

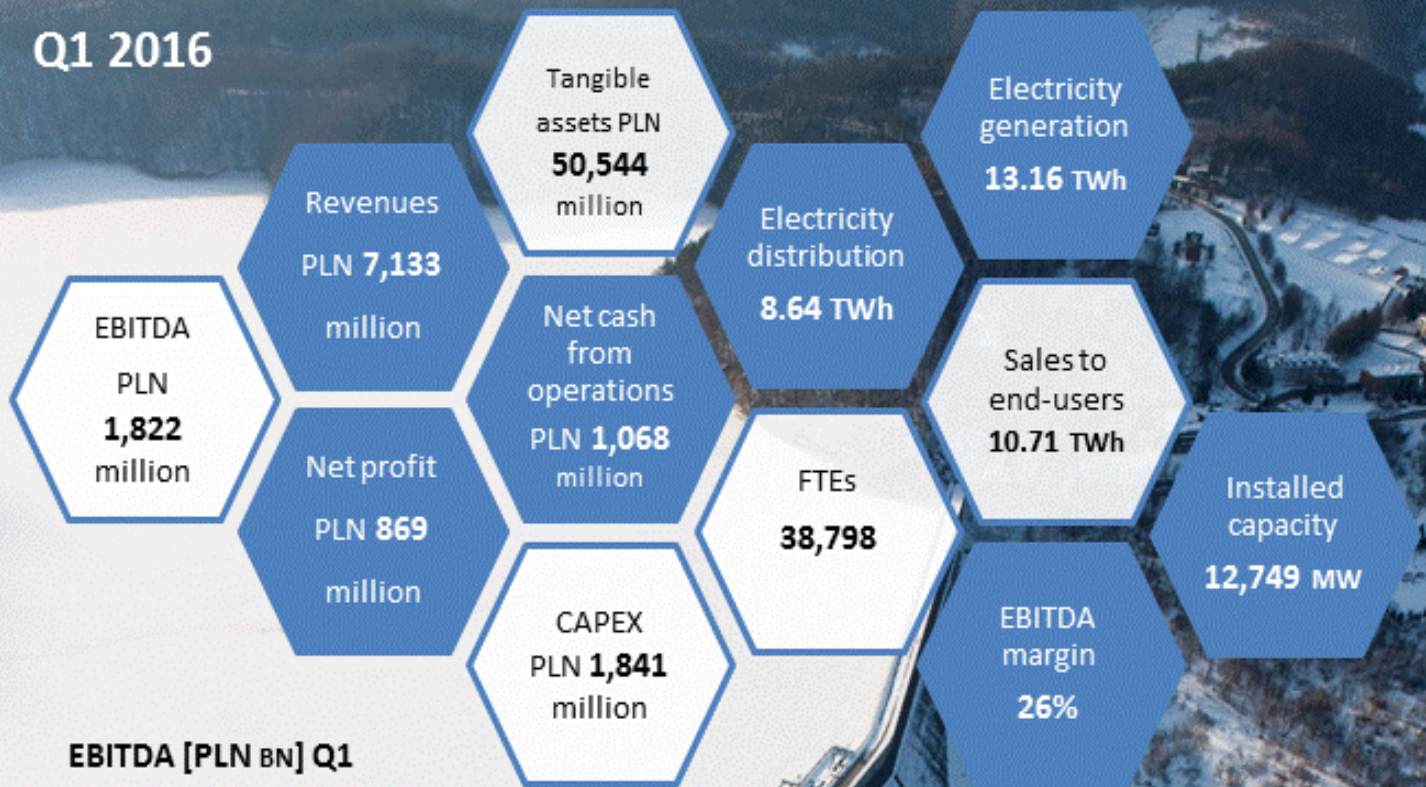
**Management Board's report on
activities of the Capital Group of
PGE Polska Grupa Energetyczna S.A.
for the 3-month period**

ended March 31, 2016

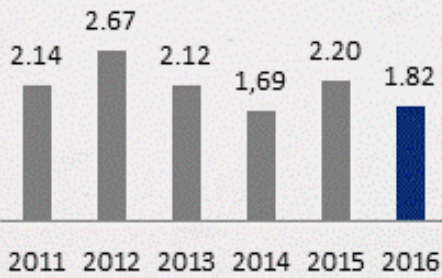
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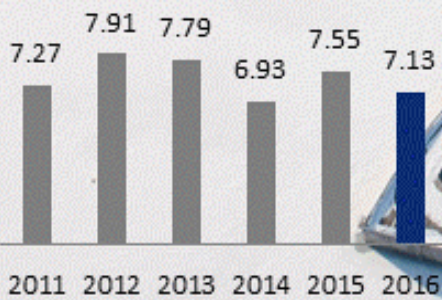
Q1 2016



EBITDA [PLN BN] Q1



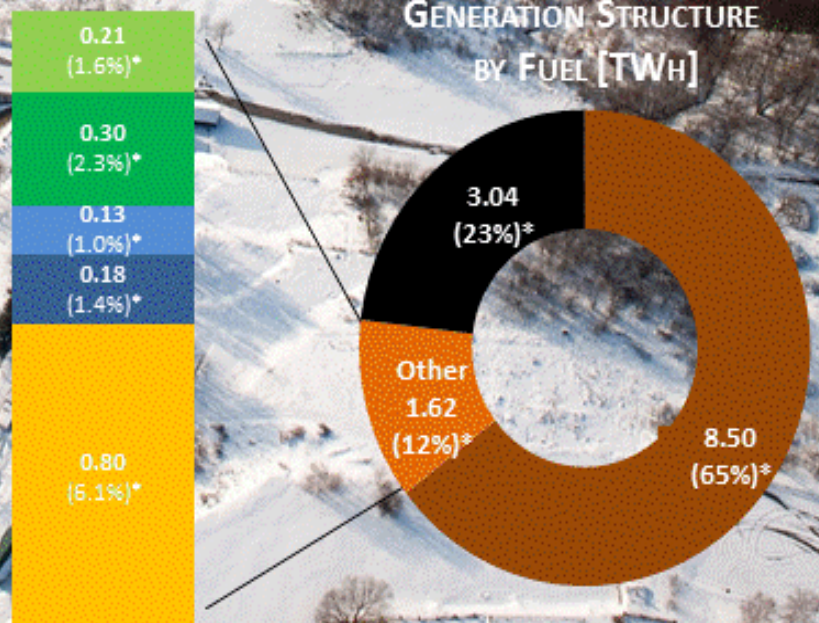
REVENUES [PLN BN] Q1



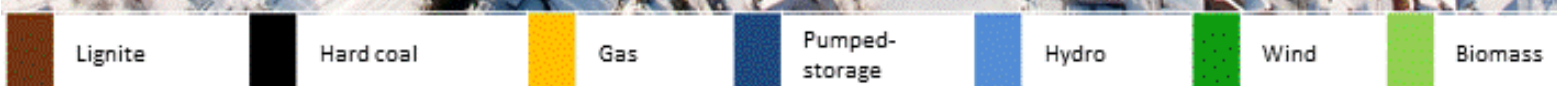
NET ELECTRICITY PRODUCTION [TWH] Q1



GENERATION STRUCTURE BY FUEL [TWH]



