1.2.1 Macroeconomic situation

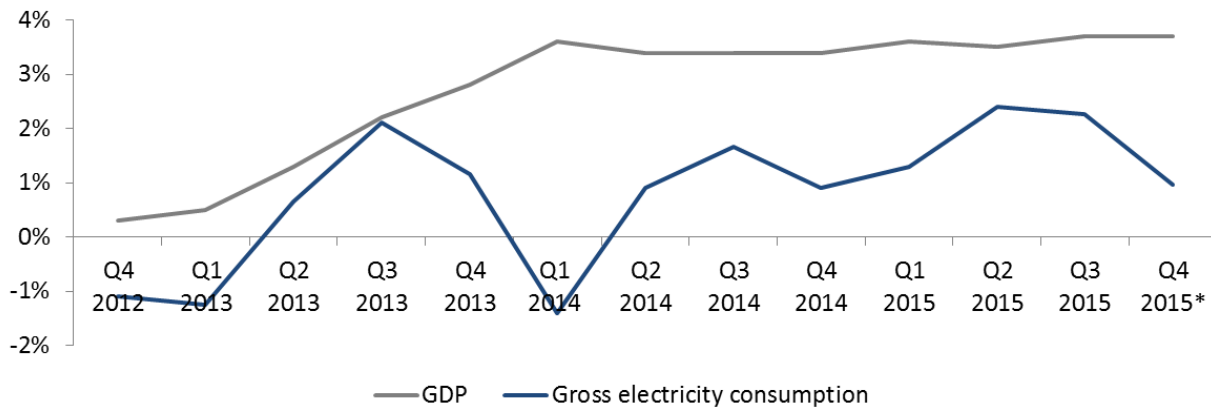
The Company's and PGE Group's main operating area continues to be Poland, and the domestic macroeconomic backdrop has a substantial impact on companies' results. At the same time, the condition of Poland's economy remains largely tied to the situation across the European Union and in global markets.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

As a rule of thumb, there is a correlation between rising electricity demand and economic growth. Historical data over the long term shows that this link is weakened because of the economy becoming less energy-intensive. In the past ten years, Poland's gross domestic product grew by about four times faster than gross electricity demand. Considering the Company's and Group's substantial share in the electricity sales and distribution market, and the Company's and PGE Group's position on the Polish power generation market, changes in power and heat demand may have a significant impact on the companies' results.

In 2015, gross electricity consumption went up 1.7% from 2014. The increase was higher than in the previous year, when consumption went up 0.5% from 2013. Seasonally adjusted for weather conditions and number of working days, year-on-year growth was 0.9% in 2015 and in 2014. The significant impact of weather conditions on the use of electricity results from an extended period of high temperatures in the summer.

Economic trends in 2015 largely remained positive. From the beginning of 2014, quarterly GDP growth remains above 3%. According to the initial estimate published by the Central Statistical Office of Poland, GDP in 2015 was higher by 3.6% in real terms than in the previous year.

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

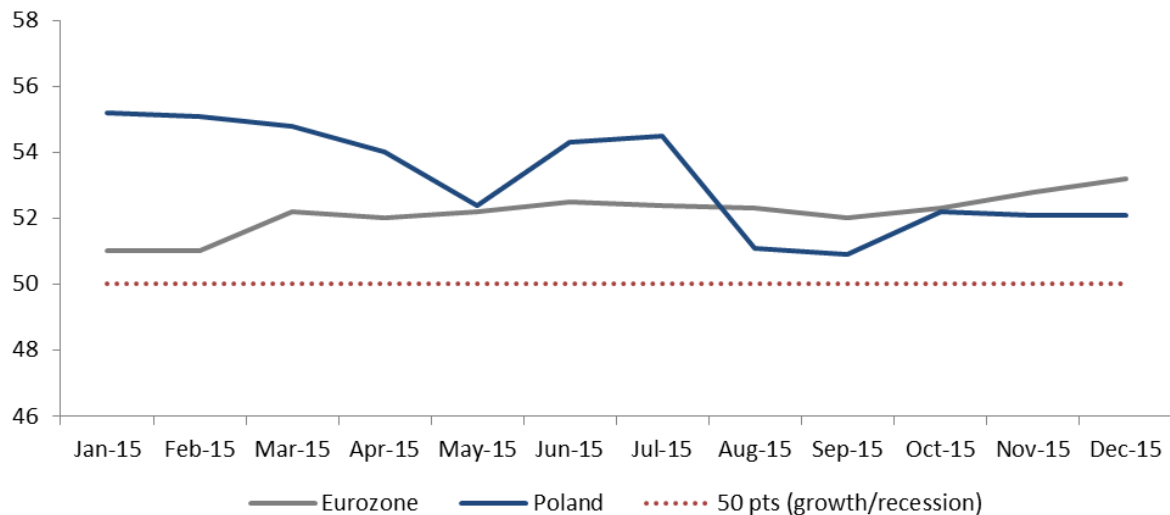


* GDP for the Q4 2015 estimated according to initial estimate of average annual GDP growth in 2015 at 3.6% published by the Central Statistical Office of Poland.

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

Economic growth and rising electricity consumption were accompanied by moderately optimistic condition of Polish industry, which is responsible for approx. 45% of domestic electricity consumption. The Purchasing Managers' Index (PMI) for industry averaged 53.2 points in 2015. This is above the 50-point threshold, which means the respondents expect the sector's situation to improve. The positive result stems mainly from growing production and employment. The results of the Polish industrial sector should be further strengthened by the Eurozone, whose PMI for 2015 remained at an average level of 52.2 points, showing small but stable growth.

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 2015, it went up by 4.9% on average, compared to 3.4% in the previous year. The change resulted from substantial growth in industrial production (5.9% y/y in 2015 versus 4.6% in 2014). Production dynamics in the whole energy sector decreased again (-2.3% y-o-y in 2015 vs -3.0% in the previous period). The value of industrial manufacturing depends on volumes of goods produced and prices. PPI's dynamics remains negative for more than three years. In 2015 PPI decreased by 1.8% due to low prices of, inter alia fossil fuels, particularly crude oil.

CPI reading remains negative for one and half year. During a year CPI decreased by 0.9% due to, inter alia, decline in prices of food and energy. In 2015 the Monetary Policy Council changed interest rates once. 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)	2015	2014
GDP ¹	3.6	3.3
CPI ²	-0.9	0.0
PPI ²	-1.8	-1.4
Sold industrial production ²	4.9	3.4
Sold production – manufacturing ²	5.9	4.6
Sold production – energy ³	-2.3	-3.0
Gross domestic electricity consumption ⁴	1.7	0.5
Gross domestic electricity consumption (TWh) ⁴	161.4	158.7
EUR/PLN ⁵	4.18	4.18

Source: 1 Central Statistical Office of Poland, 2 Central Statistical Office of Poland, 3 Central Statistical Office of Poland - Energy generation and supply of electricity, gas, steam and hot water supply, 4 PSE S.A., 5 National Bank of Poland

1.2.2 Competition on the electricity market

The electricity sector in Poland comprises four operating segments:

- generation of electricity;
- transmission, for which the transmission system operator – Polskie Sieci Elektroenergetyczne S.A. ("PSE S.A.") is responsible;
- distribution;
- retail sales.

The key participants of the electricity market in Poland are four nationwide, vertically integrated energy groups: PGE Group, TAURON Polska Energia S.A. ("TAURON"), ENEA S.A. ("ENEA") and ENERGA S.A. ("ENERGA").

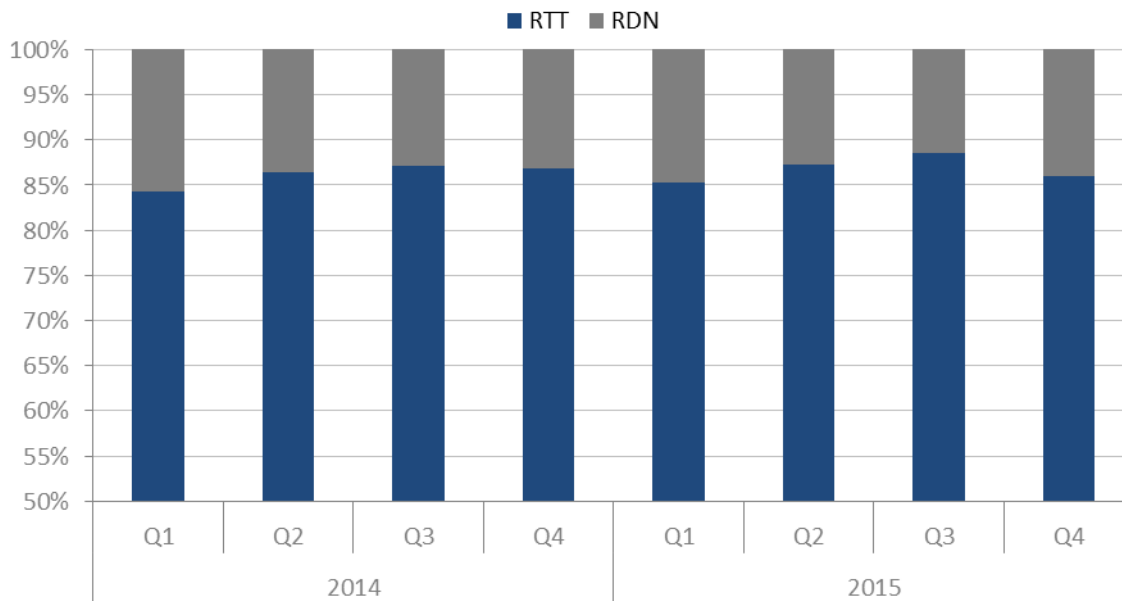
1.2.3 Electricity prices

Domestic market – trading volumes

Liquidity on the day-ahead market of Towarowa Giełda Energii S.A. (TGE) in 2015 increased by 5% y-o-y. The trading volumes on the futures market (RTT) grew by 11% compared to 2014. 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 10% y/y, reaching 189.5 TWh in 2015. This means that TGE trading volumes exceeded domestic electricity consumption, which amounted to 161.4 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

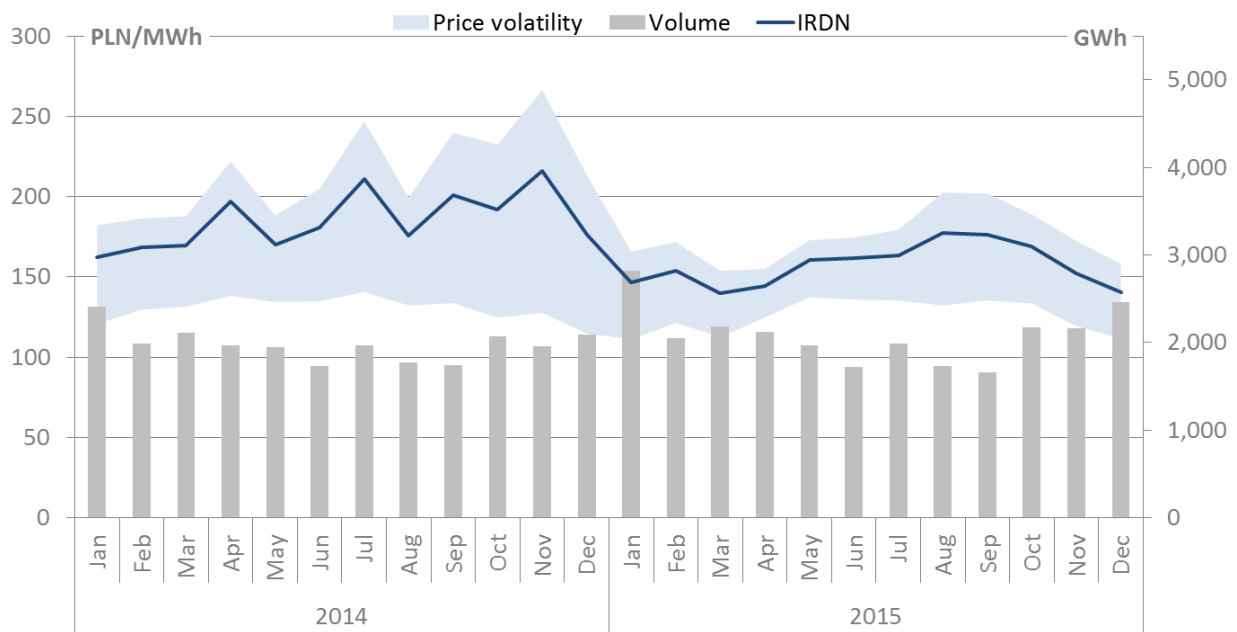
Day-ahead market

In the fourth quarter of 2015, prices on the day-ahead market were in a downward trend. The average day-ahead price (the IRDN index) in the fourth quarter of 2015 was PLN 153.53/MWh compared to PLN 171.72/MWh in the third quarter of 2015. Trading volume in the fourth quarter amounted to 6.79 TWh. The decrease in prices was caused by continued higher level of power capacity reserve than in the previous quarters, especially in comparison to the third quarter of 2015 when high temperatures led to increases in demand (due to air conditioning and ventilation) with simultaneous limited production capacities in conventional baseload plants. Higher capacity reserve in the fourth quarter of 2015 was influenced by intensified wind generation which – in favourable meteorological conditions - reached 3.47 TWh when in the third quarter it was 1.90 TWh. Energy generated in the wind farms (like whole RES generation) has the priority when Operator needs to balance the system. As a consequence, intensified wind conditions significantly impacts the prices because it replaces more expensive units which have been used so far to balance the system.

The average price on the day-ahead market in 2015 years was 15% lower y-o-y. The decline in electricity prices, both in peak and off-peak hours in comparison to 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)*.

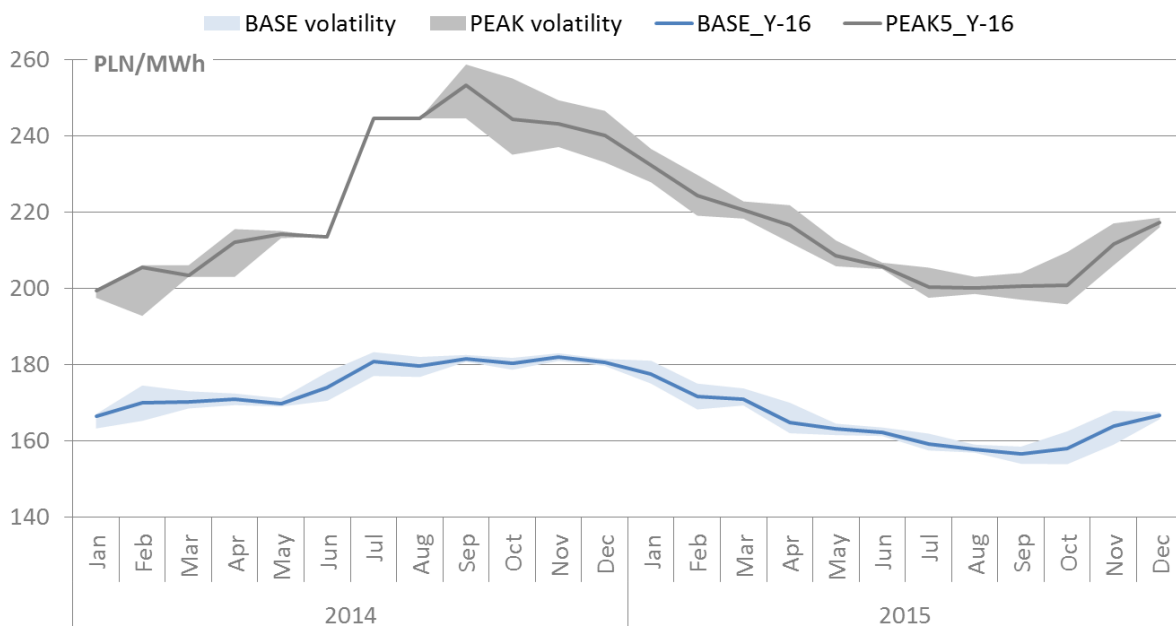


* arithmetic average price from all power exchange transactions concluded at the session (IRDN) and prices spread (sIRDN, offIRDN)

Futures market

In the fourth quarter of 2015, both BASE and PEAK contracts were priced lower y-o-y. The BASE_Y-16 and PEAK5_Y-16 futures contracts for 2016 have been in a downward trend since the beginning of the year while they increased once again in the fourth quarter of 2015. In January 2015, the BASE_Y-16 product was priced at an average of PLN 177.39/MWh, reached its minimum in September (PLN 156.55/MWh) and amounted to PLN 166.76/MWh at the end of December 2015. The analogical trend was observed in the case of the PEAK5_Y-16 product, which was valued at PLN 232.25/MWh in January 2015, its minimum price in September fell to PLN 197.00/MWh and jumped in December to PLN 206.00/MWh. The price increase on the RTT market resulted from: mainly an increase in the prices of CO₂ emission allowances, announcement of changes in settlement rules for the Balancing Market starting from January 2016.

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

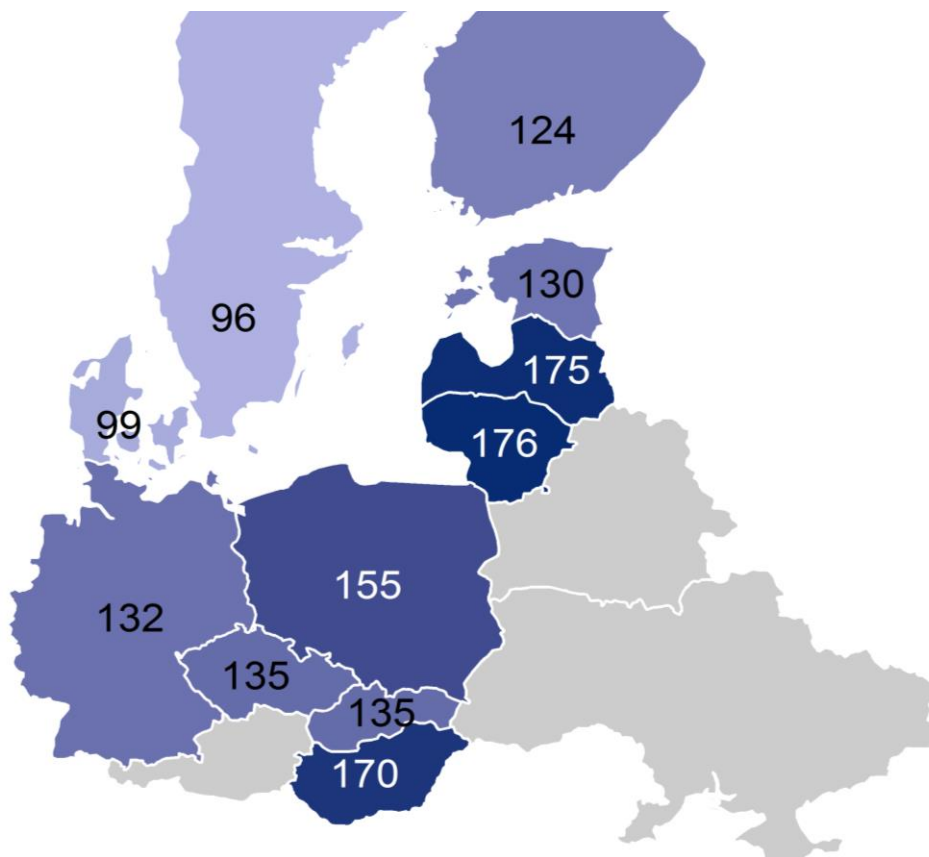


International markets

Wholesale market

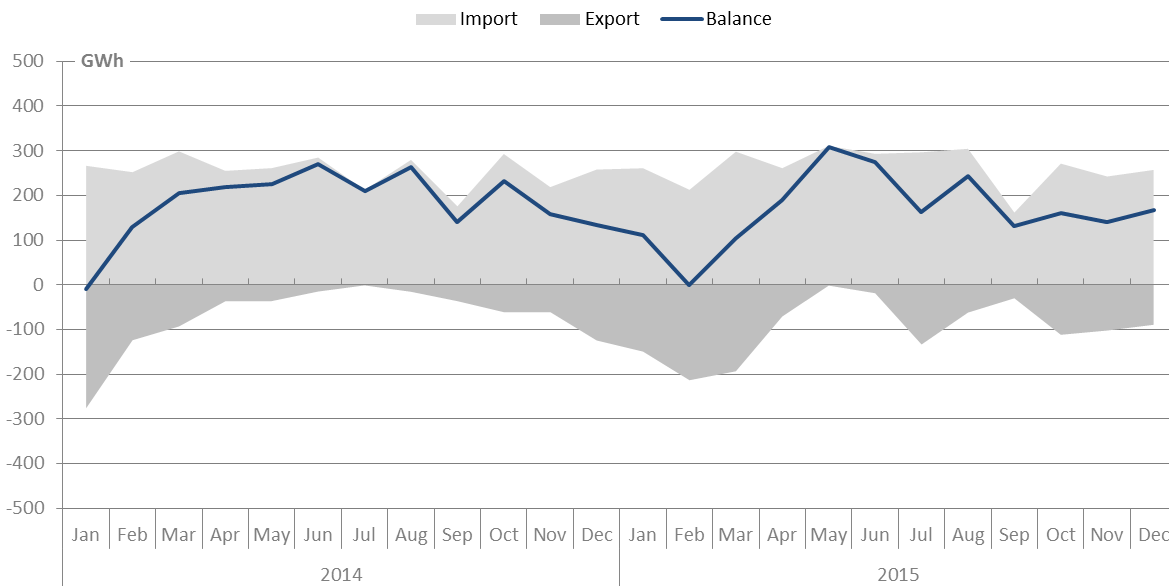
In 2015 wholesale prices on the Polish market remained above those in Sweden, Germany, Czech Republic and Slovakia. The average spot price on the German market fell by 3% y-o-y to PLN 132.39/MWh on account of favourable meteorological conditions in wind generation and decreased prices of hard coal for conventional plants. Swedish spot market showed downward trend due to better hydrological situation and the increase of wind generation, what resulted in the average price of PLN 95.85/MWh - a level close to historic lows. Use of advantages of the low prices on neighboring markets is limited by transmission capacities on interconnectors allowed for trading (impact of so called carousel flows). 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 2015 (prices in PLN/MWh).