* share of fuel in production



CONVENTIONAL GENERATION



RENEWABLE ENERGY



Operations

Extraction of lignite and generation of electricity and heat from conventional sources and distribution of heat and supporting operations in this respect

Electricity generation from renewable sources and in pumped storage power plants

Key assets of the segment

4 conventional power plants
8 CHPs
2 lignite mines

14 wind power plants;
1 photovoltaic plant;
29 run-of-river hydro power plants;
4 pumped storage power plants,
including 2 with natural flow

Energy volumes

Generation in Q1 2016
12.55 TWh

Generation in Q1 2016
0.61 TWh

Market position

PGE is a leader in lignite mining

PGE is the leading producer of energy from renewable sources

Revenues [PLNm]

3,073

213

EBITDA [PLNm]

1,000

114

Share in EBITDA of the group

55%

6%

Capital expenditures
[PLNm]

1,471

76

Assets [PLNm]

33,467

4,717

Installed capacity [MW]

10,615

2,134

SUPPLY



DISTRIBUTION



Operations

Wholesale trading of electricity on domestic and international market and trading of related products, fuels and CO2 emission allowances

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

Key assets of the segment

284,097 kms of distribution lines

Energy volumes

Sales to end-users
10,71 TWh

Electricity distributed
8,64 TWh

Market position

One of the leaders in wholesale trading and retail supply in Poland

Second energy distributor with regard to number of customers

Revenues [PLNm]

4,142

1,510

EBITDA [PLNm]

139

555

Share in EBITDA of the group

8%

30%

Capital expenditures
[PLNm]

4

287

Assets [PLNm]

3,615

16,719

1 Description of activity of the Capital Group

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

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

PGE Group currently organizes its activities in the following business segments:

- Conventional Generation includes search and extraction of lignite and production of energy in power plants and CHP plants as well as supporting operations in this respect.
- Renewable Energy Includes electricity generation from renewable sources and in pumped storage power plants.
- Supply includes sale and purchase of electricity and gas on wholesale market, trading of CO₂ allowances and energy certificates and purchase and supply of fuels, as well as sale of electricity and provision of services to end users.
- Distribution includes management of local distribution grids and distribution of electricity.
- Other Operations include provision of services by the subsidiaries to the Capital Group, for example obtaining of financing, IT services, telecommunication services, accounting and HR services. Additionally, Other Operations include a subsidiary, whose main activities are preparation and execution of nuclear power plant construction project.

1.1 Factors important for the development of the PGE Capital Group

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

Market environment	Description in p.
Demand	<ul style="list-style-type: none"> ● demand for electricity and heat 1.2.1 ● seasonality and weather conditions
Electricity market	<ul style="list-style-type: none"> ● wholesale electricity prices 1.2.4 ● prices and tariffs on electricity and heat retail sale markets 1.2.3 ● tariffs for transmission and distribution of heat and tariffs for electricity distribution 1.2.3
Related markets	<ul style="list-style-type: none"> ● prices of property rights (certificates of origin of electricity) 1.2.5 ● availability and prices of fuels used in generation of electricity and heat, in particular prices of hard coal, fuel gas and biomass, as well as costs of fuels transportation to the generating units 1.2.2 ● prices of CO₂ emission rights 1.2.6
Power infrastructure	<ul style="list-style-type: none"> ● availability of cross-border transmission capacities 1.2.4 ● growth of generating capacity in national electro-energy system, including renewable energy and cogeneration 1.2.4 ● development and modernisation of energy grid
Otoczenie makroekonomiczne	<ul style="list-style-type: none"> ● GDP dynamics, particularly in industrial production 1.2.1 ● interest rates and exchange rates, values of which affect evaluation of assets and liabilities shown by the Group
Regulatory environment	
Domestic	<ul style="list-style-type: none"> ● possible changes to the Poland's energy policy as a result of new Energy Policy of Poland until 2050 ● changes in scope of services like: <ul style="list-style-type: none"> ▪ modification of current Operational Reserve mechanism ▪ implementation of cold reserve mechanism ▪ implementation of further packages for demand reduction services ● amendment to the Law on Renewable Energy Sources, changing support scheme for energy generation in renewables ● parliamentary draft bill on investments in wind farms ● results of proceeding of the European Commission on notification of cogeneration and renewable energy sources support schemes ● results of explanatory proceedings before the ERO President and court disputes in cases 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 SAIDI and SAIFI ratios and connection time, among others ● possible different decision in law disputes, from which most relevant were presented in note 19.4 to the consolidated financial statements ● draft Water Law Act changing the way of collecting water charges
International	<ul style="list-style-type: none"> ● regulations of 2030 climate and energy package – including EU climate summit decisions from October 2014 particularly: at least 40% CO₂ reduction targets, 27% RES share target in total energy consumption, 27% efficiency improvement target, including: <ul style="list-style-type: none"> ▪ 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
 - regulations connected with the reduction of emissions of other pollutants, 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, 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.
-

1.2 Factors and events affecting results

1.2.1 Macroeconomic situation

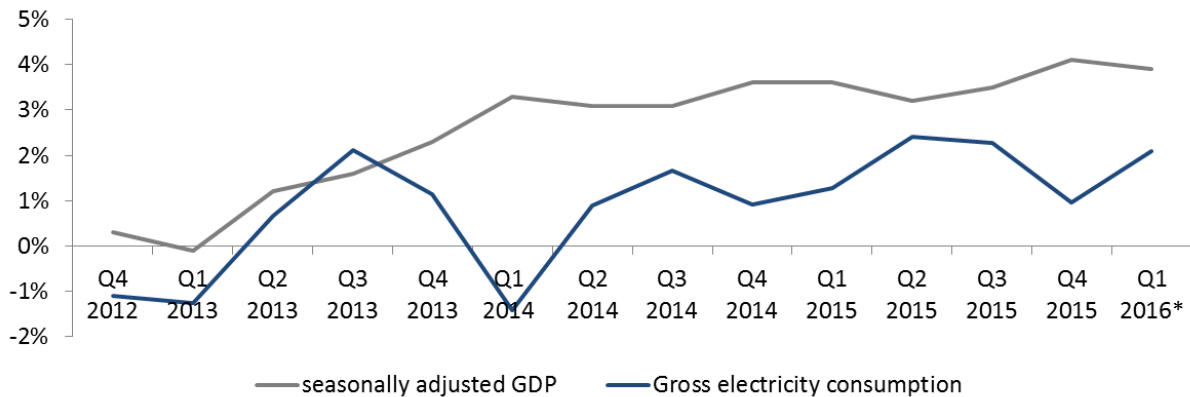
PGE Group's main operating area is Poland, and the domestic macroeconomic backdrop has a substantial impact on Group's results. At the same time, the condition of Poland's economy remains largely tied to the situation across the European Union and in global markets. The Group's financial results are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

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

In the first quarter of 2016, gross electricity consumption went up 2.1% compared to the first quarter of 2015. The increase was higher than in the previous year, when consumption went up 1.3% from the analogical period of 2014.