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, where the volume of exchange remained at a similar level to 2014, reaching 3.16 TWh. The situation on the international electricity market in 2015 was marked by a 14% decline in imports (lower imports from Ukraine, caused by the political situation there) and a 33% increase in exports (growth of exports to Germany and the Czech Republic in the winter months).

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

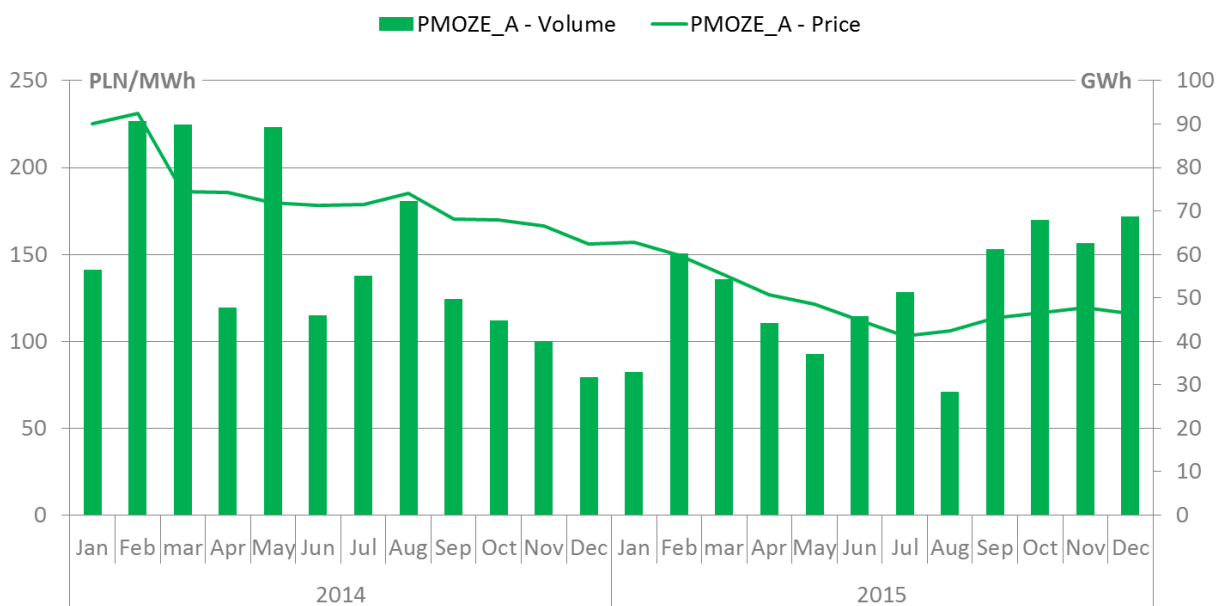


1.2.4 Prices of property rights

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 price of property rights reached a minimum of PLN 104.06/MWh in July 2015. In the fourth quarter of 2015, the trend was reversed – the price reached PLN 116.12/MWh in December. The low prices of PMOZE_A certificates resulted from high over-production, which continuously exceeds the volume needed for redemptions on the market. The price growth in the fourth quarter of 2015 was largely connected with a planned introduction of a RES Law from January 1, 2016 and a limitation of production by large water power industry players and units operating co-combustion technology.

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

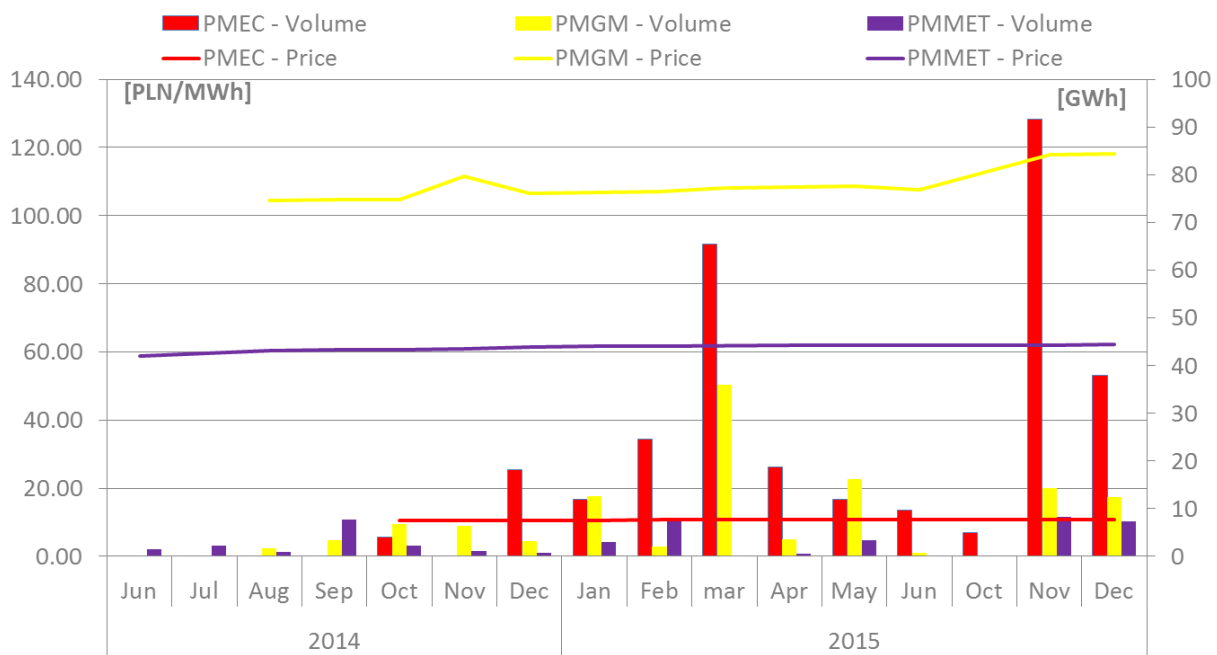


Yellow, red and violet certificates - cogeneration

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 fourth 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.



1.2.5 Prices of CO₂ emission rights

Following types of emission rights are available on the market – European Union Allowances (EUA), Certified Emission Reductions (CER) and Emission Reduction Units (ERU). CER-type and ERU-type rights may be redeemed by business operators only to a limited extent, in settlement period 2013-2020 up to 11% of the allocations granted under the National Allocation Plan for years 2008-2012.

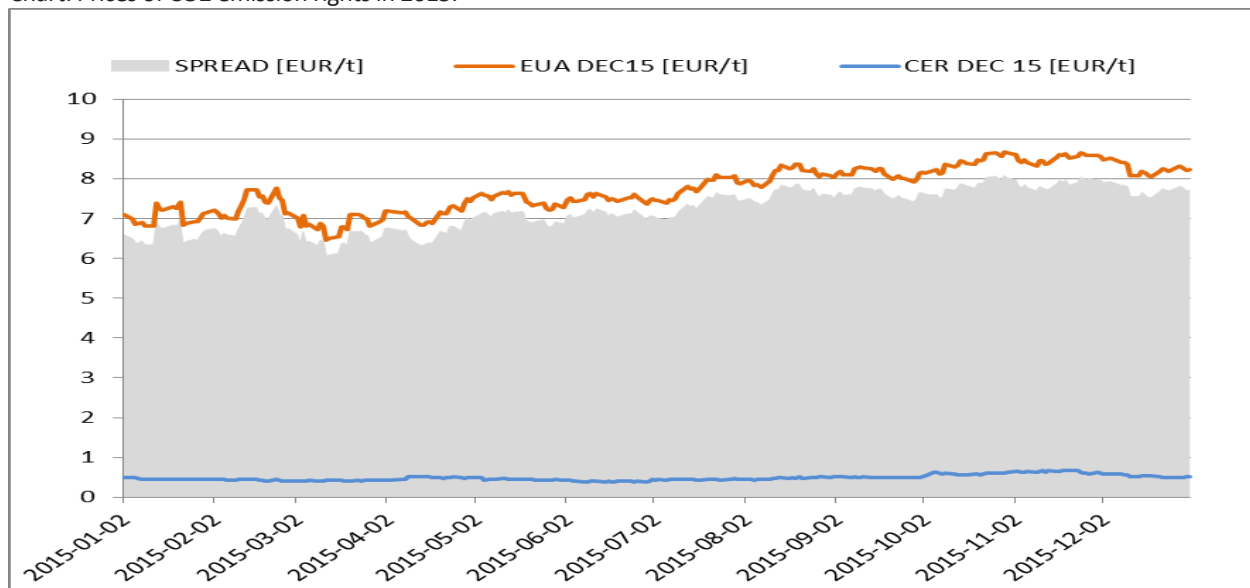
Factor, which affected the volatility of prices of CO₂ emission rights in 2015, was the legislative activities connected with the implementation of the Market Stability Reserve (MSR). MSR was projected by the European Commission as a mechanism aimed at consuming the existing surplus and leading to a 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. The Act determines the rules of trading of CO₂ emission rights in the current settlement period i.e. in years 2013 -2020.

The UN COP21 Climate Summit in Paris began on November 30, 2015. Its aim was to develop a new global agreement. On December 12, 2015, representatives of the UN climate convention countries adopted an agreement, the main objective of which is to “keep a global temperature rise this century well below 2 degrees Celsius and to drive efforts to limit the temperature increase even further to 1.5 degrees Celsius above pre-industrial levels.” The agreement will be in effect from 2021 to 2030.

Chart: Prices of CO2 emission rights in 2015.



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

In 2015, prices of EUA units in future contracts with delivery in December 2015 were priced in range EUR 6.44-8.68/tonne. In the same period, CER units in future contracts with delivery in December 2015 were priced in range EUR 0.38-0.67/tonne. In the nearest future the main factor affecting EUA prices will be annual allocation of free-of-charge CO₂ emission allowances and publication of data regarding levels of greenhouse gas emissions from installations covered by the EU ETS in 2015.

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

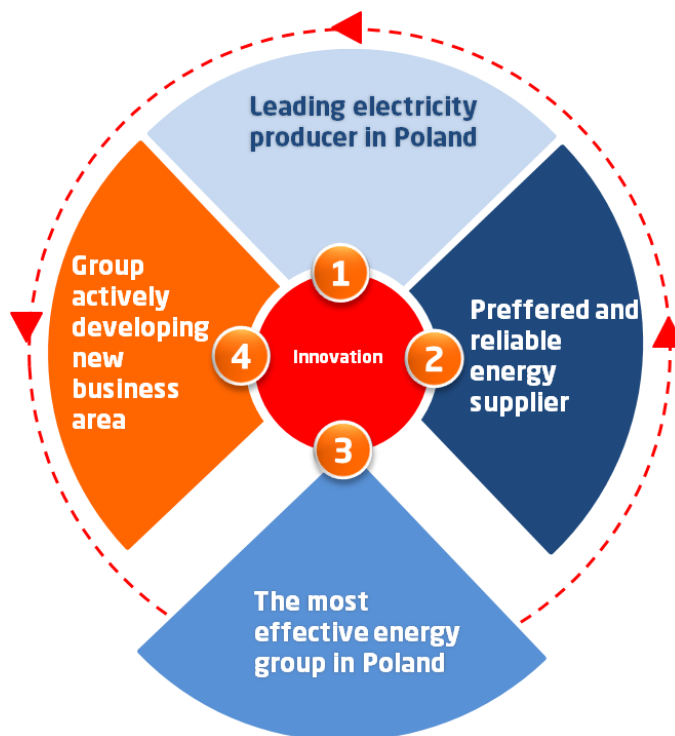
Market and regulatory environment is currently subject to constant changes, which require PGE Group to verify its strategy through prioritisation and potential correction of key aspirations and strategic activities.

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 restructuring
- Optimising of organizational structure and efficiency improvement programs

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 significant spending in 2016-2020 for replacement, modernisation and construction of new generation assets. Review of the investment and modernization program is one of the key elements in the process of updating aspirations and strategic actions of the PGE Capital Group.

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 unit in Opole power plant and and by 2020 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 finalising a 138 MWe co-generation project of CCGT unit in Gorzów CHP and is starting realisation of the waste incineration plant in Rzeszów 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. Application for the "fundamental decision" to be issued will be possible in 2018 based on the form of support system and results of the integrated proceeding. In 2015 PGE finished construction of wind farms Karwice, Gniewino Lotnisko, Resko II and Kisielice II and currently has 529 MW installed capacity in wind farms. Construction or acquisition of other RES projects will be dependent on the future support system and therefore their potential for creating the PGE Group's value 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. Exploitation of lignite deposits will be considered within the development strategy of the whole generation portfolio.

Key projects in 2015

Construction of new units in Opole power plant	<ul style="list-style-type: none"> ● construction of two power units of 900 MW each ● budget: approx. PLN 11 billion (net, without costs of financing) ● capital expenditures incurred: approx. PLN 3.3 billion ● fuel: hard coal ● efficiency: 45.5% ● contractor: syndicate of companies: Rafako, Polimex-Mostostal and Mostostal Warszawa; main subcontractor: Alstom ● commissioning: unit 5 – H2 2018; unit 6 – H1 2019 ● January 31, 2014 – issue of Notice to Proceed ● status: commencement of assembly of a steel structure for boiler no. 6 and construction of a concrete coating for cooling tower no. 6; continuing construction of boiler, boiler room and machine room at block no. 5, the concrete coating for cooling tower no. 5 has almost reached the target height. Overall progress of the works as of the end of December was 32.5%.
Construction of new unit in Turów power plant	<ul style="list-style-type: none"> ● construction of power unit with a capacity of 490 MW ● budget: approx. PLN 4 billion (net, without costs of financing) ● capital expenditures incurred: approx. PLN 0.13 billion ● fuel: lignite ● efficiency: 43.1% ● contractor: syndicate of companies: Mitsubishi-Hitachi Power Systems Europe, Budimex and Tecnicas Reunidas ● commissioning: H1 2020 ● December 1, 2014 - issue of Notice to Proceed ● status: project documentation development stage; excavation work for the main facilities of the new unit are conducted; Amendment to the Agreement signed with regard to basic parameters of new unit no 11, in such way that it would meet BAT conclusions, that are to be effective after 2021
Construction of new unit in Gorzów CHP	<ul style="list-style-type: none"> ● construction of cogeneration CCGT unit with a capacity of 138 MWe and 88 MWt ● budget: approx. PLN 607 million (net, without costs of financing) ● capital expenditures incurred: approx. PLN 285 million ● fuel: local nitrogen-rich gas or methane-rich gas (Group E) ● general efficiency: 84% ● contractor: Siemens ● commissioning: H1 2016 ● October 3, 2013 - issue of Notice to Proceed ● status: project in advanced stage, installation and electrical work continued. The finishing work at all of the buildings of the new unit is on-going.

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

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)
- status: **commissioned** in December 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)
- status: **occupancy permit obtained** in December 2015

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)
- status: **occupancy permit obtained** in December 2015

Total installed capacity in PGE Group's wind farms currently amounts to **529 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, 9, 11 and 12 commissioned, unit no. 10 - in modernization
- fuel: lignite
- Completion: 2016

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

- **project's objective:** to decrease the SO₂ emission level to the level required in IED (<=200 mg/Nm³)
- budget: ca. PLN 162 million (net, without costs of financing)
- fuel: lignite
- completion: 2016

Change in technology of furnace waste storage for units 1-12 – Bełchatów power plant and construction of installation to transport ash; production and transport of sludge from unit 14 in Bełchatów power plant

- **project's objective:** to provide the capability for storage of furnace waste produced during the operation of units 1-12 of Bełchatów power plant until exhaustion of lignite resources. In the course of the project, the requirement to fit out unit 14 with new technology for the transport and storage of combustion waste was identified.
- budget for units 1-12: ca. PLN 454 million (net, without costs of financing)
- budget for unit 14: ca. PLN 90 million (net, without costs of financing)
- completion for units 1-12 and unit 14: 2018

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

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

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

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

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

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

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

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

Modernisation of the Pomorzany power plant

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

Preferred and reliable energy supplier

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

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

In the Distribution segment, assuring reliability of supply through operational and investment efficiency is the main goal. PGE Group is committed to improve grid reliability - we intend to achieve a goal of 50% SAIDI reduction by 2020 mainly by refocusing the investment outlays on projects to the largest extent limiting the level of undelivered energy and by increasing operational performance.

Key projects in 2015

Trading strategy update	<p>The following were developed in the course of the project:</p> <ul style="list-style-type: none"> ● value chain management strategy, including: <ul style="list-style-type: none"> ▪ defined commercial process for managing the value chain ▪ developed decision-making mechanisms and operating procedures for processes that ensure the direct margin optimisation ● wholesale trading strategy, including: <ul style="list-style-type: none"> ▪ developed operational model for wholesale trading ▪ specification of the scope of IT support tools ▪ developed overall wholesale trading strategy and contracting strategy ● supply strategy, including: <ul style="list-style-type: none"> ▪ developed strategy for the retail sales area and customer service ● risk management strategy, including: <ul style="list-style-type: none"> ▪ identification of risks ▪ developed recommendation for a risk management model and methodology with regard to wholesale trade in electricity and related products
Project of network losses reduction	<ul style="list-style-type: none"> ● the project is intended to reduce electricity procurement costs for balancing differences ● activities undertaken: <ul style="list-style-type: none"> ▪ replacement of transformers with low-loss units ▪ Grid conversion and modernisation: construction of HV/MV stations, increase of cable cross-sections for HV, MV and LV lines, reduction of MV and LV lines ▪ Maintenance of optimal grid workload, elimination of adverse energy transit in HV lines, optimisation of MV line partitions, reduction of load asymmetries in LV lines
CRM Billing	<ul style="list-style-type: none"> ● the aim of the program is deployment of support systems for settlements and customer service in Supply and Distribution segments ● the program will yield: <ul style="list-style-type: none"> ▪ improved operational performance and support tools for processes dealing with settlements and customer service ▪ stronger competitive position on the back of an expanded product offering ▪ higher customer service quality ● the above objectives will be attained through the 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 ● Results of the programme's implementation in 2015: <ul style="list-style-type: none"> ▪ Launch of a new, centralized "eBOK" portal for PGE Group clients and an "mBOK" application for Android and IOS

The most effective energy group in Poland

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

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

Key projects in 2015

Operating model	<ul style="list-style-type: none"> ● the aim of this project is: organisational performance improvement across PGE Group centralisation of management, decision-making and planning functions at the Corporate Centre, alongside a synergetic combination of potential of the Group's key value drivers – capital, experience, competences and knowledge – which are embedded across Business Lines ● project defines the structure of interdependencies between Group companies, with details on their competences, scopes of responsibility and operational objectives, understood as interconnected elements of the strategic business goals of the entire Group. The key product of having implemented the Operational Model will be new management processes. ● as part of the project, a defined portfolio of 51 implementation projects was launched, the result of which is a permanent deployment of the designed changes to business processes. By the end of December 2015, a vast majority of the proposed changes was implemented (47 designs, with further four being excluded from the scope of the Operating Model implementation). The Operating Model project was finalised through a decision of the Steering Committee.
Human Capital Management Strategy („HCM Strategy”)	<ul style="list-style-type: none"> ● the aim of this project is supporting the business strategy goals through: <ul style="list-style-type: none"> ■ enhancing the effectiveness of human resources management ■ reinforcing strategic HR management ■ optimisation and standardisation of HR processes in terms of: maximising the benefits through operational scale and specialisation (integration of IT tools and systems), harmonised operating standards, optimal use of resources ● in 2015, activities were carried out relating to widely communicating the Human Capital Management Strategy adopted by the PGE Group, and works began on preparation and implementation of the I group of strategic initiatives. Of key importance in the first period were the Corporate Rules for the HCM Area, which brought standardisation to the HR field across PGE Group. The adopted rules cover the following: employment, mobility, key personnel, training and development, HR controlling, social relations, job design and a new organisational model for PGE Group's HCM area.
Program SAP	<ul style="list-style-type: none"> ● the aim of the project is: <ul style="list-style-type: none"> ■ improved operational efficiency through: standardisation of processes within the Group, the aim of the project, optimisation of the technical assets efficiency, more efficient maintenance and development of the system ■ improved transparency through: creation of uniform records of economic events, access to the ongoing and compact of management information, streamlining and accelerating of decision making process ■ base creation for: creation of SSC within PGE Group <p>Implementation process of modules: Accounting and Logistics, HCM Strategy and Asset Management and SAP Fiori (software enabling mobile access to SAP HCM tools) was</p>

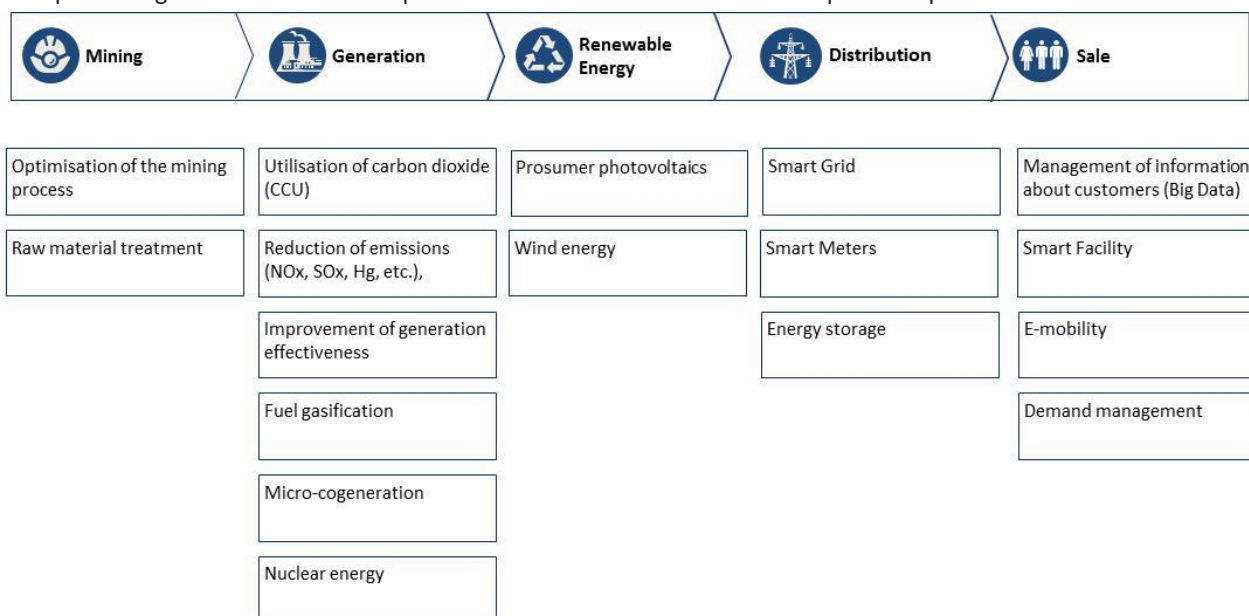
continued in the fourth quarter of 2015. Implementation of the Asset Management area is expected to be completed in the next quarter at main PGE Group companies, as is the implementation of SAP Fiori. Up to date, the implementation of SAP System have encompassed 18 thousand users within areas Accounting and Logistics, HCM, AM, FC in all companies of PGE Capital Group.