Economic trends in 2016 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, seasonally adjusted GDP in the first quarter of 2016 was higher by 3.9%* in real terms than in the previous year.

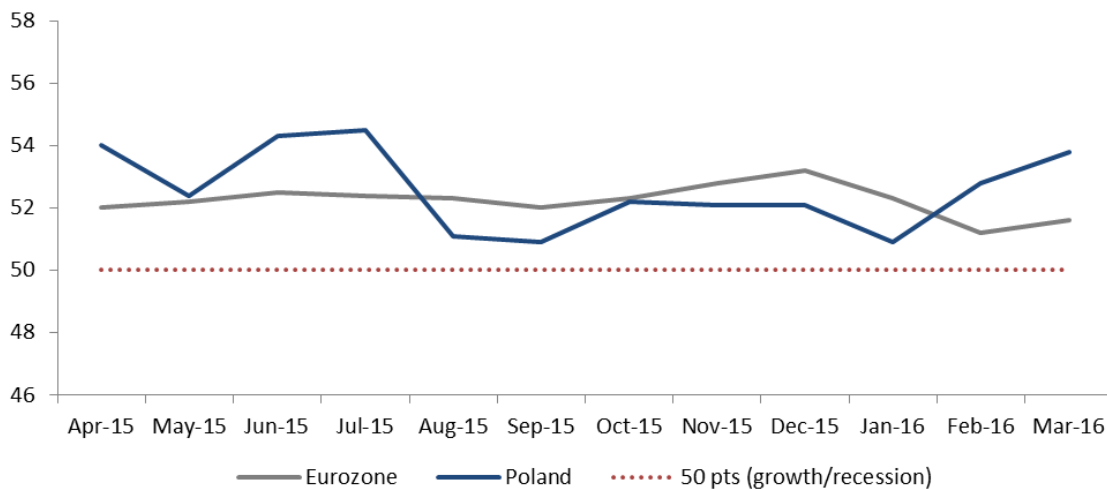
Diagram: Seasonally adjusted GDP change vs. change in gross electricity consumption.



* GDP for the Q1 2016 estimated according to analysts' forecasts, dynamics of gross electricity consumption according to PSE S.A.
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, and 52.5 points in the first quarter of 2016. 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, and 51.7 points in the first quarter of 2016.

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



Source: Markit Economics

From PGE Group's perspective, another positive development is the stronger growth in overall industrial production. In the first quarter of 2016, it went up by 3.0% y-o-y, compared to 5.3% in the previous year. The change resulted from substantial growth in industrial production (3.8% y-o-y in the first quarter of 2016 versus 6.8% in the comparable period of 2015). Production dynamics in the whole energy sector decreased again (-1.3% y-o-y in the first quarter of 2016 vs -3.5% 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 the first quarter of 2016 PPI decreased by 1.7% due to low prices of fossil fuels, particularly crude oil and hard coal.

CPI reading has remained negative since July 2014. From the beginning of the year CPI decreased by 0.9%.

Table: Key economic indicators for Poland.

Key economic indicators (% change y-o-y)	Q1 2016	Q1 2015
GDP ¹	3.9	3.6
CPI ²	-0.9	-1.5
PPI ²	-1.7	-2.6
Sold industrial production ²	3.0	5.3
Sold production – manufacturing ²	3.8	6.8
Sold production – energy ³	-1.3	-3.5
Gross domestic electricity consumption ⁴	2.1	1.3
Gross domestic electricity consumption (TWh) ⁴	42.6	41.8
EUR/PLN ⁵	4.36	4.18

Source: ¹ Central Statistical Office of Poland, GDP seasonally adjusted for the first quarter of 2016 estimated on the basis of analysts' forecasts, ² Central Statistical Office of Poland – data for the first quarter of 2016 estimated on the basis of monthly figures, 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 Fuel purchase costs

Table: Volume and cost of purchase of fuels for generation needs from third party suppliers in the first quarter of 2016 and 2015.

Type of fuel	Q1 2016		Q1 2015	
	Volume (tons ths)	Cost (PLNm)	Volume (tons ths)	Cost (PLNm)
Hard coal	1,193	263	1,119	277
Gas (cubic metres ths)	211,842	181	206,219	196
Biomass	267	57	379	106
Fuel oil	11	8	8	10
TOTAL		509		589

In the first quarter of 2016 the costs of purchasing primary fuels for generation needs from providers outside the Group amounted to PLN 509 million and were lower by PLN 80 million compared to the first quarter of 2015.

Costs of purchase of the main fuels in PGE Capital Group were impacted mostly by:

- Biomass
 - Lower volume of biomass purchase by 30% (PLN -31 million)
 - Average price lower by 24% (PLN -18 million)
- Gas
 - Higher purchase volume by 3% (PLN +5 million)
Increased purchase volume in the first quarter of 2016 in relations to the first quarter of 2015 resulted from higher demand for gas fuel at branches of PGE GiEK S.A.
 - Lower average price by 10% (PLN -20 million)
Lower average purchase price is connected with liberalisation of Polish gas market and decline of gas prices on the exchanges.
- Hard coal
 - Higher purchase volume by 7% (PLN +18 million)
Higher purchase volume of hard coal results mainly from higher generation in Opole power plant than in the comparable period, what is a consequence of overhaul of unit no. 4 from October 2014 till February 6, 2015.
 - Lower average price by 11% (PLN -32 million)
Lower hard coal price results chiefly from the situation on the mining market, both domestic and international. It allowed for negotiation of lower contractual prices of hard coal than in 2015.
- Fuel oil
 - Purchase volume higher by 38% (PLN +4 million)
The purchase volume in the first quarter of 2016 was strongly affected by higher purchase for the needs of trial run of unit no. 10 in Bełchatów power plant in April 2016 after the modernisation.
 - Lower average price by 42% (PLN -6 million)
Lower global prices of crude oil and refinery products attributed to the decrease of average purchase price of fuel oil.

In the first quarter of 2016 approximately 65% of the electricity was produced from internally sourced lignite, whose extraction price is fully controlled by PGE Capital Group.

1.2.3 Tariffs

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

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

Sales of electricity

In 2016 tariffs for sales of energy to the corporate customers (key and business) and to individuals (other than G tariff customers connected to the distribution network of PGE Dystrybucja S.A.) were not subject to approval of the President of the Energy Regulatory Office.

In 2016 sales of electricity to off-takers from the G tariff group, connected to the distribution network of PGE Dystrybucja S.A., was conducted on the basis of electricity Tariff for PGE Obrót S.A. approved by the decision of the President of the Energy Regulatory Office for the period till December 31, 2016. In comparison to the analogical period of 2015 tariffs in G tariff group decreased by approximately 0.7%.

Distribution of electricity

Methodology of and assumptions for tariffs determination were published in the document "Tariffs for the DSO for the year 2016", which was prepared and published by the President of the Energy Regulatory Office.