- 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 EO S.A. and decreasing the number of companies and simplifying the structure of RES segment
 - **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. 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 Naturity sp. z o.o. (Malbork wind farm 18MW and Kieselice wind farm 40.5MW)
 - PGE EO S.A. merged with PGE Energia Naturity S.A. and Eolica Wojciechowo sp. z o.o.
 - PGE S.A. made a contribution in kind of 100% shares of PGE EN sp. z o.o. to PGE EO S.A.
 - PGE EO S.A. merged with subsidiaries: PGE Energia Naturity Kappa sp. z o.o., PGE Energia Naturity Bukowo sp z o.o., PGE Energia Naturity Karnice sp. z o.o., PGE Energia Naturity 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. Characterisations and assessments of technology, carried out by teams, will serve as the basis for the defining of development projects or projects aimed at implementing solutions that are of most benefit to PGE Group.

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



In 2015, 53 R&D projects were being conducted within SOBIR+NB.

Key projects in 2015

„Power-to-Gas” concept	<ul style="list-style-type: none">● Aim of the project: development of energy storage technology in a “Power-to-Gas” installation, consisting of the conversion of electricity surpluses, produced mainly by wind farms, into hydrogen via an electrolysis process, with potential for further use in different technological configurations. The concept is being developed jointly by PGE S.A. and gas transmission operator Gaz-System S.A.
Cooperation with the National Centre for Research and Development ("NCBiR")	<ul style="list-style-type: none">● one of the key assumptions of the project is the use by PGE Group of public funds available in the Intelligent Development Operational Programme (POIR), where NCBiR is the implementing authority● main activities:<ul style="list-style-type: none">▪ 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. The aim of the joint undertaking is to address, by implementing a research agenda agreed with NCBiR, the challenges facing PGE Group as the sector's largest entity, thus increasing the level of innovativeness in the Polish energy sector. Agenda is being drafted on the basis of subject areas proposed by PGE S.A., which are aligned with the SOBIR+NB areas and is assumed to complement synergically with the Sectoral Program for the power sector.▪ In October 2015 NCBiR adopted Feasibility study of the Sector Programme for Energy 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 whole industry. The Sector Programme Report is the first plan of its type prepared and approved by all of the key energy market participants. Works are currently underway to establish the Programme's final research agenda and an organisational framework.▪ 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. With NCBiR having selected TFI PZU to manage its fund of funds (formed to implement joint investments with NCBiR under the BRIDGE VC programme), negotiations on the details of the arrangement between NCBiR and TFI PZU are on-going in parallel to negotiating the terms for PGE Group's co-investment.

2 Financial results of PGE S.A.

2.1 Financial results of PGE S.A.

Key financial data	Unit	Year ended December 31, 2015	Year ended December 31, 2014 <i>data restated</i>	% change	Year ended December 31, 2013 <i>data restated</i>	% change
Sales revenues	PLN million	10,929	9,671	13%	12,408	-22%
EBIT	PLN million	715	476	50%	966	-51%
EBITDA	PLN million	730	489	49%	984	-50%
Net cash from operating activities	PLN million	797	530	50%	469	13%
Net cash from investing activities	PLN million	-1,768	-320	-	1,533	-
Net cash from financial activities	PLN million	2	581	-100%	-774	-
Net earnings per share	PLN	0,95	2,92	-67%	1,13	158%
EBITDA margin	%	7%	5%		8%	
Shares in subsidiaries	PLN million	29,469	29,046	1%	24,165	20%
Working capital	PLN million	3,752	4,252	-12%	3,465	23%
Net debt/LTM EBITDA*	X	4.26	1.54		-1.20	

*LTM EBITDA – Last Twelve Months EBITDA

Key financial data	Unit	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014 <i>data restated</i>
Sales revenues	PLN million	2,610	2,417	2,594	3,308	2,664
EBIT	PLN million	215	160	154	186	90
EBITDA	PLN million	219	164	158	189	94
Net cash from operating activities	PLN million	-40	-100	316	621	20
Net cash from investing activities	PLN million	-996	-289	922	-1,405	-83
Net cash from financial activities	PLN million	1,730	298	-762	-1,264	-99
Net earnings per share	PLN	0.11	0.64	0.06	0.14	0.05
EBITDA margin	%	8%	7%	6%	6%	4%

Key financial data	Unit	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014 <i>data restated</i>
Shares in subsidiaries	PLN million	29,086	29,110	29,286	29,469	29,046
Working capital	PLN million	5,663	6,906	6,404	3,752	4,252
Net debt/LTM EBITDA*	x	2.63	3.05	0.88	4.26	1.54

*LTM EBITDA – LTM EBITDA

2.1.1 Statement of comprehensive income

In 2015 **sales revenues** of the Company amounted to PLN 10,929 million compared to PLN 9,671 million in 2014, what means increase by approx. 13%.

Sales revenues – increase by approx. PLN 1,258 million

Positive impact	<ul style="list-style-type: none"> increased revenues from sale of electricity PLN 921 million, including increase due to higher volume of sales by PLN (+) 602 million and average sale price by PLN (+) 319 million increased revenues from sale of CO₂ emission rights PLN (+) 379 million, mainly due to higher prices increased revenues from sale of fuels PLN (+) 322 million due to increased trading volumes of gas increased revenues from the services under the agreement for Commercial Management of Generation Capacities PLN („ZHZW”) by PLN (+) 38 million
Negative impact	<ul style="list-style-type: none"> decreased revenues from sale of certificates of energy origin PLN (-) 398 million, the reason is overtaking of sales by PGE Dom Maklerski S.A. and decrease of prices on the green certificates market decreased revenues from other services PLN (-) 4 million (including: decrease by PLN (-) 3 million from support services and by PLN (-) 3 million from office space rental and increase by PLN 2 million from services connected with electricity and gas trading and Scheduling Services Coordinator service)

Dynamics of sale of particular commodities was as follows:

Table: Volume of electricity sales

[TWh]	2015	2014	% change	2013	% change
Sale of electricity to the Group companies	39.4	38.5	2%	38.0	1%
Sale of electricity on the power exchange and in bilateral transactions outside the Group	2.7	1.0	170%	13.3	-92%
Sale within the balancing group and on the balancing market	2.0	1.2	67%	1.2	0%
Total electricity sales	44.1	40.7	8%	52.5	-22%

[TWh]	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014
Sale of electricity to the Group companies	9.9	9.5	10.0	10.0	9.9
Sale of electricity on the power exchange and in bilateral transactions outside the Group	0.7	0.6	0.5	0.9	0.3
Sale within the balancing group and on the balancing market	0.4	0.7	0.4	0.5	0.3
Total electricity sales	11.0	10.8	10.9	11.4	10.5

In comparison to the previous period, in 2015 a significant growth was observed in volumes of electricity sold in bilateral transactions with external contractors. It was mainly sales on the power exchange executed through PGE Dom Maklerski S.A. and sales to TAURON Polska Energia S.A. and PKP Energetyka S.A. In 2013 sales of energy also included contract with Energa – Obrót S.A.

Increased sale within PGE Capital Group was caused by higher needs for electricity in PGE Obrót S.A. due to lower purchases of energy by PGE Obrót S.A. on local markets.

Table: Volume of certificates sales

[TWh]	2015	2014	% change	2013	% change
Green certificates	2.6	5.3	-51%	3.7	43%
Yellow certificates	1.8	0.0	-	0.8	-100%
Red certificates	5.5	0.4	1,275%	2.7	-85%
Violet certificates	0.0	0.2	-100%	0.1	100%

[TWh]	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014
Green certificates	1.4	0.9	0.2	0.1	1.4
Yellow certificates	0.7	0.2	0.5	0.4	0.0
Red certificates	1.5	3.1	0.4	0.5	0.2
Violet certificates	0.0	0.0	0.0	0.0	0.0

Certificates were supplied by PGE S.A. to the companies from the Group in order to meet the legal requirement for redemption thereof, that in 2015, in the case of green certificates constituted 14% of volume of electricity sold to end users, used for the own consumption.

Decline of sales of green certificates in 2015 was partly connected with lower demand for certificates, in connection with ceasing an obligation for entities selling energy with regard to purchase and redemption of certificates for large industrial off-takers. The second reason was overtaking of certificates trading by PGE Dom Maklerski S.A. from July 2015 and transfer of purchase transaction of certificates from external contractors to PGE Obrót S.A.

Increase of sales of yellow and red certificates was connected with the necessity to realise in 2015 supplies covering needs not only of year 2015 but also to meet the requirement with regard to the previous year.

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

Table: Volume of CO₂ emission rights sales

[t million]	2015	2014	% change	2013	% change
Sale of EUA to the Group	35.3	33.0	7%	38.1	-13%
Sale of CER to the Group	0.0	2.7	-100%	0.0	-
Total CO₂ emission rights sales to the Group	35.3	35.7	-1%	38.1	-6%
CO₂ emission rights sales outside PGE Group*	19.4	14.6	33%	8.1	80%

* The Company is also engaged in trading of CO₂ emission rights within so called trading portfolio on the exchange market and in bilateral transactions outside the PGE Capital Group. Result on those transactions is recognised by the Company in financial revenues and expenses (see Note 5.4.1 to the financial statements of PGE S.A. for 2015).

[t million]	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014
Sale of EUA to the Group	0.5	3.0	9.8	22.0	12.3
Sale of CER to the Group	0.0	0.0	0.0	0.0	0.4
Total CO₂ emission rights sales	0.5	3.0	9.8	22.0	12.7

CO₂ emission rights trading for the Group's redemption needs is pursued by PGE S.A. under the agreement for Commercial Management of Generation Capacities. Deliveries of the allowances for PGE GiEK S.A. were matched with the realized electricity sales volume within current contracting for 2015 and subsequent years – in accordance with the trading strategy.

The Company is also engaged in trading of CO₂ emission rights within so called trading portfolio on the exchange market and in bilateral transactions outside the PGE Capital Group. Result on those transactions is recognised by the Company in financial revenues and expenses (see Note 5.4.1 to the financial statements of PGE S.A. for 2015).

Table: Volume of natural gas sales

[TWh]	2015	2014	% change	2013	% change
Sale of natural gas to the Group	2.7	0	-	0	-
Sale of natural gas outside the Group	1.3	0.6	117%	0	-
Total natural gas sales	4.0	0.6	567%	0	-

[TWh]	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q4 2014
Sale of natural gas to the Group	0.4	0.2	0.2	1.9	0
Sale of natural gas outside the Group	0.7	0.2	0.1	0.3	0.6
Total natural gas sales	1.1	0.4	0.3	2.2	0.6

In 2015 PGE S.A. developed operations in wholesale trading of natural gas through execution of natural gas delivery to the companies of PGE Capital Group and sales to external contractors outside PGE Group, including both domestic and foreign ones. The largest customer is PGE Obrót S.A. which purchases natural gas for further resale to final off-takers and to PGE GiEK S.A. PGE S.A. also sold natural gas on TGE S.A. (power exchange) through PGE Dom Maklerski S.A.

Revenues by geographical areas

Table: Breakdown of the Company's income from continuing operations, by geographic area, in 2013-2015.

In PLN million	Total revenues							
	2015	% share	2014	% share	% change	2013	% share	% change
Domestic market	10,910	100%	9,660	100%	13%	12,048	97%	-20%
EU member states	19	0%	11	0%	73%	360	3%	-97%
Other countries	0	0%	0	0%	0%	0	0%	0%
Total	10,929	100%	9,671	100%	13%	12,408	100%	-22%

In 2013-2015 the Company generated revenues mainly on the domestic market. Increase in revenues realised in EU member states in 2015 compared to 2014 resulted mainly from revenues from sales of natural gas that did not take place in 2014.

Cost of goods sold in 2015 amounted to PLN 10,012 million, what means increase by approx. 11% in comparison to PLN 9,021 million in 2014. Increase resulted from intensified activities related to resale of energy purchased in order to reach optimal balance of the needs of the companies from the PGE Capital Group.

Gross profit on sales in 2015 amounted to PLN 917 million compared to PLN 650 million in 2014, what means increase by approx. 41%. Increase mainly results from higher result on electricity trading by PLN 220 million - PLN 411 million in 2015 compared PLN 191 million in 2014. In 2015 the Company sold approx. 3 TWh more electricity and achieved higher margin on 1 MWh compared to 2014. Factor that attributed to such situation was expected significant increase of power prices in comparison to the previous year, that was taken into account in contracted fixed prices of energy sale to PGE Group companies. Unlike in 2015, increasing electricity prices in 2014 resulted in decrease of margin on electricity trading and in consequence attributed to the decrease of gross profit on sales in 2014 in comparison to 2013.

In 2015 **distribution and selling expenses** of PGE S.A. amounted to PLN 37 million and were higher by approx. 61 % in comparison to 2014. Increased distribution and selling expenses resulted mainly from higher fees for transmission of natural gas and higher commissions to PGE Dom Maklerski S.A. which was used as broker for sales of energy and natural gas.

Higher fees for transmission of natural gas result from increased trading volume and costs of obtaining transmission capacities in auctions, in connection with the increased import of natural gas.

In 2015 **general and administrative expenses** amounted to PLN 164 million, i.e. increase by approx. 9 % in comparison to 2014. Increase is connected mainly with change of intragroup settlements with regard to marketing activities and repairs performed in the building at Mysia 2 Street.

Result on other operating activities in 2015 amounted to PLN (-) 1 million, same as in 2014.

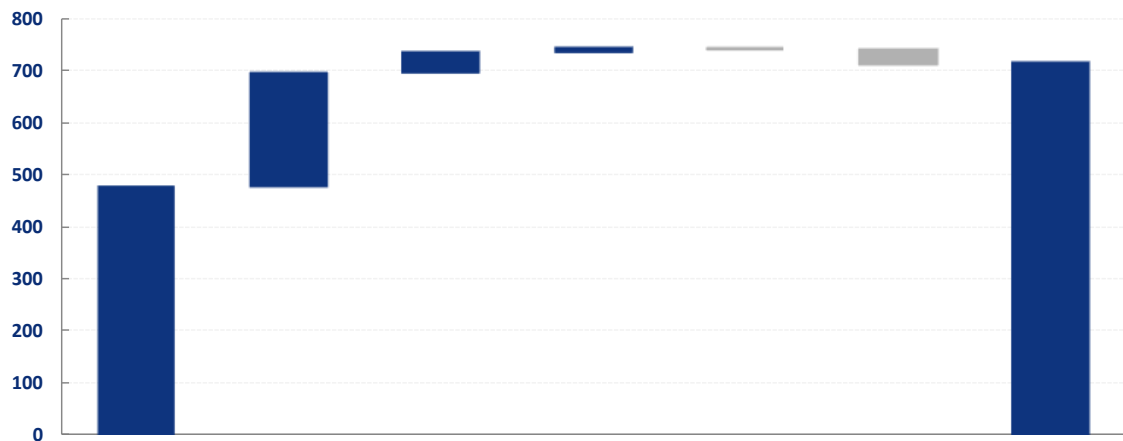
Table: other operating activities

in PLN million	2015	2014	% change	2013	% change
Other operating revenues	8	10	-20%	16	-38%
Other operating expenses	9	11	-18%	10	10%
Result on other operating activities	-1	-1	0%	6	-117%

Other operating revenues in 2015 include expenses amounting to PLN 5 million invoiced to the PGE Group companies. It was mainly expenses related to projects carried out by the Corporate Center for the companies from the PGE Capital Group. In addition, a sale of right of perpetual usufruct amounting to PLN 3 million took place.

Main items of other operating expenses of the Company include expenses invoiced to the PGE Group companies amounting to PLN 5 million and donation granted to PGE Foundation "Energy from Heart" in amount of PLN 1 million.

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



	EBIT 2014	Margin on electricity	Management service	Property rights redemption costs and margin on gas	Result on other operations	Costs of the organization	EBIT 2015
Change		220	38	11	-4	-26	
EBIT 2014	476	191	465	11	82	273	
EBIT 2015		411	503	22	78	299	715

The Group's **financial revenues** in 2015 amounted to PLN 1,075 million and was by approx. 79% lower than in 2014.

Table: Financial operations

in PLN million	2015	2014	% change	2013	% change
Financial revenues	1,285	5,543	77%	1,384	-301%
including:					
Dividens from PGE Capital Group companies	1,050	5,273	80%	1,062	-397%
Interest from bonds, cash, deposits and loans granted	208	235	11%	258	9%
Other, including: profit from valuation of derivatives, forward transactions for CO2 natural gas	27	35	23%	64	45%
Financial expenses	210	542	61%	27	-1,907%
including:					
Interest from bank loans and advances and bonds issues	186	99	-87%	26	-285%
Impairment loss on value of bonds issued by Autostrada Wielkopolska S.A.	0	386	100%	0	
Other, including: loss from valuation of derivatives and loss on sale of shares of PGE EJ	24	57	59%	1	-5,500%
Result on financial operations	1,075	5,001	79%	1,357	-269%

In 2014 the Company received donation of PGE Dystrybucja S.A. shares and PGE GIEK S.A. shares from PGE Obrót S.A. in amount of PLN 4,281 million. In 2015 the Company received dividends from PGE Capital Group companies amounting to more than PLN 1,050 million, by PLN 59 million higher than in 2014.

Interest from bonds, cash, deposits and loans granted in amount of PLN 208 million are lower than in the previous year mainly as a result of accrued interest from Autostrada Wielkopolska S.A. in amount of PLN 26 million in 2015.

Interest from bank loans and advances and bonds issues in amount of PLN 187 million is a result of higher indebtedness of the Company than in the previous year.

As a result of the factors discussed above, the **gross profit** of PGE S.A. in 2015 amounted to PLN 1,790 million compared to PLN 5,477 million in 2014.

In 2015 **gross profit margin** of the Company (gross profit to total sales revenues) amounted to 16% compared to 57% in 2014.

Net profit of PGE S.A. in 2015 amounted to PLN 1,768 million compared to PLN 5,453 million in 2014.

Total comprehensive income of the Company amounted to PLN 1,810 million in 2015 compared to PLN 5,390 million in 2014.

2.1.2 Statement of financial position

Non-current assets of PGE S.A. as December 31, 2015 and as at December 31, 2014 amounted respectively to PLN 35,788 million and PLN 33,101 million.

Non-current assets – increase by PLN 2,687 million

Increase	<ul style="list-style-type: none"> ● Increased loans and receivables by PLN 2,226 million including as a result of purchase of bonds issued by the subsidiaries by PLN 2,196 million and loans granted to the subsidiaries by PLN 30 million ● Growth of value of shares in subsidiaries by PLN 423 million including as a result of purchase of shares from minority shareholders and recapitalization of PGE GiEK S.A. – increase by PLN 349 million and increase of other shares by PLN 74 million ● Increased value of CCIRS with regard to transactions concluded on CO₂ emission right market by PLN 39 million ● Increase of deferred tax asset by PLN 2 million ● Increase of value of intangible assets relating to creation of Trading Strategy of PGE Capital Group and development of support system in planning „MOF” by PLN 1 million
Decrease	<ul style="list-style-type: none"> ● Decline of value of property, plant and equipment by PLN (-) 4 million, due to redemption of value of office building

PGE S.A. purchases bonds issued by the Group companies. Proceeds from the bonds issues are used for financing of investments, refinancing of financial liabilities and for financing of ongoing operations. Changes in the bonds acquired by PGE S.A. are described in note 21.1.1 of the financials statements of PGE S.A. for 2015.

Current assets of PGE S.A. as December 31, 2015 and as at December 31, 2014 amounted respectively to PLN 3,752 million and PLN 4,252 million.

Current assets - decrease by PLN 500 million

Increase	<ul style="list-style-type: none"> ● increased trade receivables and other receivables by PLN 356 million, including due to cash pooling in amount of PLN 320 million ● increased income tax receivables by PLN 79 million ● increase of other short-term assets by PLN 293 million, resulting from increased advances for purchase of electricity and gas by PLN 190 million and receivables due to tax capital group in amount of PLN 70 million
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Decrease

- decreased cash and cash equivalent by PLN (-) 975 million
- inventories decrease by PLN (-) 249 million, including CO₂ emission rights intended for trade by PLN (-) 234 million and certificates by PLN (-) 15 million
- decreased value of derivatives regarding currency forwards connected with purchase of CO₂ and gas by PLN (-) 4 million

As at December 31, 2015 and as at December 31, 2014 **equity of the Company** amounted respectively to PLN 33,454 million and PLN 33,102 million.

Equity – increase by PLN 352 million

Increase

- recognition of the net profit for the year ended December 31, 2015 in amount of PLN 1,768 million
- decrease of negative equity from valuation of financial instruments by PLN 43 million, in connection with use of hedging transaction for loan received from PGE Sweden AB

Decrease

- dividend payment to the shareholders in amount of PLN (-) 1,458 million
- recognition of other comprehensive income in amount of PLN (-) 1 million

Long-term liabilities as at December 31, 2015 and as at December 31, 2014 amounted respectively to PLN 4,280 million and PLN 3,840 million.

Long-term liabilities - increase by PLN 440 million

Increase

- increase in interest-bearing loans, borrowings, bonds and lease by PLN 462 million
- increased long-term provisions for employee benefits by PLN 1 million

Decrease

- change in valuation of IRS for issued bonds and CCIRS for loans incurred totally by PLN (-) 23 million

Short-term liabilities as at December 31, 2015 and as at December 31, 2014 amounted respectively to PLN 1,806 million and PLN 411 million.

Short-term liabilities - increase by PLN 1,395 million

Increase

- increase in short-term part of interest-bearing loans and borrowings by PLN 1,197 million, including increased liabilities due to cash pooling by PLN 1,157 million and bank loans and advances received and bonds issued by PLN 40 million
- increase in other non-financial liabilities by PLN 140 million, including due to VAT by PLN 59 million and settlements in the Tax Capital Group by PLN 84 million and decreased by PLN 3 million of other liabilities
- increased trade receivables and other receivables, in connection with the trading on the power market by PLN 64 million
- increased provision by PLN 1 million, caused mainly by increase of provisions for employee benefits

Decrease

- decrease in valuation of derivatives with regard to commodity forwards for purchase of CO₂ and currency forward that at fair value through profit or loss totally by PLN (-) 3 million
- decrease in income tax liabilities by PLN (-) 4 million

2.1.3 Statement of cash flows

The total net cash flow from operating activities for 2015 amounted to PLN 797 million compared to PLN 530 million in 2014.

Negative net cash flow from investing activities for 2015 amounted to PLN (-) 1,768 million in comparison to negative net cash flow of PLN (-) 320 million in 2014. The level of cash flow from investing activities in 2014 was mainly affected by net flows related to purchase of bonds issued by the Group companies. In 2015 PGE S.A. recognised outflow of cash due to purchase and buy-out of bonds issued by the Group companies in amount of PLN (-) 2,396 million while in 2014 the Company had outflows from such operations amounting to PLN (-) 906 million.

Positive net cash flow from financial activities in 2015 decreased to PLN 2 million in comparison to positive net cash flow of PLN 581 million in 2014. The level of cash flow from financial activities in 2015 was mainly affected by loans, borrowings and bonds and by the dividend paid to shareholders, as well as by proceeds due to cash flow. Proceeds from loans, borrowings and bonds in 2015 amounted to PLN 500 million in 2014 and were lower by PLN 2,220 million than in 2014. The dividend paid to shareholders in 2015 amounted to PLN 1,458 million and was lower than dividend paid in 2014 by PLN 599 million. In 2015 the company recognized proceeds from cash pooling that amounted to PLN 1,155 million.

2.2 Transactions with related entities

Information about transactions with related entities are presented in Note B.20.1 to the standalone financial statements for 2015.

2.3 Information about main customers

Information about main customers of the Company are presented in Note 5.1 to the standalone financial statements for 2015.

2.4 Publication of financial forecasts

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

On February 3, 2016 PGE S.A. published current report no. 4/2016, in which disclosed EBITDA adjusted by the value of impairment losses and net profit adjusted by the value of impairment losses attributable to equity holders of the parent company for the year 2015.

2.5 Entity authorised to audit of financial statements

An entity authorised to audit financial statements of PGE S.A. and consolidated financial statements of PGE Capital Group for 2015 is KPMG Audyty Spółka z ograniczoną odpowiedzialnością Sp. k.

The financial statement audit agreement was signed on November 5, 2014 for period of three years and covers the audit of stand-alone and consolidated financial statements for 2014-2016, as well as reviews of interim half-year consolidated financial statements prepared for the periods ended June 30 in years 2015-2017.

An entity authorised to of financial statements, which was responsible for review of stand-alone financial statements of PGE S.A. and consolidated financial statements of the PGE Capital Group for the first half-year 2015 and for audit of annual stand-alone financial statements of PGE S.A. and consolidated financial statements of the PGE Capital Group for 2014 was KPMG Audyty Spółka z ograniczoną odpowiedzialnością Sp. k. The entity responsible for half-year review of stand-alone financial statements of PGE S.A. and consolidated financial statements of the PGE Capital Group in 2014 was KPMG Audyty Sp. z o. o.

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

Auditor's fee	2015	2014	2013
Audit and reviews of the financial statements	398	555	280
Other	118	709	17

In 2015 KPMG Audyty Spółka z ograniczoną odpowiedzialnością Sp. k. audited also financial statements of the following companies from the PGE Capital Group: PGE GiEK S.A., PGE EJ 1 sp. z o.o., PEC Zgierz sp. z o.o., PGE EO S.A., EW Baltica 1 sp. z o.o., EW Baltica 2 sp. z o.o., EW Baltica 3 sp. z o.o., Bio-Energia S.A., PGE Dom Maklerski S.A., PGE Energia Natury sp. z o.o., PGE Energia Natury Omikron sp. z o.o., PGE Energia Natury PEW sp. z o.o., PGE Obsługa Księgowo-Kadrowa sp. z o.o. and ELBEST Security sp. z o.o.

In 2014 spółka KPMG Audyty Spółka z ograniczoną odpowiedzialnością Sp. k. audited also financial statements of the following companies from the PGE Capital Group: PGE GiEK S.A., PGE EJ 1 sp. z o.o., PEC Zgierz sp. z o.o., PGE EO S.A., Pelplin sp. z o.o., Eolica Wojciechowo sp. z o.o., EW Baltica 1 sp. z o.o., EW Baltica 2 sp. z o.o., EW Baltica 3 sp. z o.o., Bio-Energia S.A., PGE Dom Maklerski S.A., PGE Energia Natury S.A., PGE Energia Natury sp. z o.o., PGE Energia Natury Karnice sp. z o.o., PGE Energia Natury Bukowo sp. z o.o., PGE Energia Natury Olecko sp. z o.o., PGE Energia Natury Omikron sp. z o.o., PGE Energia Natury Kappa sp. z o.o. and PGE Energia Natury PEW sp. z o.o.

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

Auditor's fee	2015	2014	2013
Audit and reviews of the financial statements	846	771	622
Other	114	117	0

2.6 Management of financial resources and financial liquidity

2.6.1 Rating

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

	Moody's	Fitch Ratings
Long-term company rating	Baa1	BBB+
Rating outlook	stable	stable
Date of rating assignment	September 2, 2009	September 2, 2009
Date of the latest rating confirmation	February 12, 2016	May 21, 2015
Date of the latest rating change	May 26, 2014	-
Poland long-term rating	A2	A-

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 affirmed its last-year rating at Baa1 with stable outlook on February 12, 2016.

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

Moody's, in its release of February 12, 2016 appreciates strong position of PGE Group as an integrated power group dominant on the electricity market in Poland, capable of dealing on the market with significantly declining electricity prices due to falling coal prices and carbon prices. Risks indicated by Moody's state that financial flexibility of the Group could erode over time if the power prices decline further and as the Group implements its sizeable capital expenditure. At the same time Moody's indicates that prudent financial policies that balance shareholders and creditors needs will be key in preserving the current ratings. 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 confirm PGE's long-term credibility on the capital and credit markets.

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

Table: Company's net debt as at December 31, 2015, December 31, 2014 and December 31, 2013.

in PLN million	December 31, 2015	December 31, 2014	December 31, 2013
A. Cash ⁽¹⁾	611	830	210
B. Cash equivalents	1,402	2,158	1,908
C. Securities held for trading and available for sale ⁽²⁾	0	0	0
D. Liquidity (A) + (B) + (C)	2,013	2,988	2,118
E. Investments held to maturity and loans and receivables ⁽³⁾	350	69	62
F. Short-term debt with banks and current part of long-term debt ⁽⁴⁾	1,255	58	0
G. Other short-term financial debt ⁽⁵⁾	0	0	0
H. Short-term financial debt (F) + (G) ⁽⁶⁾	1,255	58	0
I. Short-term financial debt, net (H) - (D) - (E)	-1,108	-2,999	-2,180
J. Long-term bank loans and advances	3,240	2,754	0
K. Bonds issued	976	1,000	1,000
L. Other long-term loans and advances or other commitments ⁽⁵⁾	0	0	0
M. Long-term financial debt (J) + (K) + (L) ⁽⁶⁾	4,216	3,754	1,000
N. Net financial debt (I) + (M)	3,108	755	-1,180

Comments:

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

Table: Key financial ratios

	For the year ended December 31,		
	2015	2014	2013 data restated
Return on sales ROS (in %)			
Net profit x 100% / Net revenues	16%	56%	17%
Return on equity ROE (in %)			
Net profit x 100% / (equity – net profit)	5%	16%	7%
Debtor's days			
Average trade receivables (gross) x 365 days / net revenues	19	25	22
Debt ratio (in %)			
Liabilities x 100% / total equity and liabilities	15%	11%	4%
Current ratio			
Current assets / short-term liabilities	2	9	10

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

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

2.6.3 Bonds issued

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

As at December 31, 2015 **PGE GiEK S.A.** had bonds issued for a total nominal value of **PLN 4,770 million** that were purchased by PGE S.A. under the following bond programs:

- Bond issue program with ING Bank Śląski S.A. of September 13, 2010 allowing for issue of bonds of up to PLN 4,091 million. On November 29, 2013 the company signed an annex to the agency agreement that prolonged the program until December 31, 2017. As at December 31, 2015 the company did not have any bonds issued under the programme.
- Bond issue program with Powszechna Kasa Oszczędności Bank Polski S.A. of November 30, 2009 allowing for issue of bonds of up to PLN 3,700 million. The maturity date is on December 31, 2025. As at December 31, 2015 the company did not have any bonds issued under the programme.
- Bond Issue program signed with ING Bank Śląski S.A. on June 20, 2011 allowing for issue of bonds directed to PGE S.A. The maturity date falls on December 31, 2025. As at December 31, 2015 the nominal value of the bonds acquired by PGE S.A. under this programme amounted to **PLN 4,770 million**.

As at December 31, 2015 **PGE EO S.A.** had bonds issued and purchased by PGE S.A. amounting to **PLN 1,085 million**.

As at December 31, 2015 companies from former PGE Energia Naturity group had bonds issued and purchased by PGE S.A. amounting to **PLN 391.5 million**, including:

- PGE Energia Naturity Omikron sp. z o.o. with nominal value of PLN 135 million,
- PGE Energia Naturity PEW sp. z o.o. with nominal value of PLN 216,5 million,
- PGE Energia Naturity sp. z o.o. with nominal value of PLN 40 million.

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

During 2015, PGE S.A. had a binding Agency Agreement with ING Bank Śląski S.A. regarding the establishment of the bond issue made to companies of the PGE Group PGE S.A. concluded on May 11, 2009. The maximum amount of the programme for the Group is PLN 5 billion. Under the Program for the Group, PGE S.A. may issue coupon or zero coupon bonds.

As at December 31, 2015 the Company did not have any bonds issued under the programme.

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

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

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

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

As at December 31, 2015 the indebtedness of the Company resulting from the bonds issued under the Program I amounted to **PLN 1,000 million**.

2.6.4 Bank loans and advances

Table: Information about bank loans agreements signed by PGE S.A. in 2015

Company	Party of an agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Amount (million)	Currency	Fixed/ floating rate
PGE S.A.	Syndicate of banks	Bank loan – term loan*	2015-09-07	2023-09-30	3,630.0	PLN	Floating
PGE S.A.	Syndicate of banks	Bank loan – revolving loan*	2015-09-07	2019-04-30	1,870.0	PLN	Floating
PGE S.A.	European Investment Bank	Bank loan	2015-10-27	2032-08-25	1,500.0	PLN	Fixed/Floating
PGE S.A.	Bank Polska Kasa Opieki S.A.	Current account credit	2015-02-23	2018-02-22	1,000.0	PLN	Floating
PGE S.A.	Powszechna Kasa Oszczędności Bank Polski S.A.	Current account credit	2015-04-30	2018-04-29	1,000.0	PLN	Floating
PGE S.A.	Bank Gospodarstwa Krajowego	Bank loan	2015-12-04	2028-12-31	500.0	PLN	Floating
PGE S.A.	European Investment Bank	Bank loan	2015-10-27	2032-08-25	490.0	PLN	Fixed/Floating

* Two loans – term loan and revolving loan – for the total amount of PLN 5,500 million were granted under one Loan Agreement signed on September 7, 2015

In 2015 PGE S.A. concluded agreements relating to bank loans, for a total value of PLN 9,990 million.

Table: Information about the bank loans and advances agreements amended by PGE S.A. in 2015

Company (Borrower)	Party of an agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Annex signing date (yyyy-mm-dd)	Amount (million)	Currency	Fixed/floating rate
PGE S.A.	Bank Gospodarstwa Krajowego	Bank loan	2014-12-17	2027-12-31	2015-12-04	1,000.0	PLN	Floating
PGE S.A.	PGE Trading GmbH	Loan	2015-10-30	2016-01-31	2015-12-28	0.2	EUR	Fixed

In 2015 PGE S.A. signed annexes to the bank loans and advances for a total value of PLN 1,000 million and EUR 0.2 million.

Table: Information about the loans terminated / repaid ahead of schedule / amortised by the PGE S.A. in 2015.

Company (Borrower)	Party of an agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Repayment date (yyyy-mm-dd)	Amount (million)	Currency	Fixed/floating rate	Comments
PGE S.A.	Powszechna Kasa Oszczędności Bank Polski S.A.	Current account credit	2013-07-30	2016-07-29	2015-04-29	500.0	PLN	Floating	Termination
PGE S.A.	Credit Agricole Bank Polska S.A.	Current account credit	2013-07-29	2016-07-28	2015-02-26	250.0	PLN	Floating	Termination
PGE S.A.	Bank Millennium S.A.	Current account credit	2013-07-31	2016-07-30	2015-03-19	250.0	PLN	Floating	Termination

In 2015 PGE S.A. terminated agreements for a total value of PLN 1,000 million.

2.6.5 Loans granted

Table: Advances granted by PGE S.A. in 2015

Company (Borrower)	Party of an agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Amount (million)	Currency	Fixed/ floating rate
PGE Systemy S.A.	PGE S.A.	Loan	2015-11-05	2020-11-05	115.0	PLN	Fixed
PGE Trading GmbH	PGE S.A.	Loan	2015-10-30	2016-01-31	0.2	EUR	Fixed

In 2015 PGE S.A. granted advances for a total value of PLN 115.0 million and EUR 0.2 million.

Table: Loans granted by PGE S.A. and repaid ahead of schedule by the borrower in 2015

Company (Borrower)	Party of an agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Repayment date (rrrr-mm-dd)	Amount (million)	Currency	Fixed/ floating rate
PGE Systemy S.A..	PGE S.A.	Loan	2013-11-07	2017-11-08	2015-11-17	28.0	PLN	Fixed

In 2015 PGE Group companies repaid ahead of schedule loans amounting to PLN 28 million.

In 2015 PGE S.A. did not terminate or amortise any bank loans and advances.

2.6.6 Guarantees

Information on guarantees is presented in note 24.1 to the financial statements of PGE S.A. for 2015.

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

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

The total amount of guarantees granted by PGE S.A. and mandatory on December 31, 2015 amounted to EUR 2,500 million (PLN 10,654 million) and PLN 1,481 million.

Table: Main guarantees granted by PGE as at December 31, 2015.

Company	Entity entitled to guarantee (Beneficiary)	Entity whose liabilities are subject to guarantee (Debtor)	Form of security	Validity of guarantee yyyy-mm-dd		Value of guarantee (million)	Currency
				Beginning	End		
PGE S.A.	Bondholders	PGE Sweden AB	Guarantee of financial instrument	2014-05-22	2041-12-31	2,500.0	EUR
PGE S.A.	Powszechna Kasa Oszczędności Bank Polski S.A.	PGE GiEK S.A.	Guarantee of financial instrument	2014-01-29	2020-03-31	1,088.2	PLN
PGE S.A.	BNP Paribas Bank Polska S.A.	PGE GiEK S.A.	Guarantee of financial instrument	2014-01-29	2020-03-31	181.4	PLN
PGE S.A.	Bank Polska Kasa Opieki S.A.	PGE GiEK S.A.	Guarantee of financial instrument	2014-01-29	2020-03-31	181.4	PLN
PGE S.A.	Polskie Sieci Elektroenergetyczne S.A.	PGE GiEK S.A.	Guarantee	2015-07-10	2020-07-10	24.0	PLN
PGE S.A.	Marshal of Łódź Voivodship	PGE GiEK S.A.	Guarantee	2015-11-23	2020-11-23	6.0	PLN

2.6.7 Significant off-balance sheet items

Significant off-balance sheet items are described in Note 24 to the financial statements of PGE S.A. for 2015,

2.6.8 Evaluation of investment capacities

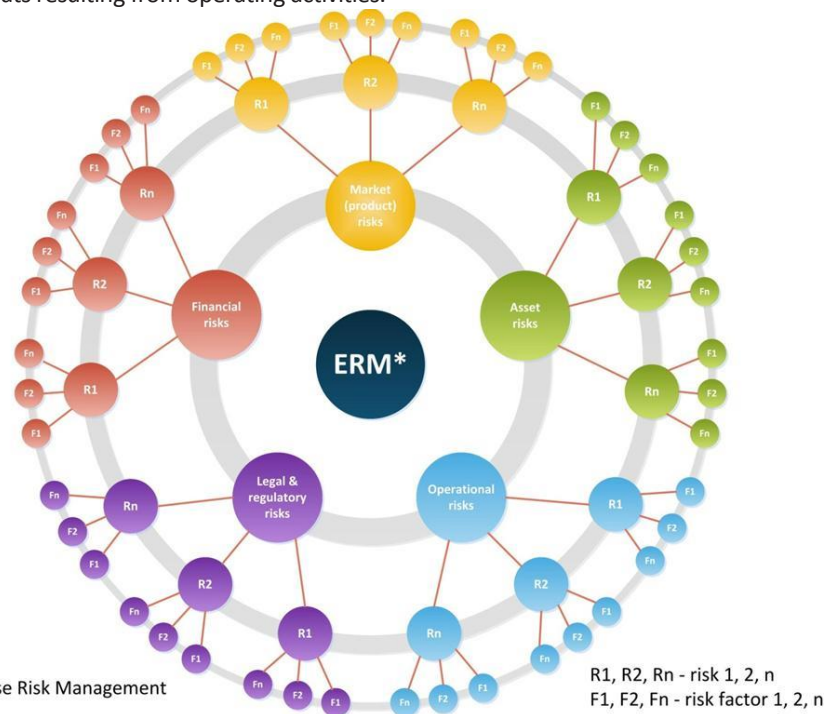
On-going and future investments are and will be financed from funds generated by the core activity of the Company and PGE Group, funds obtained from the issue of bonds, both on domestic and international markets, and from other types of external financing, e.g. bank loans. Financial results achieved by the Company and PGE Group and available credit limits secure sufficient resources to achieve its mid-term investment goals, including capital investments. Scale of development of the group's efficiency, particularly lowering the operating expenses, will be significant for the ability to finance the investment program in the long term.