On December 17, 2015 the ERO President approved the Tariff of PGE Dystrybucja S.A. for electricity distribution services for the period until December 31, 2016.

Tariff came into force on January 1, 2016.

Distribution tariffs for 2016 approved by the President of the Energy Regulatory Office, contributed to changes in average tariff in particular tariff groups (calculated for revenues and volume in a given tariff year) in comparison to year 2015:

- A tariff group – decrease by 1.31%;
- B tariff group – decrease by 1.96%;
- C+R tariff group – decrease by 5.90%;
- G tariff group – decrease by 1.96%.

Decrease of distribution tariffs takes into account 12% increase in quality fee transferred from the Transmission System Operator tariff, that increase regulated revenue but does not affect the result of Distribution segment .

The most important change is implementation in tariff for 2016 of quality parameters. It has been settled that the ratios directly impacting the regulated revenue will be following key performance indicators:

- SAIDI – System Average Interruption Duration Index;
- SAIFI – System Average Interruption Frequency Index;
- Connection time;
- Transfer time of metering and billing data („CPD”), which will be included in the quality regulations as of 2018.

Not meeting the levels of ratios indicated by the ERO President will result in penalty of decreasing the regulated revenue through reduction of amount of return on capital in year t+2. In the initial period no rewards are anticipated for achieving better indicators than the required ones.


Impact of quality parameters realized in 2016 will be included in tariff for 2018. In accordance with the assumptions adopted by the ERO, a penalty may not exceed 2% of regulated revenue and value of 15% of return on capital in a given year.

For the first time in line with the ERO guidelines, it has been possible to include in the tariff costs related to construction of energy infrastructure in the traffic lane, or costs related to the permanent exclusion of land from agricultural production and forestry.

In the tariff of PGE Dystrybucja S.A. RES fee was also introduced. That fee – due to the amendments to the RES Law – will come into force as from July 1, 2016.

Tariff for heat

Pursuant to the Energy Law, Energy companies holding concessions set tariffs for heat and propose their duration. Tariff is subject to approval of the President of the Energy Regulatory Office, if it is consistent with rules and



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

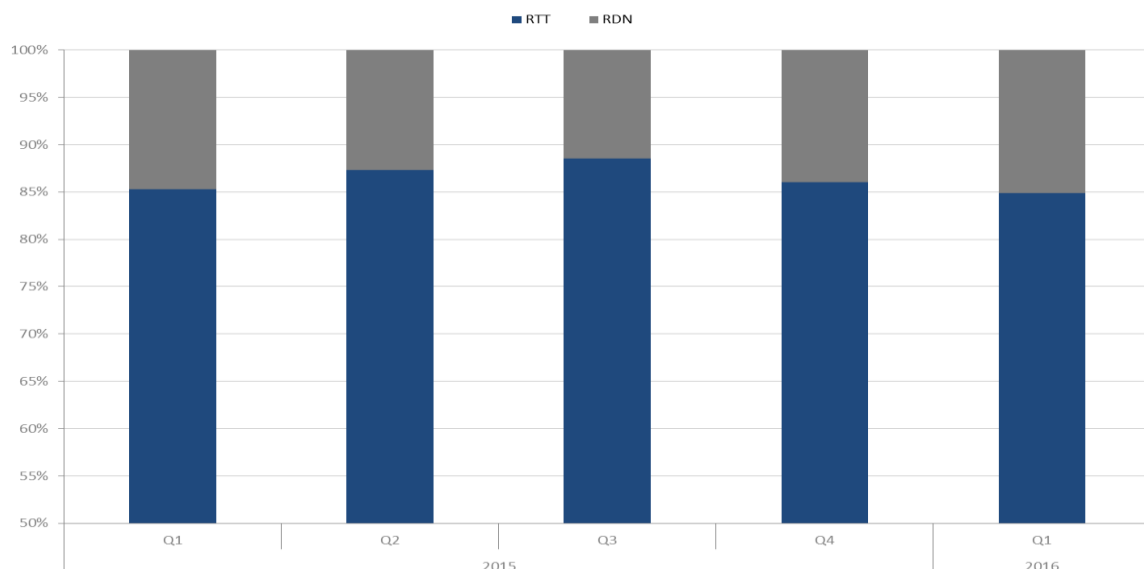
Average sale price of heat to external customers increased by approx. 3.4% in comparison to the prices binding in the first quarter of 2015.

1.2.4 Electricity prices

Domestic market – trading volumes

Liquidity on the day-ahead market of Towarowa Giełda Energii S.A. (TGE) in the first quarter of 2016 increased by 3% y-o-y. The trading volumes on the futures market (RTT) declined by 0.5% compared to the first quarter of 2015. Total combined trading volume for the day-ahead market and RTT remained at the level from the first quarter of 2015, reaching 47.9 TWh. This means that TGE trading volumes exceeded domestic electricity consumption, which amounted to 42.6 TWh - according to PSE S.A.

Chart: Quarterly trading volumes on the day ahead market (RDN) and futures market (RTT) in 2015-2016.



Domestic market - Prices

Day-ahead market

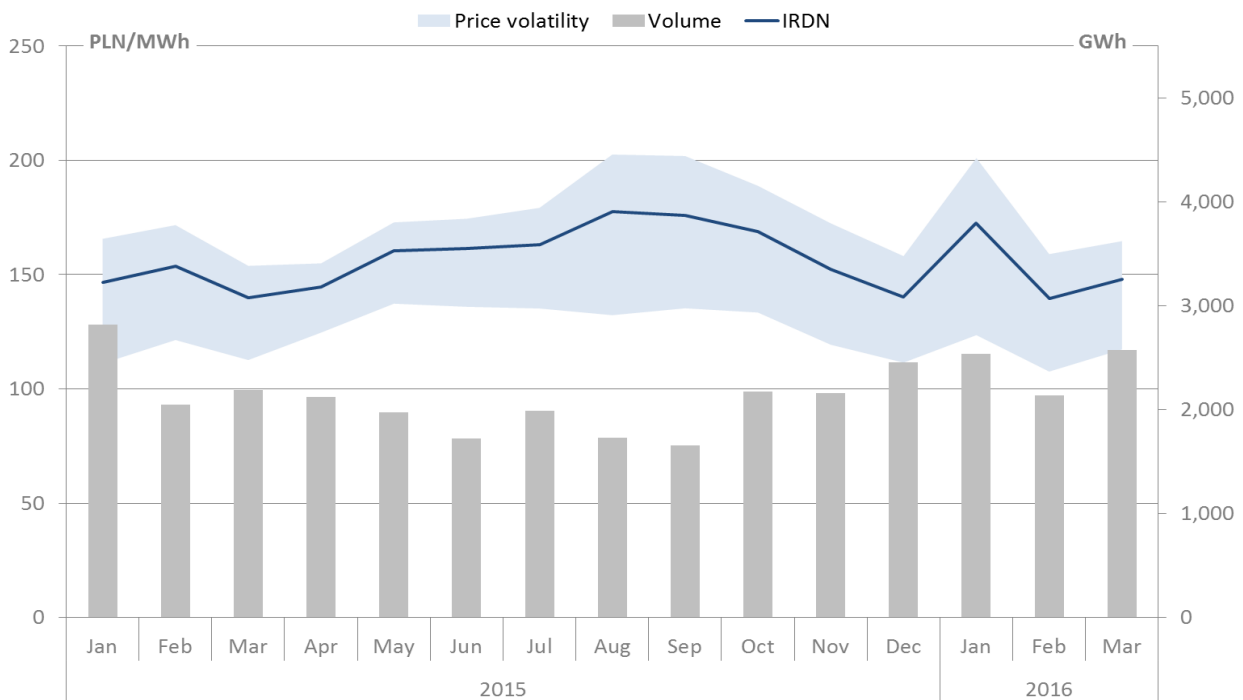
In the first quarter of 2016, prices on the day-ahead market showed a rising tendency. The average price in the first quarter of 2016 on the day-ahead market ("IRDN index") was PLN 154/MWh, compared to PLN 146/MWh in the previous year. The higher average price for the quarter resulted from an unusual situation in January 2016, caused by three factors:

- Fall in temperatures in Sweden to below -30°C , causing prices in Sweden to exceed those in Poland and thus reducing imports from the northern direction;
- Opening of a cross-border connection with Lithuania (LitPol), which given higher spot prices led to larger energy exports;
- Lower windiness in Poland – use of installed wind capacity was at an average of 20% during the period (compared to 40% in the same period last year).

As a result of these weather factors, the average daily price exceeded PLN 200/MWh, with hourly prices exceeding PLN 600/MWh.

The situation changed in February 2016. Stronger winds resulted in record-high wind generation of 1.37 TWh, compared to 0.7 TWh a year earlier, which coupled with higher temperatures led to a decline of average price to below PLN 140/MWh.

Chart: Monthly prices and price volatility at the day ahead market in 2015–2016 (TGE)*.

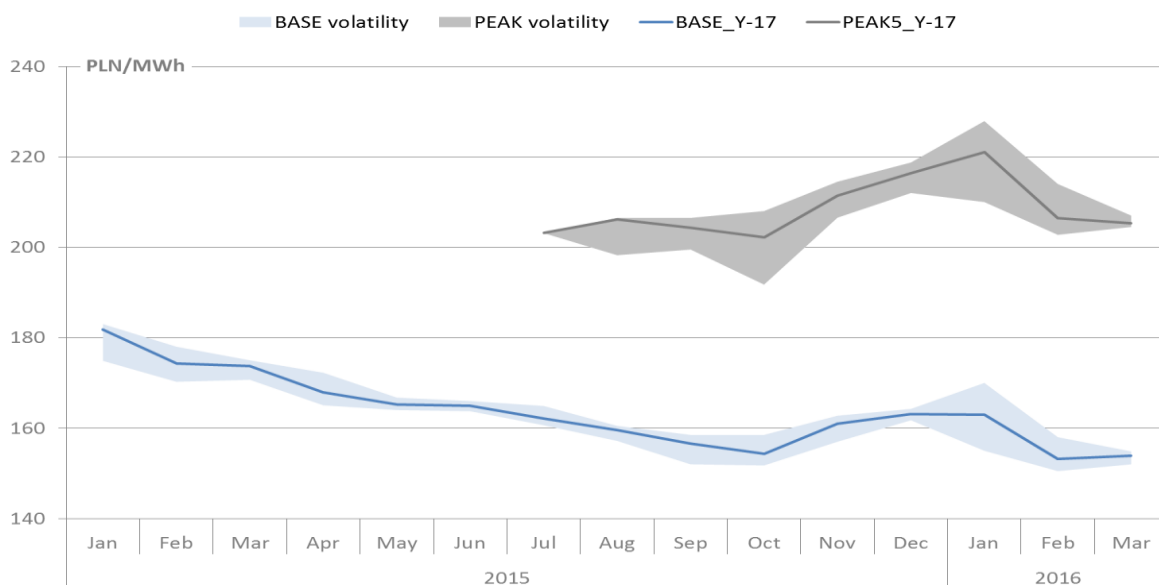


* arithmetic average price from all power exchange transactions concluded at the session (IRDN) and prices spread (sIRDN, offIRDN)

Futures market

In the first quarter of 2016, the average price of annual contracts BASE Y-17 was PLN 157/MWh, down 10% from the same period last year. Average peak contract price (PEAK Y-17) was PLN 210/MWh (contract not quoted in the first quarter of 2015). Base contract prices peaked (at about PLN 170/MWh) midway through January 2016, followed by declines until mid-February, when they reached PLN 151/MWh. In the second half of the first quarter of 2016, prices slightly rose, to PLN 155/MWh.

Chart: Monthly prices and price volatility on the futures market in 2015-2016 (TGE).