3 Risks and threats of the PGE Capital Group

Risk management

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

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



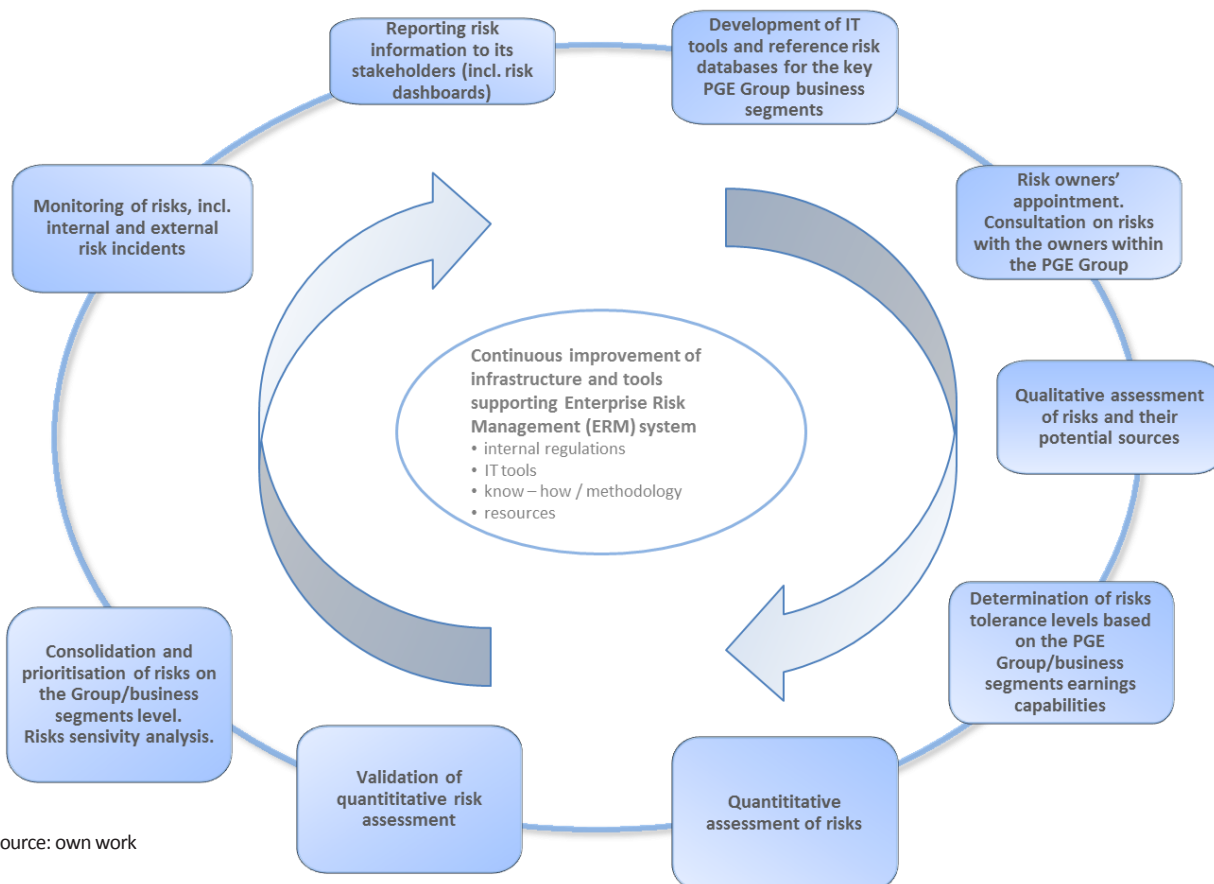
In PGE Group risk management process is pursued based on the GRC (Governance - Risk - Compliance) model, which allows adaptation and integration of each of the Group's operational areas at all levels of management. Having established a top-level Risk Committee, which reports directly to the Management Board, supervision over the effectiveness of risk management processes is ensured across the entire Group. Function definition within corporate risk management enables an independent assessment of specific risks and their impact on PGE Group as well as limiting and controlling major risks using the economic capital concept via risk management instruments. Formation of a separate compliance function within the Group guarantees that PGE Group's activities are in line with legal conditions and ensures observance of the adopted internal standards, at the same time reinforcing the



monitoring of legal environment and increasing the effectiveness of identifying potential gaps and initiating adaptive changes.





























The PGE Capital Group has consequently developed and improves a comprehensive risk management system so that risks involved in its operations and having a significant impact on the value of the Company are maintained at sustainable levels in relation to assumed business objectives. Further mechanisms are being introduced to improve both the measurement of risk levels and the effectiveness of identifying exposure areas. Thanks to recently undertaken activities within the ERM process, it was possible to identify operating areas particularly exposed to malfeasance and to introduce a two-level assessment of the Group's corporate risks.

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



Source: own work

The main risks and threats, to which activity of the PGE Group is exposed, are presented below along with their assessment and outlook in the horizon of the next year.

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



Environmental protection – resulting from industry regulations specifying which "environmental" requirements energy installations should meet and what the principles for using the natural environment are. The future, yet unknown, environmental regulations and uncertainty concerning the final shape of the projected regulations (in particular with regard to the revision of BAT / BREF) may translate into a change in the level of capital expenditures of the PGE Group



Unresolved legal status – connected with difficulties in respect of land acquisition or access to land in the course of new investments (particularly in the Distribution segment)



Concessions – resulting from the statutory requirement to hold concessions for coal mining as well as for the production and distribution of electricity and heat



Discriminatory activities – connected with application by the Group of practices that limit or eliminate competition and infringe on legal regulations or consumer interests



Financial risks

Related to
finance
management

Credit risk – connected with the potential occurrence of a credit event (e.g. counterparty default, partial and/or late payment of receivables or a different type of breach of contractual conditions, for example failure to deliver/collect goods or failure to pay for any associated damages or contractual penalties).



Liquidity risk – connected with the possibility of losing the ability to meet current liabilities and obtaining financing sources for business operations.



Interest rate risk – resulting in particular from the negative impact of changes in market interest rates on PGE Group's cash flows generated by floating-rate financial assets and liabilities.



Foreign exchange risk – understood in particular as risk that PGE Group's cash flows denominated in currencies other than the functional currency are exposed to due to negative exchange rate movements.



Risk mitigation measures

Market (product) risks

Market risks impact
the revenue side
and product and
service offerings

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

PGE Group researches, monitors and analyses the electricity and related products markets in order to optimally use its generation and selling capacities. New products are introduced on the retail market and actively promoted through nationwide marketing campaigns. Maintaining a diverse product portfolio and focusing efforts on tailoring its offering to the market (historic as well as national), the Group diversifies channels used to reach the end-customers (own sales channel, agency sales channel) and diversifies target groups with account take to client's volume potential. Efforts aimed at current clients retention are based on a model consisting of a diversified portfolio of customer loyalty schemes and client-acquisition activities. Portfolio includes also special offers dedicated to former clients who moved over to the competitors, as well as industry offerings dedicated to specific types of economic activity. PGE Group also introduces bundled offers. Particular attention is paid to ensuring a high level of customer service by developing employees' competences and building relations with business and retail clients. Having implemented tools to support these processes, the Group effectively manages information flows, which directly translates into comfortable client relations as well as better sales

planning and organisation.

Regulatory and legal risks

Regulatory and legal risks mainly impact the compliance area

Measures: PGE Group's operations are subject to a host of national, European and international laws and regulations. Monitoring of the changes being introduced or proposed assures minimization of their negative impact on our operations in key business segments, i.e. production of electricity and heat, lignite mining and distribution and sale of electricity and heat. In the period being discussed, the function was further reinforced by establishing a separate compliance function within the Group's structure. PGE S.A. is one of the members of the Polish Electricity Committee that opened its office in Brussels. Through the Committee's operations, PGE S.A. actively influences proceeding and shaping of EU law and engages a dialogue with the EU institutions. PGE S.A. adapts its internal regulations and practices to make sure that the Group's activities are in compliance with the power sector regulations, environmental protection regulations and other binding legislation.

Property risks

Property risks affect assets

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

Operational risks

Operational risks impact the cost side

Measures: PGE Group's results are to a large extent dependent on the costs incurred in the course of operations. The Company optimises costs inter alia through monitoring of fuel prices and reserves and securing supply through long-term contracts with suppliers and through price fixing formulas. In turn, inspections, repairs and modernisation of the existing assets translate into ensuring optimal equipment lifecycles and required availability of key components of those assets. Moreover, level of costs is affected by securing CO₂ emission allowances partly free of charge and purchase of lacking allowance with the assumption of securing the margin on sales. An intensive dialogue is also carried out in order to work out the most favourable solutions with regard to employment and optimization of employment costs within PGE Capital Group

Financial risks

Financial risks have an impact on finances

Measures: PGE Group manages credit risk stemming from commercial transactions that can generate losses if a counterparty were to default. Prior to executing a transaction, a counterparty assessment is carried out, which involves, among other factors, financial analysis, internal ratings and credit limits that are regularly monitored. Exposures that exceed established limits are hedged in accordance with the Group's credit risk management policy. PGE Group applies a central financing model, which is generally used by PGE S.A. when raising external capital. PGE Group subsidiaries use a variety of intra-group financing sources such as: loans, bonds, bank account consolidation agreements (cash pooling). Liquidity risk is monitored using periodic liquidity planning, i.e. cash flow moving forecasts for operating, investing and financing activities. As regards currency risk and interest rate risk, PGE Group has implemented internal management procedures. PGE Group companies execute derivative transactions involving interest rate- and/or currency-based instruments (IRS, CCIRS) only in order to hedge identified risk exposures. A detailed description of financial risk management instruments and an analysis of their effectiveness are presented in note 22 to the financial statement of PGE S.A.

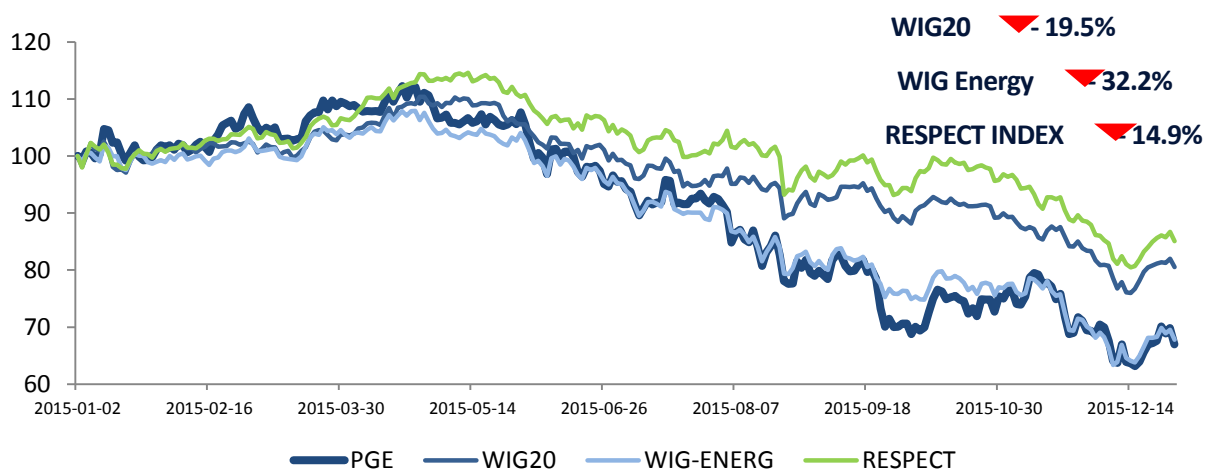
4 PGE S.A. share quotations on Warsaw Stock Exchange

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

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

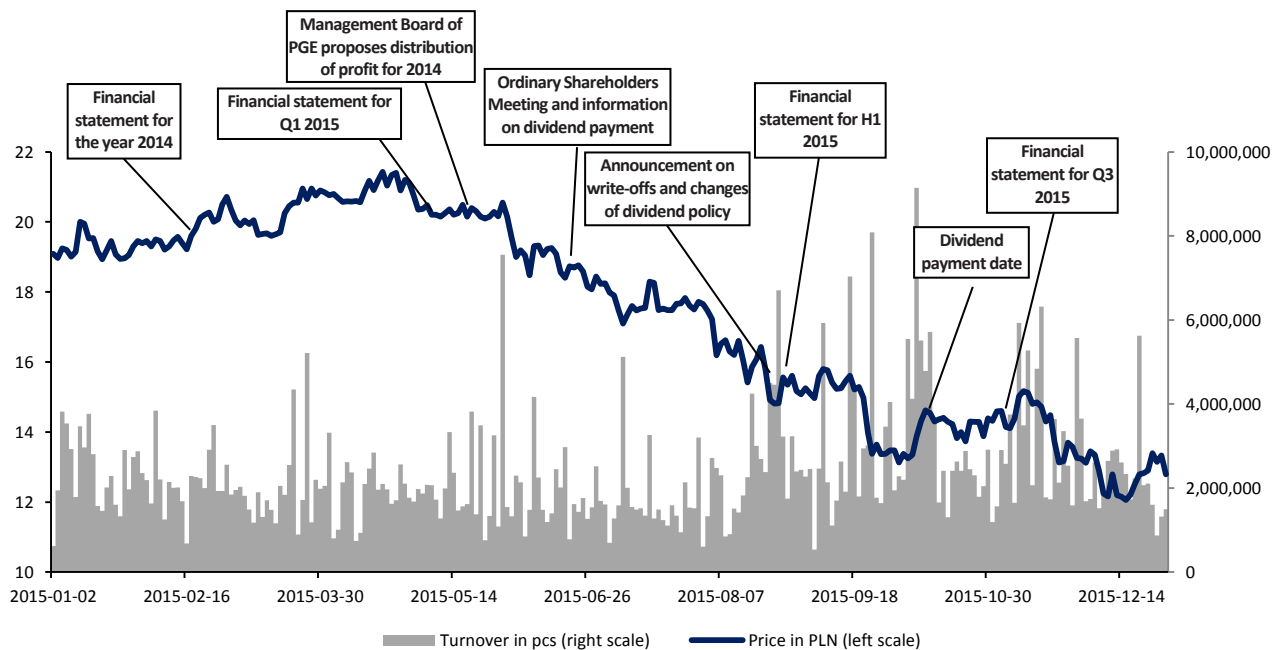
The quotations of PGE shares and the values of the WIG20, WIG Energy and RESPECT indexes on WSE from January 2 to December 30, 2015 (own calculations based of WSE's data).

Chart: PGE share quotations in relation to WIG20, WIG Energy and Respect Indexes



Warsaw Stock Exchange companies and in particular Polish power utilities came under pressure in 2015, declining on average by 32.2% during the year (WIG-Energy) while at the same time WIG20, consisting of 20 biggest companies listed in Poland, decreased by 19.5%. During that time PGE underperformed with a decline of 33% reflecting the generally negative sentiment towards the energy sector. At the end of the year PGE shares were quoted at PLN 12.80, which determined the PGE Group's market capitalization at PLN 23.9 billion. The highest price during the year was PLN 21.4, and the lowest – PLN 12.10.

Chart: PGE share price and volumes in 2015 (PLN).



4.1 PGE S.A. shares

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

Specification

2015

Turnover (PLN)	10,214,951,620
Average number of transactions per session (pcs)	2,731
Maximum price during the year (PLN)	21.43
Minimum price during the year (PLN)	12.06

Source: GPWinfostrefa.pl

Ministry of State Treasury is a main shareholder of PGE S.A. State Treasury holds 1,091,681,706 Company's ordinary shares with nominal value of PLN 10 each, representing 58.39% of company's share capital and entitling to perform 1,091,681,706 votes at the general meeting of the Company. State Treasury stake represents 58.39% of the total number of votes.

Chart: Shareholders of PGE S.A.



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

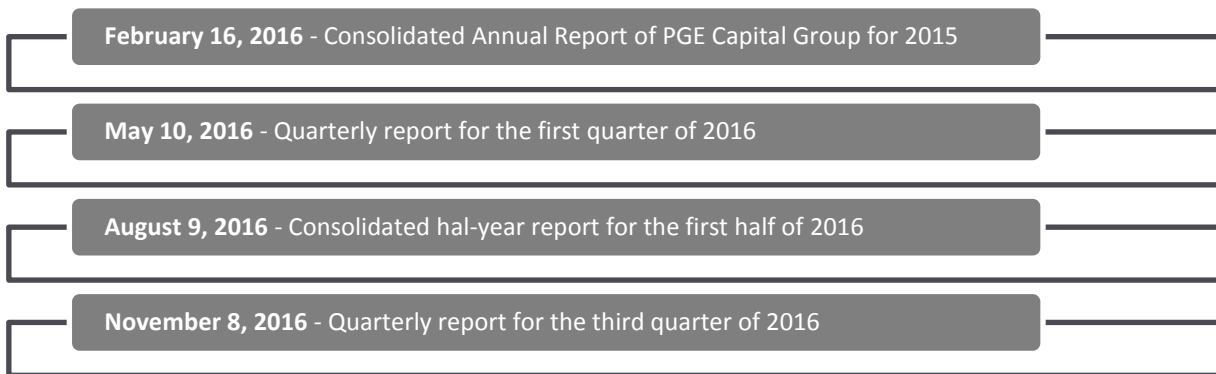
4.2 PGE S.A. Investor Relations

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

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

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

4.3 Reporting calendar of PGE S.A.



4.4 Dividend policy of PGE S.A.

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

The Management Board of PGE discloses that on August 25, 2015 it 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.

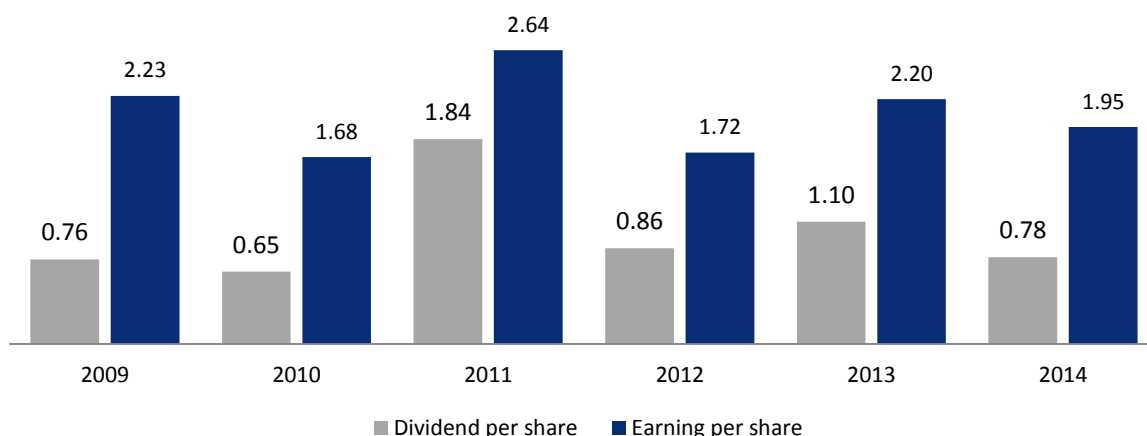
According to the amended policy, the Management Board of PGE intends to make a recommendation to the General Meeting of the Company of dividend for shareholders at the level of 40-50% of the consolidated net profit adjusted by the value of impairment loss.

The amount for each individual dividend distribution 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.

The Ordinary General Meeting of the Company of June 24, 2015 adopted the resolution adopted to allocate a part of Company's net profit for the financial year 2014 in amount of PLN 1,458,413,446.62 for a dividend payout to the Company shareholders, which gives a dividend of 0.78 per one share of the Company. As at the date of the OGM, the dividend applied to 1,869,760,829 shares.

The OGM determined September 24, 2015 as the dividend date. Dividend was paid on October 15, 2015.

Chart: Amounts of per share data - dividends and earnings.



5 Statement on implementation of Corporate Governance

This Statement on implementation of corporate governance in PGE S.A. in 2015 was prepared on the basis of art. 91 section 5 point 4 of the Regulation of the Minister of Finance dated February 19, 2009 on current and periodic information published by issuers of securities and on conditions under which such information may be recognized as being equivalent to information required by the regulations of law of a state which is not a member state (Dziennik Ustaw of 2014, item 133) and the resolution of the Management Board of the Warsaw Stock Exchange no. 718/2009 of December 16, 2009.

5.1 Corporate governance principles which the Company was obliged to follow in 2015

In 2015 PGE S.A. was obliged to follow the corporate governance principles described in "Best Practices of WSE Listed Companies" (further: Best Practices), adopted with the Resolution of the Board of the Warsaw Stock Exchange ("WSE") no. 12/1170/2007 on July 4, 2007 and amended on May 19, 2010 by the Resolution of the Board of the WSE no. 17/1249/2010, that came into force on July 1, 2010, and later amended by the Resolution of the Board of the WSE no. 15/1282/2011 of August 31, 2011 and by the Resolution of the Board of the WSE no. 20/1287/2011 of October 19, 2011, which both came into force on January 1, 2012. On November 21, 2012 the Board of the WSE adopted further changes in Resolution no. 19/307/2012, which came into force on January 1, 2013 and should be obliged by the issuer starting from that date.

Management Board of PGE S.A. approved Best Practices for application in the Company. The Management Board of the Company acts with due diligence to obey the principles of Best Practices.

For the full text of the Best Practices, see the official corporate governance website of the Warsaw Stock Exchange: www.gpw.pl/WSE_corporate_governance.

5.2 Information on exceptions in application of the corporate governance principles

In 2015 the Company applied the Best Practices with the exception of:

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

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

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

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

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

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

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

Basic regulations applicable to preparation of financial statements include:

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

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

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

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

Statutory auditors perform an independent assessment of reliability and correct preparation of the financial statements of PGE S.A. and financial statements of companies subject to consolidation. Two auditing companies were appointed to audit 2015 financial statements of key companies in the PGE Group. Their duties include review of the half-year financial statements and initial and essential audit of the annual statements. The PGE Group has implemented a multi-stage process of approving financial statements with the participation of Supervisory Boards. Stand-alone and consolidated financial statements of PGE S.A. are evaluated by the Supervisory Board. The Audit Committee operates within the Supervisory Board and is responsible, among others, for reviewing annual financial statements of the Company. Stand-alone financial statements of the companies subject to consolidation are evaluated by the Supervisory Boards of such companies. The financial statements are approved by the General Meetings of the companies.

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

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

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

5.4 Shareholders with a significant stake

Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at Company's General Meeting are presented in p. 5.2 of the foregoing report.