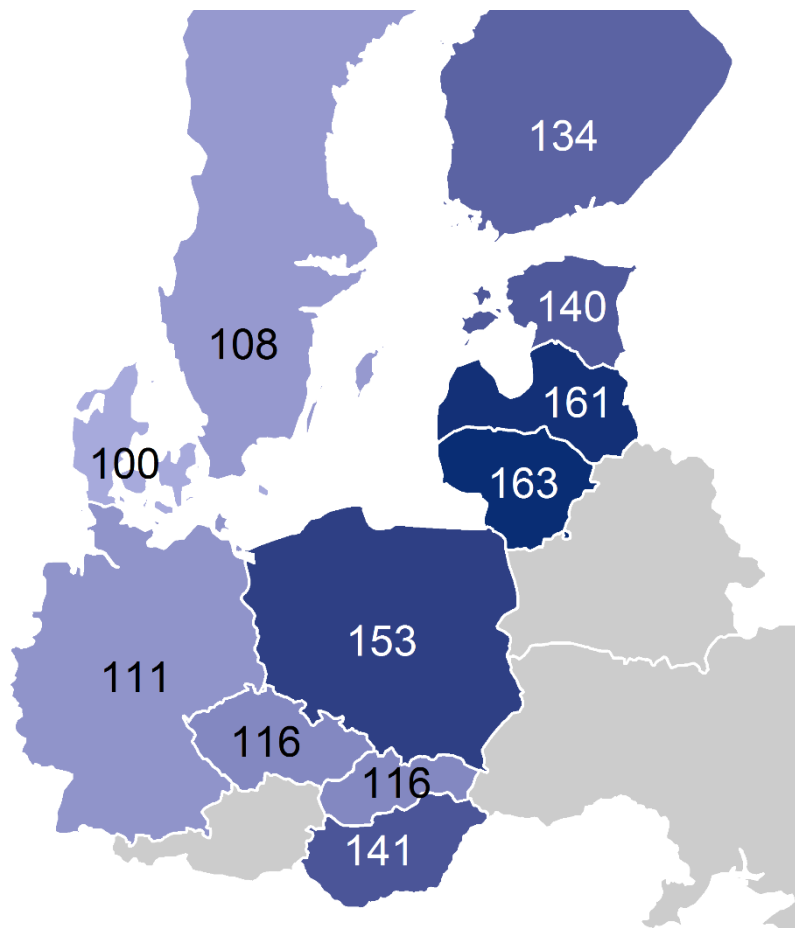


International markets

Wholesale market

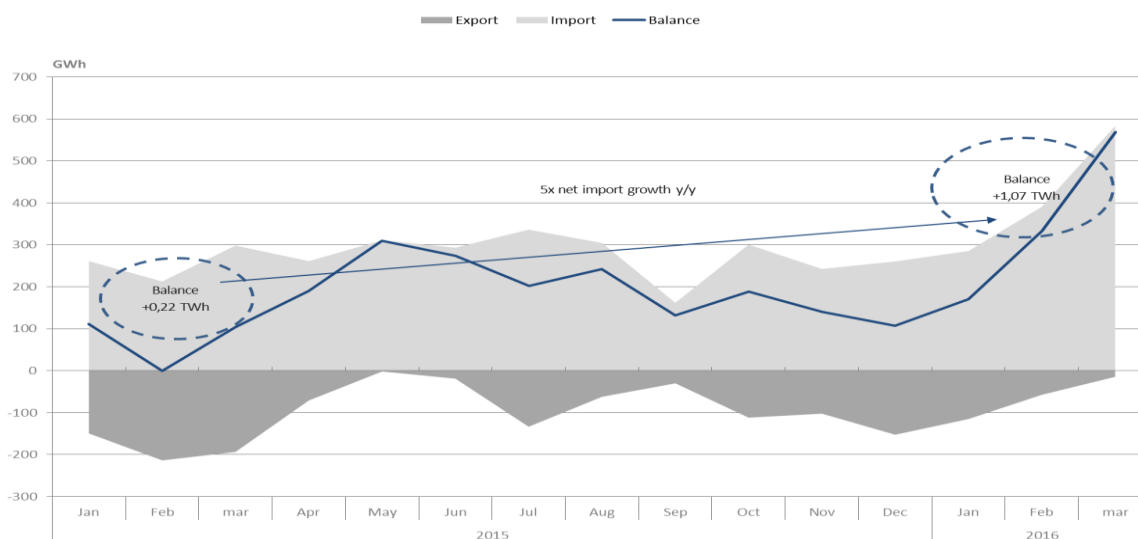
In the first quarter of 2016, wholesale energy prices in Poland were some of the highest in Europe, resulting in a substantial excess of imports over exports.

Chart: Comparison of average prices on Polish market and on selected European markets in the first quarter of 2016 (prices in PLN/MWh).



Source: TGE, EEX, EPEX, Nordpool, OTE a.s., PXE

Chart: Monthly imports, exports and cross-border exchange balance in 2015-2016.



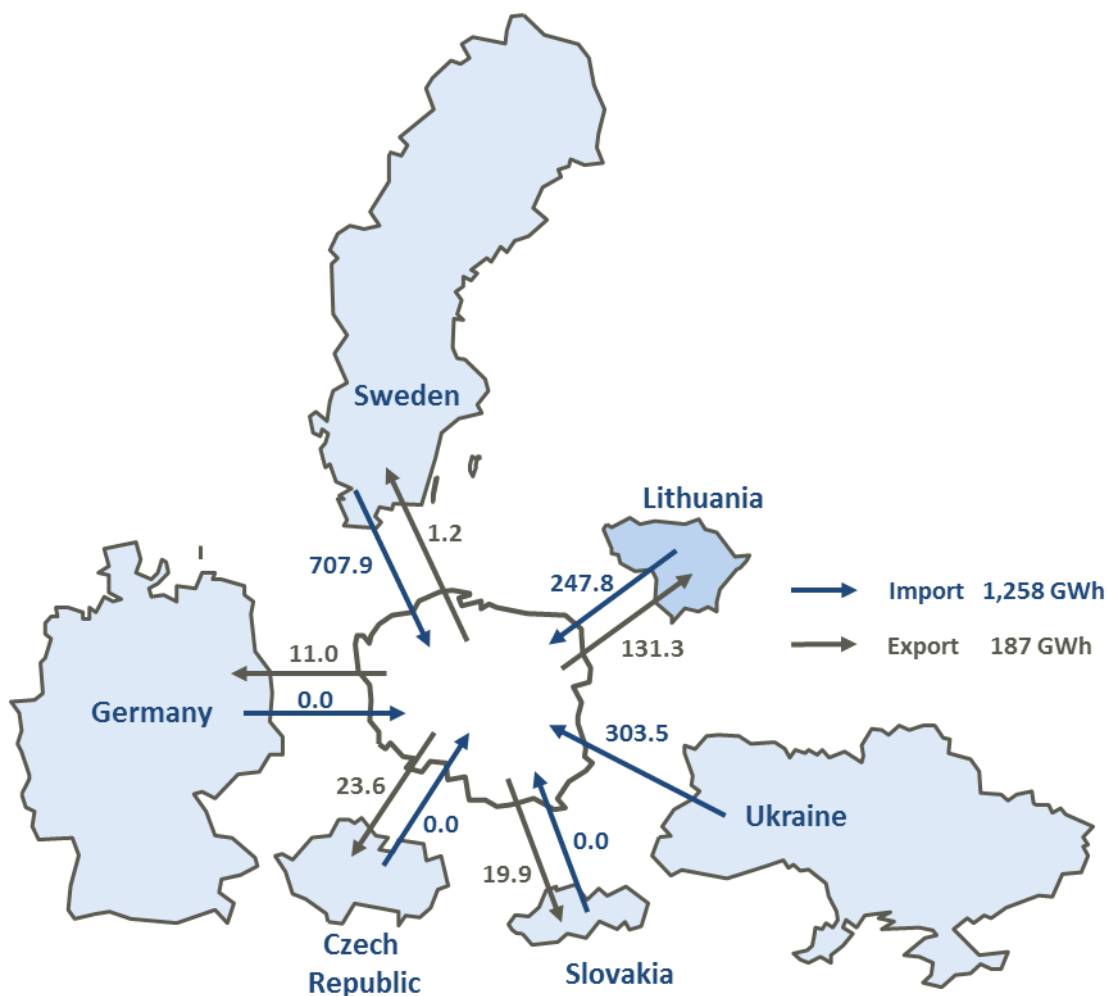
Source: TGE

The balance of cross-border commercial exchange in the first quarter of 2016 was 1.07 TWh, five times higher than in the same period last year. The main driver was the launch of the NordBalt power connection between Sweden and Lithuania in the second half of February 2016, what led to a decline in wholesale prices in Lithuania below the prices in Poland, practically resulting in the full use of transmission capacities (488 MW) into Poland. Prior to establishing a connection between the Swedish and Lithuanian systems, the LitPol Link connection was largely used to export electricity from Poland to Lithuania, where prices were significantly higher.