5.5 Shareholders with special control powers

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

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

The State Treasury is authorised to appoint one member of the Supervisory Board by means of a written statement submitted to the Management Board of the Company. Such nomination or dismissal takes effect from the date on which the relevant notification is delivered to the Management Board and does not require a General Meeting resolution. The State Treasury may exercise this power regardless of the voting right when appointing other members of the Supervisory Board.

On the ground of the Statutes, the State Treasury holds special right with regard to selection of the Supervisory Board members. Selection of half of members of the Supervisory Board, appointed by the General Meeting, shall be elected from among persons indicated by the State Treasury. The Supervisory Board selects the Chairperson of the Supervisory Board from among its members wherein the Chairperson of the Supervisory Board shall be elected from among persons indicated by the State Treasury. This State Treasury's right is valid until its stake in the Company falls below 20%.

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

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

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

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

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

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

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

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

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

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

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

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

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

5.8 Rules for amendments to the Company's Statutes

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

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

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

The Company's Statutes and the Rules of the General Meeting are available on the PGE's website at www.gkpge.pl.

I. Convening and cancelling the General Meeting.

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

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

The General Meeting should be convened within two weeks of the demand, by the Supervisory Board, shareholder or the State Treasury. If the General Meeting is not convened within two weeks of the demand, the registry court may authorise the shareholder or shareholders making such a demand to convene the Extraordinary General Meeting. Announcement about the convening of the general Meeting of the Company and Materials issued to shareholders in connection with the General Meeting, in particular draft resolutions proposed for voting by the General Meeting and other essential materials are provided by the Company at least 26 days before the date of the General Meeting on the corporate website www.gkpge.pl, in the manner specified for submitting current information pursuant to regulations on public offering and conditions governing the introduction of financial instruments to organised trading, and public companies.

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

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

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

II. Competencies of the General Meeting of the Company.

According to the provisions of the Code of Commercial Companies and Company's Statutes the General Meeting's main competences include adoption of resolutions on the following matters:

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

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

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

III. Participation in the General Meeting of the Company

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

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

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

IV. Voting at the General Meeting of the Company

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

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

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

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

5.10.1 Management Board

I. Members of the Management Board

In 2015, the Management Board of the Company consisted of:

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

On January 29, 2016 the Supervisory Board dismissed Mr. Jacek Drozd and Mr. Dariusz Marzec from the Management Board and delegated Mr. Marek Pastuszko, appointed to the Supervisory Board by the statement of the Minister of the State Treasury on January 28, 2016, to temporarily perform the duties of the Vice-President of the Management Board (for the 3-month period).

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

Name and surname of the Management Board member	Position
Marek Woszczyk	President of the Management Board
Grzegorz Krystek	Vice-President of the Management Board for Operations and Trading
Marek Pastuszko	Vice-President of the Management Board for Corporate Affairs - Supervisory Board member delegated to temporarily perform duties of the Management Board member from Jan 29, 2016



Marek Woszczyk – President of the Management Board

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

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



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

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

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



Marek Pastuszko – Vice-President of the Management Board for Corporate Affairs

Supervisory Board member delegated to temporarily perform the duties of the Management Board member from January 29, 2016.

Mr. Marek Pastuszko graduated from Law and Administration Faculty at the University of Warsaw and from postgraduate studies on European Substantive Law at the University of Finance and Management in Warsaw. A legal counsel since 1997.

In years 1991-1999 Mr. Marek Pastuszko worked at Towarzystwo Ubezpieczeń i Reasekuracji Polisa S.A. and Towarzystwo Ubezpieczeń na Życie Polisa S.A. (insurance companies), inter alia, as a General Specialist of property and financial insurance and as a Director of Law and Organization Department. In years 1999-2000 he worked as a legal counsel at PTE Kredyt Banku S.A. (General Pension Society), then in years 2000-2001 as a legal counsel at the law firm Hunton & Williams, T. Kacymirow, J. Michalski, Z. Mrowiec. During years 2001-2002 Mr. Marek Pastuszko worked in Telekomunikacja Polska S.A. as a Director of Legal Department. In years 2003-2006 he was hired in Art Marketing Syndicate S.A. as a legal counsel and Coordinator of Legal Department. Between September 2006 and December 2008 Mr. Pastuszko worked in PGE Polska Grupa Energetyczna S.A. as a Director of Law Section at the Organisation Department and as a Task Manager of the IPO Project. In addition, between October 2006 and July 2008 he was the President of the Management Board at PGE Energia S.A. Subsequently, in years 2009-2010 he worked as a legal counsel at the international law firm Bird & Bird. Since May 2010 Mr. Marek Pastuszko has held a position of Deputy Director of Legal Department at the Gas Transmission Operator GAZ-SYSTEM S.A. Mr. Marek Pastuszko was also a Supervisory Board member in PSE-Operator S.A., Agencja Rynku Energii S.A., BOT Górnictwo i Energetyka S.A. and PGE RZE Dystrybucja S.A.

II. Rules of appointing and recalling the management personnel

From January 1, 2015 to June 24, 2015, the Company's Management Board consisted of between two and seven Management Board members. Through resolution no. 32 of the Ordinary General Meeting of June 24, 2015, the composition of the Management Board was changed, and currently counts from one to seven members: the President and other members acting as Vice-Presidents. Members of the Management Board are appointed for a joint term of office of three years.

The Management Board or individual members of the Management Board are appointed and recalled by the Supervisory Board. In addition, each member of the Management Board may be recalled or suspended by the General Meeting or, for major reasons, suspended by the Supervisory Board. A resolution of the Supervisory Board on the suspension of a member of the Management Board must include a justification. The Supervisory Board may delegate members of the Supervisory Board to perform activities of the members of the Management Board on a temporary basis. A member of the Management Board submits his/her resignation in writing to the Supervisory Board at the address of the registered office of the Company.

III. Competencies of the Management Board

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

Co-operation of two Members of the Management Board or one member of the Management Board with a proxy is required to make statements on behalf of the Company. In the event that the Management Board comprises one member, declarations of intent on behalf of the Company may be made by the sole Management Board member.

The modus operandi of the Management Board and internal division of competence among Management Board members as regards managing the Company's affairs are specified in regulations of the Management Board.

Pursuant to the Statutes of the Company, resolutions of the Management Board are required for all matters that go beyond the scope of ordinary acts of the Company. The vote of the President of the Management Board is deciding in the case of the equality of votes.

In accordance with the resolution no. 32 of the Ordinary General Meeting of June 24, 2015, resolutions of the Management Board are required particularly for the following:

- the Company's acquisition or disposal of the following components of assets:
- real property, perpetual usufruct, interest in real property or perpetual usufruct,
- shares, interests or other participation rights.

- incurring credits and loans,
- granting sureties and guarantees by the Company and issuance of promissory notes,
- making donations and releasing from debts,
- concluding agreements not related to the Company's business activities specified in § 3 clause 1 of the Statutes,
- appointing commercial proxies,
- appointing Company proxies authorised to incur liabilities with a value exceeding EUR100,000, excluding (i) the powers of attorney to conclude agreements or incur liabilities related to trade in electricity and gas, related products and rights related thereto, and related to the purchase and sale of fuels and raw materials (ii) powers of attorney ad litem,
- adopting the Regulations of the Management Board,
- approving the Company's Organisational Regulations,
- establishing and closing branches,
- establishing of another company,
- adopting the Company's yearly and long-term financial plans, including investment, marketing and sponsorship plans,
- approving the rules of conducting sponsorship activity,
- adopting the Company's development strategy,
- determining the method of exercising the voting right at general meetings or general meetings of the companies in which the Company holds shares or interests,
- making advanced payments towards planned dividends,
- approving the materials submitted by the Management Board to the Supervisory Board.

Regardless of the above mentioned matters, resolutions of the Management Board are required for any matter referred by the Management Board to the Supervisory Board or the General Meeting.

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

IV. Activities and organisation of work of the Management Board

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

The works of the Management Board are headed by the President of the Management Board. Meetings of the Management Board are convened by the President of the Management Board on his/her own initiative or on the motion of a member of the Management Board. Management Board meetings may take place without having been formally called, provided that all Management Board members were effectively notified about the meeting and none of the Management Board members object to the meeting taking place and to the proposed meeting agenda.

Minutes are taken for each meeting of the Management Board and signed by the members of the Management Board, not excluding persons who filed a dissenting opinion or were temporarily absent when adopting any of the resolutions. The minutes are stored in the Book of Minutes. Resolutions of the Management Board are passed with an absolute majority of votes in an open voting. In case of voting parity, the President of the Management Board has the decisive vote. A secret voting is administered by a member of the Management Board. All members of the Management Board must be properly notified of the scheduled meeting for the resolutions to be valid. A member of the Management Board may present an opposing opinion with a justification to be included in the minutes.

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

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

5.10.2 Supervisory Board

I. Members of the Supervisory Board

From January 1, 2015 until June 24, 2015 the Supervisory Board of the ninth term performed the duties in the following composition:

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

On June 24, 2015 an Ordinary General Meeting was held and adopted resolutions on appointment of members of the Supervisory Board of the tenth term, appointing following persons to the Supervisory Board: Ms. Barbara Dybek, Mrs. Anna Kowalik, Ms. Małgorzata Molas, Mrs. Małgorzata Mika-Bryska, Mr. Jacek Barylski, Mr. Jarosław Gołębiowski, Mr. Piotr Machnikowski and Mr. Krzysztof Trochimiuk.

Afterwards, on September 14, 2015 an Extraordinary General Meeting was held and adopted resolutions on changes in the Supervisory Board. As a result of adopted resolutions, Ms. Barbara Dybek (Chairman of the Supervisory Board) and Mr. Krzysztof Trochimiuk were recalled and Mr. Jacek Fotek and Mr. Marek Ściążko were appointed to the Supervisory Board.

On January 28, 2016 the Company received statement in which the Minister of State Treasury appointed Mr. Marek Pastuszko as a member of Supervisory Board of the Company as of January 28, 2016. The statement was submitted pursuant to § 20 section 5 of the Company's Statutes, that entitles the State Treasury to appoint and dismiss one member of the Supervisory Board by way of a written declaration submitted to the Management Board of the Company.

On February 5, 2016 the Company received a resignation from Mr. Piotr Machnikowski, a member of the Company's Supervisory Board. Mr. Piotr Machnikowski submitted his resignation from the Supervisory Board stating that his planned new business duties will prevent him from holding the position of PGE's Supervisory Board member.

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

Name and surname	Position
Anna Kowalik	Chairman of the Supervisory Board (from October 9, 2015)
Jacek Barylski	Vice-Chairman of the Supervisory Board (from October 9, 2015)
Małgorzata Molas	Secretary of the Supervisory Board (from October 9, 2015)
Małgorzata Mika – Bryska	Supervisory Board Member
Jarosław Gołębiowski	Supervisory Board Member - independent
Jacek Fotek	Supervisory Board Member - independent
Marek Ściążko	Supervisory Board Member - independent
Marek Pastuszko	Supervisory Board Member delegated to temporarily perform the duties of the Vice-President of the Management Board for Corporate Affairs from January 29, 2016

Anna Kowalik - Chairman of the Supervisory Board

A graduate of the Faculty of Law and Administration at the University of Warsaw. A legal counsel. In years 1990-1991 she was employed at the Agency for Foreign Investments. As of 1991 employed at the Ministry of Privatization and as of 1996 at the Ministry of State Treasury as a legal counsel in Department of Privatization and Corporate Governance. She has gained experience in supervision of operations of companies with State Treasury shareholdings since 1996 as a member of supervisory boards in the following companies, among others: Polskie Linie Lotnicze LOT S.A, Kombinat Koksochemiczny

Zabrze S.A., Pabianickie Zakłady Farmaceutyczne Polfa S.A., Inowrocławskie Zakłady Chemiczne Soda Mątwy S.A. Mrs. Anna Kowalik is also a lecturer in the field of the commercial and civil law at courses for supervisory and management board members. According to the submitted statement, Mrs. Anna Kowalik is affiliated with a shareholder holding shares representing not less than 5% of all voting rights at General Meeting i.e. with State Treasury through employment at the Ministry of State Treasury.

Jacek Barylski – Vice-Chairman of the Supervisory Board

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

Małgorzata Molas – Secretary of the Supervisory Board

A graduate of the Faculty of Economics at Maria Curie-Skłodowska University. She also graduated from the Academy of Companies Post-Graduate Studies at Warsaw School of Economics. She was a Supervisory Board member of among others Elektromontaż Poznań S.A., Wielkopolska Spółka Gazownictwa sp. z o.o., Przedsiębiorstwo Uzdrowiska Ciechocinek S.A., Zakłady Azotowe Tarnów – Mościce S.A., Towarowa Giełda Energii S.A. At present employed at Polish Ministry of State Treasury. According to the submitted statement, Ms. Małgorzata Molas is affiliated with a shareholder holding shares representing not less than 5% of all voting rights at General Meeting i.e. with State Treasury through employment at the Ministry of State Treasury.

Małgorzata Mika - Bryska - Supervisory Board Member

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

Jarosław Gołębiowski - Supervisory Board Member

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

Jacek Fotek - Supervisory Board Member

A graduate of the Foreign Trade faculty of Warsaw School of Economics. In 2002 he graduated from the University of Quebec at Montreal and earned an MBA diploma. Most of his professional career was dedicated to activities on the money and capital markets. He was one of the creators of the professional interbank money and foreign exchange market in Poland. In 1989-1990 he worked at the National Bank of Poland and operationally managed the foreign currency reserves of the state. In the period from 1990 to 1996 at Bank Handlowy w Warszawie as Chief Dealer supervised all operations of the bank's monetary and foreign exchange market and managed the liquidity, interest rates and foreign exchange positions. Then, during the period 1996-1997, CFO of Polski Bank Rozwoju (Polish Development Bank), supervised the Treasury Department, the Controlling Department and the Strategic Research Bureau.

From 1997 till 1999 Member of the Management Board, Director of the Department of the Treasury in Citibank Poland. In July 1999, he was appointed as a Director of the Internal Audit Department at Bank Handlowy w Warszawie. After the merger with Citigroup, in the years 2001 -2002 he was a director of the Treasury Audit, Capital Markets and Investment Services Bureau, and implemented audit methodology based on a review of risks.

In the period 2003-2009 at PZU Asset Management SA, Vice-President, Supervision Inspector, director responsible for newly created area of financial transactions, risk control, legal and internal supervision. He also was a co-author of the centralized management of the assets of the PZU Group.

In 2009-2012 Mr. Jacek Fotek was the President of the Management Board of BondSpot S.A. He developed the Treasury BondSpot Poland, which has become the main market of the Polish Treasury bonds, the largest such market in the region of Central Europe, and the wholesale segment of the Catalyst market. After the expiry of his term of office in the Management

Board, in July 2012 he was appointed to the Supervisory Board of the company.

From November 2012 to April 2013 he was the President of the Management Board of Invista DM S.A. (Brokerage House). Since May 2013 Mr. Jacek Fotek has held the position of the President of the Management Board of BondSpot S.A.

Marek Ściążko- Supervisory Board Member

Mr. Marek Ściążko graduated from the Faculty of Technology and Chemical Engineering, University of Technology in Gliwice. From 1991 to 2013 he held a position of Director of the Institute for Chemical Processing of Coal in Zabrze. Currently he is the Secretary of Science at this Institute and the professor at AGH University of Science and Technology at the Department of Energy and Fuels. He completed industrial and scientific internships in the USA, China and Germany in the field of utilization of coal technologies in the energy and chemical industries.

Mr. Marek Ściążko was a Member of the Supervisory Board of TAURON from 2008 to 2015 acting as a member of Strategy and Audit Committees.

He is a member of the Committee for the Power Engineering Sector's Problems and Chemical Engineering Committee set up by the Polish Academy of Sciences. He was also a member of the Section for Mineral Resources Utilization of Mining Committee at the Polish Academy of Sciences.

In years 2014/2015 he participated in the development of innovative projects in the energy sector until 2022. He is the author of dozens of patents in the field of efficient utilization of coal i.e. in the energy sector.

II. Rules of appointing and recalling of the supervisory personnel

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

On June 24, 2015 the Ordinary General Meeting adopted resolution no. 32 which changes the Statutes of PGE S.A. and changes were registered in the National Court Register on August 11, 2015. Changes relate to inter alia competencies of the Supervisory Board and holding Supervisory Board meetings without formal calling. According to the provisions of the Statutes, the Supervisory Board shall include at least one person appointed by the General Meeting from among persons meeting the criteria of independence specified in the principles of corporate governance adopted by the Board of the WSE. Proposing a candidate for this position a shareholder nominating such candidate shall be obliged to submit to the minutes of the General Meeting such candidate's written declaration confirming his/her independency.

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

III. Activities and organisation of the Supervisory Board

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

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

Supervisory Board meetings may take place without having been formally called, provided that all Supervisory Board members are present at the meeting and none of the Supervisory Board members object to the meeting taking place and to the proposed meeting agenda.

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

IV. Competencies of the Supervisory Board

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

The Statutes of the Company and the Rules of the Supervisory Board are available on the corporate website at www.gkpge.pl.

V. Committees

In accordance with the Company's Statutes, the Rules of the Supervisory Board or a resolution of the General Meeting may provide for establishment of committees within the Supervisory Board, in particular the audit committee and the appointment and remuneration committee. The current Rules of the Supervisory Board provide that the Supervisory Board may appoint standing or ad hoc committees, acting as collective advisory and opinion-making bodies of the Supervisory Board. The particular goal of the committees is to provide the Supervisory Board with opinions and recommendations on matters within the competencies of the committees. The committees are established by the Supervisory Board out of its members. The committee consists of 2 to 5 persons. The committee appoints a chairman out of its members. The chairman convenes meetings of the committee, manages works of the committee and represents the committee in relations with the authorities and employees of the Company. The mandate of a committee member expires with the expiry of the mandate of the member of the Supervisory Board, resignation from membership in the committee or recalling from the committee by the Supervisory Board. Each Member of the Supervisory Board may participate in committee meetings. The committee chairman may invite to the meetings members of the Management Board, Company employees and other persons whose participation is advisable. Decisions of the committee are made on a consensus basis.

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

Table: Composition of the committees in 2015.

Name and surname of the member of the Supervisory Board	Audit Committee	Corporate Governance Committee	Strategy and Development Committee	Appointment and Remuneration Committee
Jacek Barylski		Member		Chairman till October 09, 2015 Member from October 09, 2015 Chairman from January 13, 2016
Barbara Dybek**	Member till September 14, 2015	Member from July 1, 2015 till September 14, 2015	Member from July 1, 2015 till September 14, 2015	
Jacek Fotek	Member from October 9, 2015			
Jarosław Gołębiowski	Chairman		Member	
Czesław Grzesiak*		Member till June 24, 2015	Member till June 24, 2015	Member till June 24, 2015
Anna Kowalik	Member			Member
Piotr Machnikowski		Chairman till July 1, 2015 Member from July 1, 2015		Member from October 09, 2015
Małgorzata Mika-Bryska		Member	Chairman till July 1, 2015 Member from July 1, 2015 till October 13, 2015 Chairman from October 13, 2015	
Małgorzata Molas			Member	Member from October 09, 2015
Marek Ściążko			Member from October 09, 2015	
Krzysztof Trochimiuk **	Member till September 14, 2015			Member till September 14, 2015

* Member of the Supervisory Board till June 24, 2015.

** Member of the Supervisory Board till September 14, 2015

Range of competencies of particular Committees of the Supervisory Board is presented in details in the Rules of the Supervisory Board that is available on the corporate website at www.gkpgc.pl

a. The Audit Committee

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

b. The Corporate Governance Committee

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

c. Strategy and Development Committee

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

d. Appointment and Remuneration Committee

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

5.11 Remuneration of the management of PGE S.A.

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

In 2015 the members of the Management Board of PGE S.A. were remunerated based on Management Services Contracts signed with the Company.

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

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

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

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

Name and surname of the member of the Management Board	Remuneration and benefits achieved by the Management Board members in PGE S.A. in 2015 (in PLN)
Marek Woszczyk	1,602,000.00 ¹
Jacek Drozd	1,476,000.00 ¹
Grzegorz Krystek	1,422,000.00 ¹
Dariusz Marzec	1,422,000.00 ¹
Krzysztof Kilian	299,000.00 ³
Piotr Szymanek	339,000.00 ³
Bogusława Matuszewska	165,000.00 ³
Wojciech Ostrowski	165,559.79 ^{2,3}
Paweł Smoleń	6,327.00 ²

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

2 item including refund of social security contributions,

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

Members of the Management Board of PGE S.A. in 2015 did not receive remuneration or benefits from companies of the Capital Group other than PGE S.A.

The remuneration and benefits achieved by the Management Board members in 2015 amounted to PLN 6.90 million. In cost perspective (including provisions), in 2015 the remuneration of all persons who acted as Management Board members, jointly with the post-employment benefits, amounted to PLN 6.21 million.

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

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

Table: Remuneration received by the Supervisory Board Members of PGE S.A. who in 2015 performed their functions in PGE S.A. and PGE Group entities other than PGE S.A.

Name and surname of a Supervisory Board member	Remuneration earned by the Supervisory Board members in PGE S.A. in 2015 (in PLN)	Remuneration earned by the Supervisory Board members in PGE Group entities other than PGE S.A. in 2015 (in EUR)
Barbara Dybek	29,248.74	42,000.00
Jacek Barylski	42,120.37 ¹	-
Czesław Grzesiak	20,036.56	-
Jacek Fotek	12,321.29	-
Małgorzata Mika - Bryska	41,454.96	-
Anna Kowalik	41,454.96	-
Jarosław Gołębiewski	41,454.96	-
Piotr Machnikowski	42,545.54. ¹	-
Małgorzata Molas	41,454.96	-
Krzysztof Trochimiuk	29,248.74	-
Marek Ściążko	12,321.29	-

¹ item including refund of social security contributions

Total remuneration earned in 2015 by the members of the Supervisory Board in PGE S.A. amounted to PLN 354 thousand. In cost perspective (including provisions), in 2015 the remuneration of all persons who acted as Supervisory Board members amounted to PLN 407 thousand.