Other factors driving the negative exchange balance included resumption of imports from Ukraine (higher use of this connection in the first quarter of 2016) as well as lower exports to Germany, Czech Republic and Slovakia due to the loss of pricing advantage in morning and evening hours, characteristic for the Polish market in the first quarter of 2015.

Sweden remains the key import direction; with the exchange balance of 0.7 TWh close to last year's level.

Picture: Geographical structure of commercial exchange in the first quarter of 2016 (GWh).

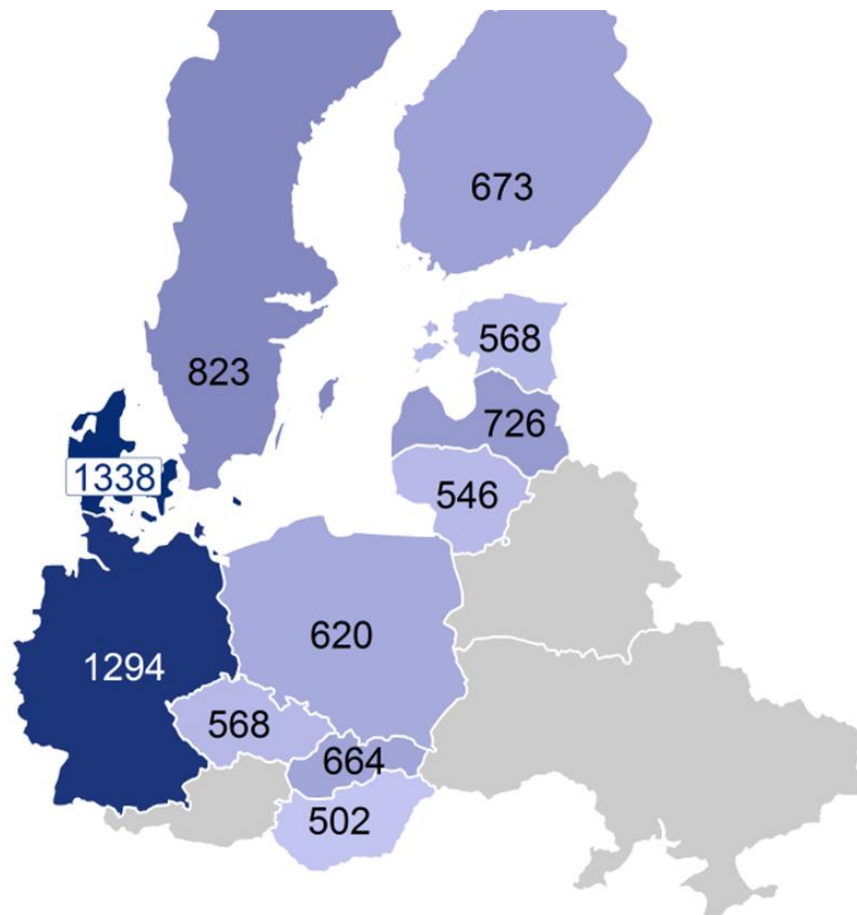


Source: TGE

Retail market

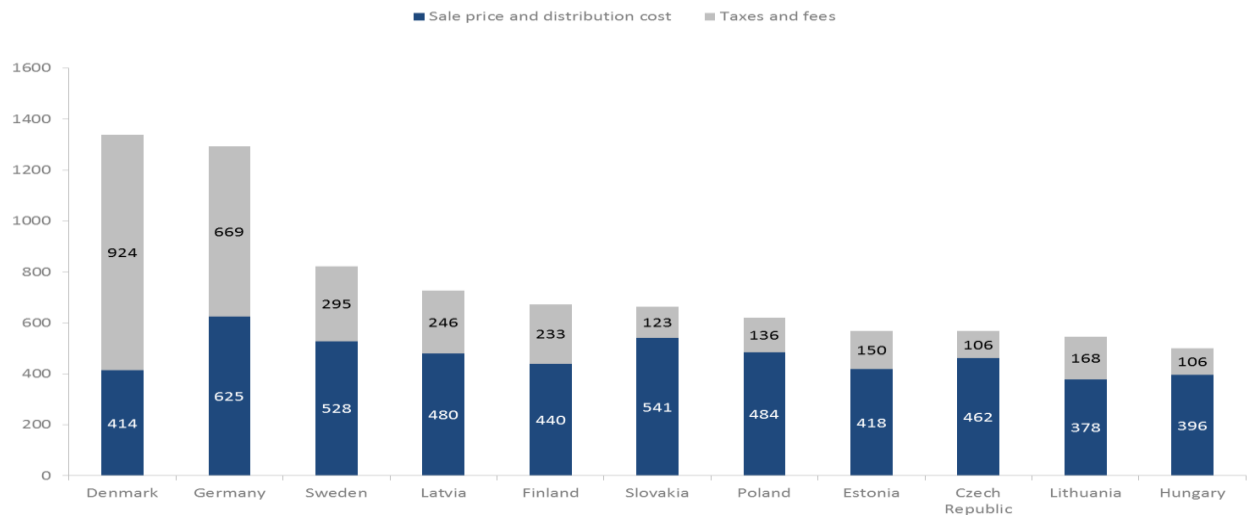
The diversity of electricity prices for retail customers in the European Union depends not only on the level of the wholesale prices of electricity. The fiscal system, regulation mechanisms and support schemes in particular countries all have significant impact on the final price of electricity. In Poland in the second half of 2015, an additional burden for individual customers accounted for 22% of the electricity price, compared to the EU average of 29%. In Denmark and Germany the proportion of additional charges in the price of electricity exceeded 50%.

Diagram: Comparison of average electricity prices for individual customers in selected EU countries in the second half of 2015 (prices in PLN/MWh). Prices include the costs of electricity distribution.



Source: own work based on Energy prices in the EU. Eurostat, the statistical office of the European Union. EURO/PLN 4.40