5.12 Information about shares and other securities

5.12.1 Share capital and ownership structure

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

Table: Share capital of the Company.

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

Table: Ownership structure of the Company's share capital as at December 31, 2015*.

	State Treasury		Other shareholders *		Total	
	nominal value of shares (PLN)	% share in the share capital and votes	nominal value of shares (PLN)	% share in the share capital and votes	nominal value of shares (PLN)	% share in the share capital and votes
Shares at Dec 31, 2015	10,916,817,060	58.39	7,780,791,230	41.61	18,697,608,290	100.00

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

All of the Company shares have been paid.

Although the Company's shares are not privileged, the Statutes of the Company provide for special rights of the State Treasury until it remains a shareholder of the Company.

5.12.2 Shareholders with a significant stake

According to the information held by the Company¹, the sole shareholder holding at least 5% of the total number of votes on the General Meeting of PGE S.A. was the State Treasury, which held 1,091,681,706 shares of the Company, what constitutes 58.39% of the share capital and entitles to exercise the same amount of the votes at the General Meeting of the Company.

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

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

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

5.12.3 Treasury shares

As at December 31, 2015 PGE S.A. and subsidiaries did not hold any treasury shares.

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

According to the best knowledge of the Management Board of the Company, members of management and supervisory authorities of the Company as of the date of submission of this report and as of the date of publishing of the consolidated report for the third quarter of 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 date of publishing of the consolidated report for Q3 2013 (i.e. November 9, 2015)	Change in number of owned shares	Number of shares as of submission date of the annual report	Nominal value of shares as of submission date of the annual report (PLN)
The Management Board	350	no change	350	3,500
Grzegorz Krystek	350	no change	350	3,500

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

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

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

Shareholder	Position	Number of shares as of submission date of the annual report	Nominal value of shares as of submission date of the annual report [PLN]
Management Board of PGE GiEK S.A.		1,279	12,790
Krzysztof Nowicki	Vice-President of the Management Board	120	1,200
Stanisław Żuk	Vice-President of the Management Board	688	6,880
Robert Imbor	Vice-President of the Management Board	471	4,710

5.12.5 Control system of employees share scheme

In 2015, PGE S.A. did not maintain any employees share schemes.

5.12.6 Use of proceeds from issues

In 2015 PGE S.A. did not issue any shares.

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

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

PGE S.A. held shares in direct and indirect subsidiaries with a value of PLN 29,469 million in comparison to PLN 29,046 million in 2014. Shares in subsidiaries are described in Note 10 of the financial statements of PGE S.A. for 2015. PGE Group currently organizes its activities in four main business segments. The Company is included in the Supply segment due to the character of its operations.

Table: PGE S.A. and companies comprising the main business segments of PGE Group as at December 31, 2015.

Segment	Company
CONVENTIONAL GENERATION	1. PGE Górnictwo i Energetyka Konwencjonalna S.A.
	2. Przedsiębiorstwo Energetyki Ciepłej sp. z o.o.
	3. MegaSerwis sp. z o.o.
	4. ELBIS sp. z o.o.
	5. PUP ELTUR SERWIS sp. z o.o.
	6. TOP SERWIS sp. z o.o.
	7. ELMEN sp. z o.o.
	8. MEGAZEC sp. z o.o.
	9. EPORE sp. z o.o.
	10. RAMB sp. z o.o.
	11. PTS BETRANS sp. z o.o.
	12. BESTGUM POLSKA sp. z o.o.
	13. Energoserwis Kleszczów sp. z o.o.
RENEWABLE ENERGY	14. PGE Energia Odnawialna S.A.
	15. Elektrownia Wiatrowa Baltica-1 sp. z o.o.
	16. Elektrownia Wiatrowa Baltica-2 sp. z o.o.
	17. Elektrownia Wiatrowa Baltica-3 sp. z o.o.
	18. PGE Energia Natury sp. z o.o.
	19. PGE Energia Natury Omikron sp. z o.o.
	20. PGE Energia Natury PEW sp. z o.o.
SUPPLY	21. PGE Polska Grupa Energetyczna S.A.
	22. PGE Dom Maklerski S.A.
	23. PGE Trading GmbH
	24. PGE Obrót S.A.
	25. Enesta sp. z o.o.
DISTRIBUTION	26. PGE Dystrybucja S.A.

6.1 Changes in organisation of PGE S.A. and the Capital Group

The changes, which occurred in the structure of PGE S.A. and PGE Capital Group in 2015 are presented in note 10 to the financial statements of PGE S.A. for 2015 and described below.

Shares in subsidiaries and associates

In 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 Natury sp. z o.o. passed resolutions on the split-up of PGE Energia Natury 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 Natury sp. z o.o. Oddział "Kisielice/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 Natury 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 Natury 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 Natury 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 in-

created share capital in exchange for its shares of PGE Energia Naturity S.A. The merger of the Acquiring Company with the Acquired Companies was registered by the National Court Register on June 30, 2015.

- As a result of the merger of PGE EO S.A. with PGE Energia Naturity S.A., the former became the sole shareholder in the following companies:
 - PGE Energia Naturity Kappa sp. z o. o.,
 - PGE Energia Naturity Omikron sp. z o. o.,
 - PGE Energia Naturity PEW sp. z o. o.,
 - PGE Energia Naturity Karnice sp. z o. o.,
 - PGE Energia Naturity Bukowo sp. z o. o.,
 - PGE Energia Naturity Olecko sp. z o. o.
- 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 Naturity 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.
- On October 8, 2015 the Extraordinary General Meeting of PGE EO S.A. and the Extraordinary Assemblies of Partners of PGE Energia Naturity Kappa sp. z o.o., PGE Energia Naturity Bukowo sp. z o.o., PGE Energia Naturity Karnice sp. z o.o. oraz PGE Energia Naturity Olecko sp. z o.o. (subsidiaries of PGE EO S.A.) adopted resolutions on merger of PGE EO S.A. (the Acquiring Company) with PGE Energia Naturity Kappa sp. z o.o., PGE Energia Naturity Bukowo sp. z o.o., PGE Energia Naturity Karnice sp. z o.o. and PGE Energia Naturity Olecko sp. z o.o. (the Acquired Companies). Merger of the companies was executed through the transfer to the Acquiring Company of all of the assets of the Acquired Companies without issue of new shares in exchange for the shares of the Acquired Companies and dissolution of the Acquired Companies without liquidation. In connection with the merger of the Acquiring Company with the Acquired Companies, the share capital of the Acquiring Company was not increased (pursuant to art. 515 § 1 of the Code of the Commercial Companies). On November 30, 2015 the merger of companies was registered by the National Court Register.


In 2015 the Company did not discontinue any of its substantial operations.

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

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

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

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



A distinct advantage of having introduced the PGE Group Code is that it clearly defines the requirement for all PGE Group companies to act in the Group's interest, implement Group strategy and apply the Management System Documents issued by the Corporate Centre.

The PGE Group Code also makes it possible to achieve the key objectives outlined in the Operational Model (i.e. the functioning of all PGE Group companies as one effective business organism) and constitutes an effective tool for implementing the processes outlined in the Model.

Detailed description of the ownership changes is presented in p. 6.1 of this report.

7 Corporate Social Responsibility in PGE

7.1 CSR in PGE

7.1.1 Management of impact on environment

PGE S.A. approach to responsible business is defined by its business activities and is consistent with the Group's strategy for 2014-2020. The main aspects of the firm's responsibility can be seen in the creation of value for shareholders, ensuring energy security and employment stability as well as taking into consideration the needs and expectations of the society.

PGE Group strives to reduce its impact on the natural environment through modernising its existing infrastructure, increasing the share of renewable energy sources, protecting nature and reclaiming post-production areas. The company also actively participates in biodiversity-related activities, e.g. protecting forests and birds. PGE Group initiates various research and development activities, analyses its impact on the environment and implements tasks aiming to protect it. The projects being executed are multilateral efforts that take into consideration the opinions and needs of the surroundings. This way of thinking about business ensures stable and value-oriented growth for the company and its surroundings. An important aspect of the activities being performed is also support for and cooperation with local communities, aimed at sustainable development.

Involvement in CSR initiatives

Since 2008, PGE S.A. has taken part in the initiative of the Secretary-General of the United Nations called "Global Compact". It is the biggest worldwide initiative for corporate social responsibility and human rights. The involvement in Global Compact means adoption by PGE Group of 10 principles, including among others effective combating of employment discrimination, elimination of every case of human rights violation by the company, preventive approach to environmental protection or preventing corruption.

Provisions of key conventions regarding respect for human rights are reflected in the Polish legislation. Compliance with the law is the basis of conducting business, thus operating in compliance with applicable standards, PGE S.A. sees as obvious. Participation in Global Compact initiative is one of manifestations of our support for human rights. Participation in the program is at the same time a commitment to prepare annual report on the progress of Global Compact principles compliance. Reports of PGE Group are available on the project website (<https://www.unglobalcompact.org/>).

Since 2011, PGE S.A. has belonged to the group of socially responsible companies which are listed on the Warsaw Stock Exchange and form the RESPECT Index portfolio. It is the confirmation of compliance with the highest standards of management with respect to corporate governance, ethics, social and environmental factors.

PGE S.A. in 2015 joined the prestigious group of Strategic Partners of Responsible Business Forum – leaders of responsible business in Poland.

PGE S.A. is also one of 99 Polish companies that have so far signed the „Commitment by Polish business to sustainable development.” Rules adopted in this declaration are an expression of engagement in sustainable development and PGE S.A.'s drive towards achieving objectives set out in the Sustainable Development Vision for Polish Business 2050. The project, which is being carried out by the Ministry of Economy, aims not only to integrate Polish businesses around the idea but also to pinpoint the challenges that companies in Poland face.

7.1.2 Dialogue with stakeholders

PGE S.A. and PGE Group makes every effort to ensure that the information on our business activities reaches all parties concerned. It wishes not only to inform, but first and foremost, to hold a continuing dialogue with partners. Key stakeholders include inter alia employees, shareholders, government administration, local governments, branch and non-governmental organisations, suppliers, partners, customers and local communities in cities where we run our operations.

For each identified group of stakeholders we have a dedicated way of conducting the communications and the dialogue. In each of the companies we had appointed a spokesperson for contacts with the media, which has a bearing on the speed and reliability of the information provided. To the customers PGE Group offer diversified forms of contact, including the stationery customer service centres, electronic customer service centres and the telephone Contact Centre.

Along with our every investment project we hold a dialogue with local governments and communities. PGE Group wants to minimize negative impact of its business operation and to bring benefits to the organisation's environment. The most frequently used channels of communication with our employees are in-house magazines and the PGE Intranet, where we publish all the important information. PGE S.A. also conducts regular employee opinion surveys in form of questionnaires in intranet or phone interviews, which check e.g. the employee satisfaction levels.

Communication with our investors as well as establishing and maintaining good relations with them are assured by our investor relations team. To improve the communications efficiency we have introduced, among others, a mobile application

for shareholders. We are continuously adjusting our channels of contact with the environment to the individual needs of our interlocutors.

7.1.3 Ethics

PGE S.A. makes every effort to ensure equal treatment in employment, and to prevent discrimination and mobbing. An example of our commitment in this area is, among others, the Code of Ethics implemented at PGE EJ 1 sp. z o.o. already back in 2011. It is a set of rules and universal values that govern the conduct of both the Management Board and the employees in their everyday and professional lives. Exatel S.A. also implemented the Code of Ethics. PGE S.A., PGE EO S.A. and PGE Obrót S.A. have implemented Internal Anti-Mobbing Policy, communicated to all employees. Every employee can report any experienced or witnessed mobbing incidents. Cyclical workshops are conducted in this area as well. In 2015, PGE S.A. began work on a Procurement Ethics Code – an internal document for employees directly involved in purchasing processes. One element of the Code will be a publicly available set of rules and standards for PGE S.A. suppliers who participate in procurement proceedings. Work on the Code is expected to be completed in 2016.

In November 2015, PGE S.A. launched the construction of a Compliance Management System. The scope of Compliance will cover compliance with the law and internal regulations in areas such as: fair business practices – including PGE's ethics rules; observance of antitrust regulations and competition and consumer protection laws; combating corruption and bribery; rules concerning use of the company's resources and combating financial fraud; AML rules; procurement and public tendering regulations; environmental considerations; rules regarding information security; prevention of conflicts of interest; prevention of mobbing; rules regarding workplace health and safety; relations with local communities, relations with clients, relations with suppliers and business partners, and rules of fair corporate communications. One of the key elements of the system will identify ethics rules and specify ethics values. Another product of the work will be an Ethics Code binding on the entire PGE Group.

7.1.4 Fraud prevention and anti-corruption

In order to enforce a fraud prevention policy, PGE S.A. has implemented the Bylaws for Fraud Investigation, a set of principles forming a uniform and consistent system for detection and prevention of fraud. Within the framework of the PGE Capital Group we have developed a system for reporting irregularities suggesting potential fraud. It enables any employee to report – also anonymously – any irregularity suggesting potential occurrence of this phenomenon. A similar validation procedure is also applied to any complaints coming from external sources that might indicate potential fraud.

7.1.5 Co-operation and partnership

PGE S.A. takes part in the proceedings of numerous international organisations and associations. As a member of the Polish Electricity Association (PKEE) PGE belongs to inter alia Central Europe Energy Partners and EURELECTRIC. This association represents the interests of the European electric power industry and is an authority on the European energy sector. Being part of the Polish Member Committee of the World Energy Council (WEC) PGE S.A. plays the leading role in shaping policies and indicating directions of activities of this organisation. The Governing Board of PKEE includes the representatives of PGE S.A.

PGE S.A. belongs to such Polish energy industry organisations as: the Polish Chamber of Power Industry and Environment Protection, the Polish Association of Energy Trading and the Association of Polish Electrical Engineers. We participate in the proceedings of business organisations, including the Employers of Poland, OECD or Polish Association of Listed Companies. PGE EO S.A. is a member of the Polish Wind Energy Association, Association of Renewable Energy and Hydroelectric Power plants Society. PGE EJ 1 sp. z o.o. in turn is a member of World Nuclear Association and an associated member of FORATOM. It also co-operates with WANO (World Association of Nuclear Operators). PGE EJ 1 sp. z o.o. is also a member of Polish Nucleonic Society. Our companies are active on local, nationwide, as well as on foreign markets.

7.2 Employees of PGE S.A.

7.2.1 Human Capital Management Strategy of the Company and PGE Group for 2015 – 2020

In order to support the realisation of strategic objectives defined in the Business Strategy, the company has developed the Human Capital Management Strategy for 2015-2020 (HCM). The HCM Strategy, which was adopted in January 2015, is to support further integration of the PGE Capital Group and contribute to building the employee involvement culture. To this end, key initiatives have been defined, the realisation of which is to be supported by modern IT tools (SAP, Port@I HR).

Within the first group of strategic initiatives, on which work began in April 2015, PGE Group focused mainly on creating common corporate rules for HR. Involved in this were eight working teams, consisting of over 80 representatives of the human capital management area from all business lines.

The following regulations were adopted:

- Corporate regulations for HR area cooperation at PGE Group
- Corporate regulations for training and development at PGE Group
- Corporate regulations for the systemic management of Key Personnel
- Corporate regulations for mobility at PGE Group
- Corporate regulations for employment at PGE Group
- Corporate regulations for social relations at PGE Group
- Corporate regulations for HR controlling at PGE Group
- Corporate regulations for workplace architecture at PGE Group

The Company intends to continue common work on the creation and implementation of modern HR tools in 2016 and plans to focus on the following: developing corporate regulations for remuneration at PGE Group, development of a competence and employee evaluation model and implementation of these tools in the SAP HRM (human resources management) system. This development system will cover the key personnel.

As at December 31, 2015, the employment in PGE S.A. amounted to **463.25 FTEs** and was lower in comparison to the end of 2014 by 1.49 FTEs, i.e. by 0.32 %.

Table: Employment level *

In FTEs	Dec. 31, 2015	Dec. 31, 2014	% change	Dec. 31, 2015
Total employment in FTEs (excluding managers hired on the basis of contracts)	463.25	464.74	-0.32%	418.69
Average annual employment in FTEs	450.37	439.26	2.53%	402.57

* without suspended employees

In 2015 PGE S.A. continued process of adapting the Company's organisational structure to the Group's management principles approved in the Operating Model, particularly dividing tasks and responsibility between Corporate Center and Business Lines.

7.2.2 Communication with employees – an important aspect of management

Building relations with employees is one of PGE Group's top priorities. The company strives to be actively supporting its employees, providing them with information and holding constructive dialogue. The company is placing emphasis on communicating the changes that were implemented in the HCM area in 2015. To this end, two special editions of the "Pod Parasolem" magazine were published, for all PGE Group employees. They outlined the key objectives of the HCM Strategy and presented current information on the progress of project works. Furthermore, a special section on PGE Group's intranet was launched, where employees can read about the main HCM Strategy objectives and project work progress.

7.2.3 Searching for the best employees

When recruiting and selecting candidates, the Company and PGE Group use their best efforts to ensure that the process is transparent and friendly for the participants and effective for the company. Candidate selection criteria, verification methods as well as reporting are conducted in accordance with existing procedures. These processes are carried out confidentially and in observance of the company's binding procedures. In the interests of employee development, internal recruitment is carried out first. Through this, our company ensures retention of uniquely experienced or qualified staff. If no relevant competence can be found within the company, recruitment processes are expanded to include candidates from the external job market. In the interests of cost effectiveness, some of PGE Group's companies use a common base of HR advisory firms and the same tool for processing candidate data (e-recruiter). As part of one initiative in the HCM strategy, common standards have been developed, which are now reflected in the document "Corporate regulations for employment at PGE Group," which will go into effect at all PGE Group companies in 2016.

Internship programmes

PGE Group appreciates the value and competence of young people, therefore it operates internship programmes for students and graduates. To this end, it is actively cooperating with higher-education institutions. The company organises internships and placements for students as well as scientific seminars and conferences. 2015 was the first year in which PGE Group carried out internship programmes for university graduates with the participation of the Ministry of State Treasury. Authors of the best master's thesis or engineer's thesis attended paid internships at PGE Group companies, gaining valuable

professional experience. A second programme was carried out in cooperation with the Lesław A. Paga Foundation. Here, PGE S.A. and PGE Group actively participated in two educational programmes: Energy Academy – which is addressed mainly to people fascinated by energy and wanting to develop their careers in this industry, and Capital Market Leaders Academy. The best Academy participants gain the opportunity of attending paid internships at PGE Group.

“Turn The Power On” – an on-boarding programme for new employees at PGE S.A.

The main objective of the programme is standardisation of activities in the area of adapting new employees at PGE S.A. and developing of a sense of belonging to PGE Group. The on-boarding programme is a process lasting up to six months from commencement of work at the company. According to the programme's objectives, an employee gets to know the work place and organisation. Each new employee in the initial employment period is supported by a guide from his or her organisational cell. The on-boarding programme for new employees at PGE S.A. is meant to support the understanding of PGE Group's complexity. In 2016, the programme will be implemented in other PGE Group companies.

7.2.4 PGE S.A. – a friendly workplace

PGE S.A. offers its employees not only interesting professional challenges and extensive trainings package but also comprehensive fringe benefits package. Due to the specifics of the activities of individual business lines of the Group, each of the Group companies separately determines the fringe benefits offered to its employees. The numerous benefits include, importantly, private medical care, additional retirement benefits, electricity allowance or additional life insurances. The company also encourages employees to sport activities, therefore, sports committees or sports sections of different kinds are present in many Group companies. Once a year employees meet at the PGE Sports Championship.

7.2.5 Training and development

The Company and PGE Group support development of employees and shape the culture of improving competences and knowledge sharing. The Company creates opportunities for employees to raise their qualifications, necessary for effective execution of tasks, by participating in specialist training sessions, management competence development programmes, post-graduate studies and foreign language courses. The Company emphasises specially-designed closed competence development programmes, which are the best form of investment in employees.

Management competence development programmes at PGE S.A.

In 2015 PGE S.A. continued its Director Development Programme, commenced in 2014, with the main objective being reinforcement of management competences and higher engagement of teams by shaping leaders. The programme focused on subjects dealing with effective leadership, maximising team potential, efficient communications, change management and business performance. The programme consisted of workshops and inspiring lectures.

HR Business Partner Academy and Academy for HR and Payroll Process Managers

Courses offered by the Academy are an opportunity to deepen knowledge in the area of managing human capital within an HR-as-a-business-partner model, which is being implemented at PGE Group in accordance with its HCM Strategy. During an annual cycle of workshops, which began in October 2015, 9 employees from PGE S.A. human capital management area worked on developing their competences and acquiring new skills.

“Business Process Manager” post-graduate studies

In cooperation with the Vistula Finance and Business Academy, PGE S.A. has designed post-graduate studies in implementation and management of business processes. The aim of the studies is to prepare PGE Group employees for effective implementation of process-based management, with particular consideration given to the optimisation of processes taking place in the business environment. 32 employees of PGE Group companies graduated in 2015 (4 persons from PGE S.A., 23 persons from PGE GiEK S.A., 3 persons from PGE Dystrybucja S.A., 2 persons from Exatel S.A.).

“Energy – Basic Knowledge” training sessions

Several editions of the vocational training programme “Energy – Basic Knowledge” were carried out in 2015. It is intended for persons without energy-related education and those wanting to supplement or expand their knowledge of energy. The training sessions were attended by 104 employees of PGE S.A.

Engaging employees as workshop and meeting leaders

In constructing and designing the various training forms, the Company is utilising an approach whereby employees become internal trainers or co-leaders of activities – therefore also expanding their own competences and sharing their knowledge. Monthly Lunch&Learn meetings are an example of such activities, with the subject being discussed involving various areas of the Group's operations. Another example is workshops that are aimed at supporting implementation of a CRM & Billing software. The cycle of workshops supporting this implementation was intended to aid in creating an open, team-based approach to cooperation, developing of a common business vision for the project and definition of the roles and responsibilities for an effective management model for the entire undertaking consisting of a large-scale implementation of

the system. The workshops were attended by over 45 people from several PGE Group companies. An interactive workshop dealing with building strategic awareness for PGE S.A. directors not only created an opportunity to increase engagement in executing strategy but also to exchange information relating to topics of strategic importance to the Group.

Global Management Challenge

Global Management Challenge (GMC) is the world's largest competition based on business simulation. By participating in the contest, teams get an opportunity to manage a company in an international setting and additionally improve their competences in strategic planning, analytical thinking and teamwork. In the contest's 15th edition, in a national final, which took place on March 30, 2015, a team of PGE S.A. employees called "PGE Future" placed second. This success resulted in PGE Group sending five teams to the 16th edition, which has commenced on November 12, 2015.

Table: Educational structure of Company's employees (as at December 31, 2015, headcount)

Level of education	Employees	(%) share
University education <i>(bachelor's degree, master's degree, postgraduate studies, PhD, professors)</i>	442	93.2%
Secondary education <i>(general upper secondary school, technical upper secondary school, post-secondary non-tertiary schools)</i>	29	6.1%
Vocational education <i>(basic vocational, vocational training)</i>	2	0.4%
Elementary education <i>(primary school, lower secondary school)</i>	1	0.2%
TOTAL	474	100%

Table: Employee age and gender structure (as at December 31, 2015, headcount)

Gender/Age	Women	Men	Total
under 30 years of age	39	46	85
31-40 years of age	102	82	184
41-45 years of age	43	46	89
46-50 years of age	10	23	33
51-55 years of age	7	13	20
56-60 years of age	26	21	47
over 60 years	5	11	16
TOTAL	232	242	474

Employee evaluation system

In order to support and motivate employees in fulfilling their tasks, PGE S.A. operates a management by objectives and tasks („ZPC”). Objectives for the management are set and settled annually, while for other employees on quarterly basis. In such evaluation management system, much emphasis is put on high level of quality and efficiency of the objectives results, both individual and collective.

7.2.6 Voluntary Leave Program

One method of terminating contracts with employees is Voluntary Leave Program (VLP). The essence of the VLP is to encourage employees to voluntarily terminate employment relationship with the company. Such solution is beneficial for both the employee and the employer, because on the one hand it protects the employee against the negative consequences of job loss and on the other hand protects the company against strong social tensions, which are characteristic of the redundancies. Furthermore, VLP usually provides above-standard severance pay, which is an additional incentive for the employee. In 2015 in PGE S.A. introduced VLP and 2 employees applied and were approved for the program.

7.2.7 Social dialogue and freedom of association

There are 112 trade union organisations at PGE Group, with following in PGE S.A.: Organizacja Międzyzakładowa nr 2897 "NSZZ „Solidarność” and Międzyzakładowa Organizacja Związkowa Związku Zawodowego Pracowników Ruchu Ciągłego Krajowego Systemu Elektroenergetycznego. Total number of employees associated in both trade unions amounted to 164 as at December 31, 2015. In 2015, PGE Group paid much attention to its social partners, including through organising information meetings to discuss PGE Group's situation in the context of the electricity sector in Poland. Their objective was to provide trade union activists with information regarding the business strategy of PGE Group and specific business lines. Discussed during those meetings were forecasts and financial results as well as the situation on the energy market in Poland and Europe, also in the context of the company's condition. These meetings will continue to be hosted once a quarter at all business lines.

Scale, number and dispersion make it a necessity to maintain an active social dialogue policy on all management levels. Dialogue is conducted at central level (common trade union teams from all business lines), at business line level (branch-specific trade union teams) and at employer level, i.e. at each branch. 2015 was in this regard a particularly active year because all outstanding collective disputes were either completed or suspended. Councils / Commissions for Social Dialogue operate within the business lines, that form a negotiations and discussion forum for cases relating to more than one employer. In October 2015, the Steering Committee adopted a document – Corporate Regulations for Social Relations at PGE Group, which is a part of the HCM strategy. At PGE GiEK S.A., works began on a “Pact for increasing productivity and work place safety.” The pact will be negotiated in 2016.

An important event in 2015 was the 1st PGE Group Employer Conference. This type of initiative is intended to create a forum for discussion and exchange of experiences amongst the employers who make up PGE Group. The subjects of discussion cover all issues connected with effectiveness and its improvement as well as topics relating to human capital management. The Employer Conference also marks the commencement of a new, more participative formula for cooperation among the company's different business areas and also between the business side and the HCM area.

Employee safety is always a priority

As a responsible employer, PGE S.A. and other Group companies strive to ensure that employees have safe working conditions. According to regulations, in order to protect the health and lives of employees, trainings on workplace health and safety are conducted. The Company provides legally-required medical examinations, hires employees with the requisite qualifications and provides them with the appropriate personal protective equipment. PGE S.A.'s constant goal is also the promotion of a safe-work culture among the employees. The initiatives being carried out are largely based on preventive activities as well as exchanging knowledge and experiences.

7.3 Natural environment

The Company and PGE Group are undertaking a variety of activities to responsibly and consciously strike a balance between economic development and care for the natural environment. In 2014, PGE Group adopted the Environmental Protection Policy, consistent for all PGE Group companies, which defines the directions for managing its impact on the surroundings.

In its projects, PGE Group takes into consideration aspects such as: minimising its negative impact on the environment and protection of natural ecosystems. The company also invests in developing renewable energy sources and modernises its conventional installations to make them as eco-friendly as possible.

In its planning process, PGE Group companies take into consideration its impact on the surroundings and minimises the scale of its negative footprint. Plans and new investments are consulted with local communities, municipal authorities and NGOs on a case-by-case basis.

7.4 Innovations

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

According to the strategy for 2014 – 2020, starting from 2015, PGE S.A. plans to commit at least 1.5% of its annual consolidated net profit to research and development activities, at the same time relying on public assistance – both Polish and EU. To improve the effects of its R&D projects, PGE Group collaborates with external partners from Poland and abroad, whose know-how and experience are complementary to PGE's competences.

On October 21, 2015, the Council of the National Research and Development Centre (NCBiR) accepted the Feasibility Study for the Electricity Sector Programme, which was prepared and submitted by energy sector firms operating under the Polish Electricity Association (PKEE). The value of this research agenda was specified as PLN 1 billion, with half of the sum being

contributed by the beneficiaries and the other half from the Intelligent Development Operational Programme, which is being implemented by NCBiR.

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

At the same time, PGE S.A. is encouraging its employees to search for new, innovative solutions in their everyday work. Initiatives submitted by employees are verified by a special committee. On this basis, a final decision is made as to whether or not the initiative will be implemented.

7.5 Customer relations

The Company's and Group's priority is to develop modern solutions enabling communication between the company and its clients and ensuring high customer relation standards across the whole PGE Group.

Code of Best Practice

On April 16, 2014, PGE and PGE Obrót S.A. signed the Code of Best Practice. The document was also signed by the other major electricity sellers in Poland: TAURON, ENEA, ENERGA and RWE Polska. As a participant in the programme, PGE Obrót S.A. has received the certificate "Energy Trading Association's Best Practices for Electricity Sellers." The certificate of a fair electricity provider is issued on the basis of audits and is a guarantee of the high quality of service.

Customer satisfaction surveys

Raising customer service quality is one of the pillars of PGE S.A. and PGE Group's business strategy. In order to better understand customer needs, cyclical satisfaction surveys are carried out via various communication channels. This helps in continuously improving service quality and building positive relations with clients.

In these cyclical surveys, which are carried out via independent research institutes, PGE Group asks clients about their level of satisfaction with service. The annual surveys show that PGE Group enjoys the highest level of customer satisfaction among the major participants of the electricity market in Poland. Cyclical monitoring of client satisfaction for distribution services was launched in 2015.

7.6 Society

7.6.1 PGE's impact on community development

In 2014, PGE S.A. adopted a procedure for managing social involvement activities across the entire Group, aimed at ensuring consistency, transparency and effectiveness of PGE Group companies in this field.

PGE Group is an important partner for local communities. The Group develops positive relations with local communities based on joint projects, support for local events and also through investment in the infrastructure of the towns in which it conducts business activities. Its work in this area so far result in projects such as the construction of sports grounds, playgrounds, skate parks or modernisation of community halls. Improvement of security in cities has also been an important aspect. Thanks to donations granted by the Foundation, it was possible to construct new road signs, among other things.

7.6.2 PGE Foundation "Energy from Heart"

The PGE Foundation "Energy from Heart" was established in 2011 at the initiative of PGE S.A. The Foundation is a common communication platform for pro-community activities designed for all the companies belonging to the PGE Capital Group. In years 2013-2015, the members of the Management Board of PGE Foundation "Energy from Heart" participated in the project: "Enhancing the quality of public tasks implemented by corporate foundations in Poland", carried out by the Forum of Donors.

In 2015, PGE Foundation – Energy from Heart – together with PGE S.A.'s Corporate Communications Department and with the participation of key companies within PGE Group, organised the second edition of PGE's employee volunteer programme "We Help". Employees received funding in the form of subsidies for their own pro-community projects. Under the programme's first edition, 30 winning projects were completed. The second edition featured 40 projects, which were completed in 2015. Programme will be continued in 2016.

In 2015, PGE Foundation – Energy from Heart launched the "Energy of Innovation" competition in response to some of PGE Group's strategic challenges. This competition is for young scientists – PhD students and those with PhDs received at most five years ago. The innovative projects submitted by them should pertain to PGE Group's areas of activities, i.e. mining, production, renewable energy, nuclear energy, distribution or sale of electricity. They will be graded in terms of project

quality and nature as well as commercial and scientific potential. The best ideas have a chance to be implemented in PGE Group's business.

7.6.3 Charity activities

For many years, PGE S.A. and PGE Group have been involved in charitable activities. They provide support through Christmas and related campaigns both directly for the children in need and for institutions (hospices, hospitals, social welfare centres, foundations and locally schools) in more than a dozen Polish cities. Employees of all group companies participate in nationwide initiatives, such as the Great Orchestra of Christmas Charity, Szlachetna Paczka (the Noble Box project), a nationwide Christmas aid campaign, or a drive for helping children survive the winter.

As part of charitable activities, employees of PGE Group companies also organise collections of, for example, bottle caps for foundations and associations. These activities are intended mainly to raise funds for rehabilitation equipment for select organisations. In 2015, PGE S.A. was involved in the "Do you have a bottle cap to help?" project.

7.6.4 Educating the surroundings

Education in the field of safe and cost-effective use of electricity is an element of PGE's business. Through its programmes, PGE S.A. along with the PGE Group companies wants to reach the largest possible number of electricity users and promote good practices among kids, youth and adults.

7.7 Culture patronage and sponsorship

PGE S.A. and PGE Group have been investing in development of culture and arts for many years by sponsoring important cultural events and initiatives. It also supports development of both professional and amateur sports. Providing positive experiences and emotions, PGE Group supports and promotes Polish culture. PGE Group's patronage includes important and valuable cultural events – music, theatre and film. These activities translate into development of local communities and contribute to making places more attractive for residents, tourists and investors.

Sports sponsoring

PGE Group promotes professional and amateur sport. It supports both well-established clubs and those that are just starting to develop. Through its commitment in development of the Polish sport, PGE Group tries to share the energy with those who use it properly. PGE Group supports teams in various sport disciplines which attract the most of the fans: volleyball (PGE Skra Bełchatów and Atom Trefl Sopot), football (PGE GKS Bełchatów), basketball (PGE Turów Zgorzelec), speedway racing (PGE Marma Rzeszów) and handball (PGE Stal Mielec). Clubs sponsored by the Group energetically pursue success what stimulates action and development.

The Group actively supports the most talented sportsmen, like bronze medallist of the 2012 Olympics - Zofia Klepacka. PGE Group promotes sports by engaging in major sporting events. In 2015, PGE Group commenced two new national sponsorship projects, with one being cooperation with the largest sports facility in Poland – PGE National Stadium (PGE Narodowy), and the second one – cooperation with PGE Ekstraliga, the best speedway league in the world.

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

Cultural patronage and sponsorship

PGE Group shares the positive energy flowing from culture and arts. In 2015, the Group was once again Patron of the Music Festival in Łańcut. The Group supports classical music also by working with the National Philharmonic Hall in Warsaw.

As a sponsor, PGE Group is involved in a variety of local and nationwide initiatives and events. The key events that PGE Group was involved in in 2015 include another edition of the OFF Festival in Katowice. This event has for many years been a synonym for music of the highest level. During the several days, guests can listen to more than 90 artists from all over the world. This is accompanied by events that also promote other art fields. The OFF Festival has received the international award Green'n'Clean and thus is considered an eco-friendly event. In 2015, the OFF Festival was the first in Europe to begin working with one of the most important radios in the world – the US station KEXP.

For many years, PGE Group has been involved with organising the cult Festival of Film and Arts "Dwa Brzegi" in Kazimierz Dolny on the Vistula river. In Lublin, PGE Group once again supported the Different Sounds ART 'N' Music Festival. New initiatives include the Festival of Magicians and cooperation with the Lublin Museum.

2015 was also a period in which PGE Group was involved in new cultural projects such as PKO OFF Camera in Kraków – a film festival attracting globally acclaimed filmmakers. PGE also became a patron of the Royal Łazienki Museum in Warsaw and a strategic partner of the Arnold Szyfman Polish Theatre in Warsaw. In 2015, PGE Group also became the main sponsor of Air Show 2015 – an international air show in Radom.



In all of our activities, we do not forget about children – on 9 May 2015, the PGE National Stadium was site to the 19th Science Picnic, and on 6 December the event “Wymarzone Mikołajki PGE” was hosted at the Brant Hotel near Warsaw. During this charitable event children from orphanages met numerous stars. All of the proceeds raised are transferred to the orphanages.

8 Significant events of the reporting period and subsequent events

8.1 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 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 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 December 7, 2015 PGE S.A. received copy of the appeal by the Claimant. On December 21, 2015 the Company filed response to the appeal.
- 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. On November 23, 2015 the Company filed 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 over PLN 10 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.

8.2 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 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 Program (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 Program, 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"). The localization of the nuclear power plant will also be indicated at the Development Stage. 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 Program, including decision on declaration of further participation of particular Parties in the next stage of the Program, will be made directly before the settlement of the integrated proceeding.

8.3 Description of material agreements - conclusion of long-term loan agreement with the syndicate of banks

On September 7, 2015 PGE S.A. 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.

8.4 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.

8.5 Awards and distinctions

Key awards and recognitions received by PGE S.A. in 2015:

- PGE: "Pillar of the State Budget"
- PGE: "Company that is changing Polish industry"
- PGE: "Pearl of the Polish Economy 2015"
- "Top Brand 2015" – PGE once again named most-popular brand in its industry
- PGE named "Innovator of 2015" by WPROST
- PGE on the podium of the "Philanthropic Leaders" competition
- PGE as recipient of the "CSR Leaf" award from Polityka
- "Platinum Megawatts" for PGE and "Anniversary Megawatt" for CEO Marek Woszczyk
- PGE S.A. awarded a gold prize in SAP Quality Awards, in the Business Transformation category for Central and Eastern Europe

- PGE S.A. awarded for the best management report
- PGE S.A. named among the world's largest companies – Platts Top 250
- PGE's "eco-mural" in Solina awarded the Golden Drum 2015

8.6 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.

8.7 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.

8.8 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.

8.9 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.



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

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

Significant proceedings pending in front of courts, competent arbitration authority or public administration authority are described in note 24.3 to the financial statements of PGE S.A.

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

Information on issue, redemption and repayment of debt securities and other securities were described in p. 5.12 of the foregoing report and in note 21 to the financial statements of PGE S.A.

9 Statements of the Management Board

9.1 Statement on the reliable preparation of the financial statements

To the best knowledge of the Management Board of PGE S.A., the annual financial statements of PGE Polska Grupa Energetyczna S.A. for 2014 and comparable data were prepared in accordance with the governing accounting principles, present a fair, true and reliable view of the material and financial situation of PGE S.A. and its financial result.

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

9.2 Statement on the entity authorised to audit the financial statements

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

10 Approval of the Management Board's Report

The foregoing Management Board's Report on activities of PGE Polska Grupa Energetyczna S.A. was approved for publication by the Management Board on February 16, 2016.

Warsaw, February 16, 2016

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

President

of the Management Board

Marek Woszczyk

Vice-President

of the Management Board

Grzegorz Krystek

Vice-President

of the Management Board

Marek Pastuszko

Glossary

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

	generation; or (ii) co-generation unit with an installed capacity under 1 MW as compared to generation of electric power and heat in separated systems with reference efficiency for separated generation.
IGCC	Integrated Gasification Combined Cycle.
Installed capacity	the formal value of active power recorded in the design documentation of a generating system as being the maximum achievable capacity of that system, confirmed by the acceptance protocols of that system (a historical value, it does not change over time).
IRIESP	the Transmission Network Operation and Maintenance Manual required to be prepared by a transmission system operator pursuant to the Energy Law; instructions prepared for power networks that specify in detail the terms and conditions of using these networks by system users as well as terms and conditions for traffic handling, operation and planning the development of these networks; sections on transmission system balancing and system limitation management, including information on comments received from system users and their consideration, are submitted to the ERO President for approval by way of a decision.
Jl	Joint Implementation: one of the flexibility mechanisms introduced under Article 6 of the Kyoto Protocol.
Kyoto Protocol	the Kyoto Protocol to the United Nations Framework Convention on Climate Change of December 11, 1997 (Dz.U. of 2005, No. 203, Item 1684), in force since February 16, 2005.
KSE	the National Power System, a set of equipment for the distribution, transmission and generation of electricity, forming a system to allow the supply of electricity in the territory of Poland.
KSP	the National Transmission System, a set of equipment for the transmission of electricity in the territory of Poland.
kV	kilo volt, an SI unit of electric potential difference, current and electromotive force; 1kV= 103 V.
kWh	kilowatt-hour, a unit of electric energy in the SI system defined as the volume of electricity used by the 1 kW equipment over one hour. 1 kWh = 3,600,000 J = 3.6 MJ.
Low Voltage Network (LV)	a network with a nominal voltage not exceeding 1 kV.
LTC	Long-term contracts on the purchase of capacity and electricity entered into between Polskie Sieci Elektroenergetyczne S.A. and electricity generators in the years 1994-2001.
Medium-voltage network (MV)	an energy network with a nominal voltage higher than 1 kV but lower than 110 kV.
MEV	Minimum Energy Volumes.
MW	a unit of capacity in the SI system, 1 MW = 106 W.
Mwe	one megawatt of electric power.
MWt	one megawatt of heat power.
NAP	National emissions Allocation Plan, prepared separately for the national emission trading system and for the EU emission trading system by the National Administrator of the Emission Trading System.
NAP II	National CO ₂ emissions Allocation Plan for the years 2008-2012 prepared for the EU emission trading system adopted by the Ordinance of the Council of Ministers of July 1, 2008 (Dz. U. of 2008, No. 202, item 1248).
Nm ³	normal cubic meter; a unit of volume from outside the SI system signifying the quantity of dry gas in 1 m ³ of space at a pressure of 101.325 Pa and a temperature of 0°C.
No _x	nitrogen oxides.
Peak, peakload	a standard product on the electricity market; a constant power supply from Monday to Friday, each hour between 7:00 a.m. and 10:00 p.m. (15-hour standard for the Polish market) or between 8:00 a.m. and 8:00 p.m. (12-hour standard for the German market) in a given period, for example week, month, quarter or year.
Peak power pumped storage plants	a special kind of hydroelectric power plants. In addition to river flow and the difference in the water table levels they need two bodies of water connected with a channel or a pipeline. The power station is situated next to the lower lake or at the dam of the upper lake. The pumped storage facilities provide ancillary control services for the national power system. Their functions are to secure stability, provide passive energy, store excessive power in the system and supply power to the system in peak time. The pumped storage plants that have a natural inflow of water to the upper lake also generate electricity from renewable sources. The main off-taker of electricity produced by the peak power pumped storage power stations and their services is the TSO.
Property rights	negotiable exchange-traded rights under green and co-generation certificates.
RAB	Regulatory Asset Base.
Red certificate	a certificate confirming generation of electricity in co-generation with heat.
Red energy	popular name for electricity co-generated with heat.
Regulator	the President of ERO, fulfilling the tasks assigned to him in the energy law. The regulator is responsible for, among others, giving out licenses for energy companies, approval of energy tariffs, appointing Transmission System Operators and Distribution System Operators.
Renewable Energy Source (RES)	a source of generation using wind power, solar radiation, geothermal energy, waves, sea currents and tides, flow of rivers and energy obtained from biomass, landfill biogas as well as biogas generated in sewage collection or treatment processes or the disintegration of stored plant or animal remains.

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