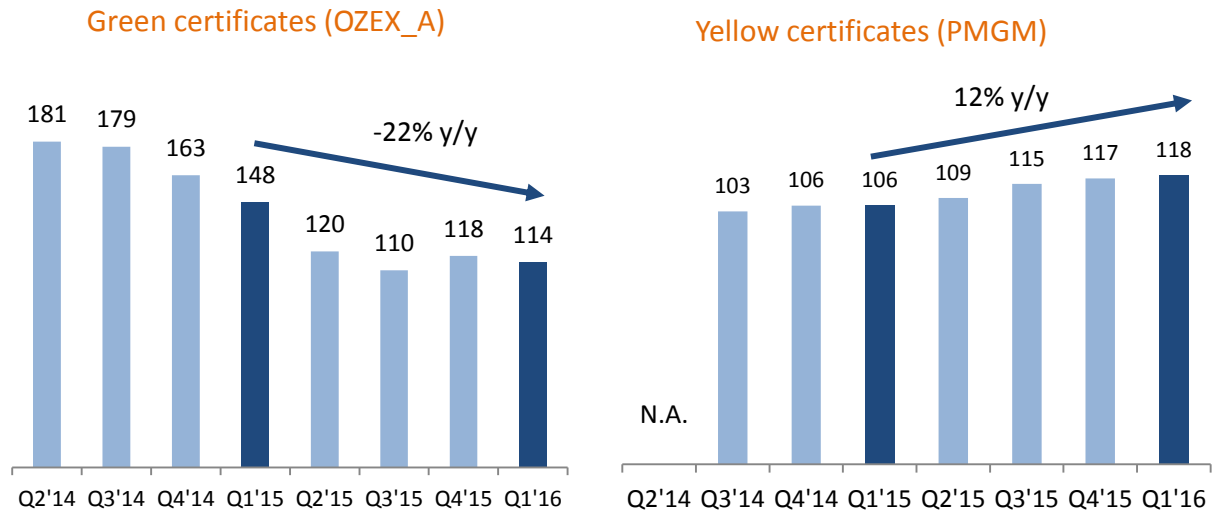
Diagram: The share of additional charges in electricity prices for the individual customers in selected EU countries in the second half of 2015 (prices in PLN/MWh, calculated with average quarterly exchange rate EUR/PLN 4.40).



1.2.5 Prices of property rights

Of key significance to PGE Group's financial results are property rights from renewable energy sources (OZEX_A) and yellow cogeneration property rights (PMGM). In the first quarter of 2016, the average price of green certificates reached PLN 114/MWh and was 22% lower y-o-y, reflecting higher electricity production from renewable sources and therefore a growing supply of green certificates. The prices of green certificates remained at a lower level than the substitute fee established for 2016 at PLN 300/MWh. The average price of yellow certificates grew by 12% y-o-y to PLN 118/MWh (substitute fee: PLN 125/MWh).

Chart: Average quarterly prices green and yellow certificates (in PLN/MWh).



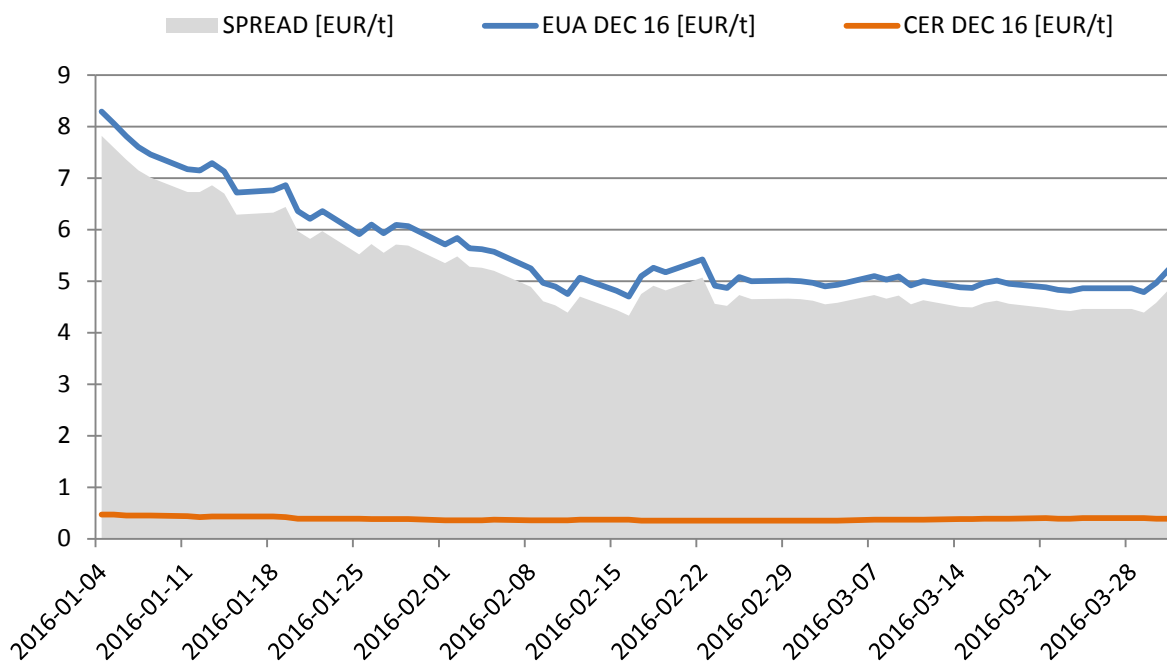
Source: Own work based on TGE quotations

1.2.6 Prices of CO₂ emission rights

Two types of emission rights are available on the market – European Union Allowances (EUA) and Certified Emission Reductions (CER). CER-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.

In the first quarter of 2016, the prices of EUAs substantially declined, mainly as a result of lower commodity prices on highly correlated markets, i.e. crude oil, gas, coal and electricity in Germany. Further factors attributing to the prices of CO₂ emission rights in the period included increasing of volume intender for auctions in 2016, allocation of free-of-charge CO₂ emission allowances for 2015 and publication by the European Commission of data regarding levels of greenhouse gas emissions from installations covered by the EU ETS.

Chart: Prices of CO₂ emission rights in the first quarter of 2016.



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

In the first quarter of 2016, future EUA prices for December 2016 were priced in range EUR 4.70-8.29/tonne. In the same period, CERs in future contracts with delivery in December 2016 were priced in range EUR 0.35-0.47/tonne.

Work on revision of the EU Emissions Trading System (EU ETS) directive is on-going. The new legal regulations concern the next settlement period, i.e. after 2020. The final version of the directive is to be published at the beginning of 2017.

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

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

PGE's installations accounts were credited with free allowances for heat for 2016 and energy for 2015, while free allowances for electricity for 2016 will be received by the Group by the end of April 2017, after verification of reports from investments submitted to the National Investment Plan.

At the same time, redemption of emission rights resulting from CO₂ emissions in 2015 was completed in April 2016.

Table: Emission of CO₂ from major Group installations in the first quarter of 2016 in comparison to allocation of CO₂ emission rights for 2016 (in Mg).

Operator	CO ₂ emissions in Q1 2016*	Allocation of CO ₂ emission rights for 2016**
Bełchatów Power Plant	7,974,478	10,282,843
Turów Power Plant	1,811,763	4,137,453
Opole Power Plant	1,524,814	2,377,219
ZEDO	1,304,565	1,949,023
Bydgoszcz CHPs	277,779	442,383
Lublin Wrotków CHP	210,441	257,020
Gorzów CHP	142,997	201,665
Rzeszów CHP	118,917	107,381
Kielce CHP	84,346	83,196
Zgierz CHP	49,190	32,763
TOTAL	13,499,290	19,870,946

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

** amount of granted CO₂ emission rights will be confirmed in the Regulation of the Council of Ministers in the first quarter of 2017

1.2.8 Termination of long-term contracts (LTC)

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

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

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

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

The impact of LTC compensations on results achieved by the PGE Group is described in note 22.1 to the consolidated financial statements and in p. 5.8 of this report.

2 Strategy of the PGE Capital Group for years 2014 - 2020 and key activities in the first quarter of 2016

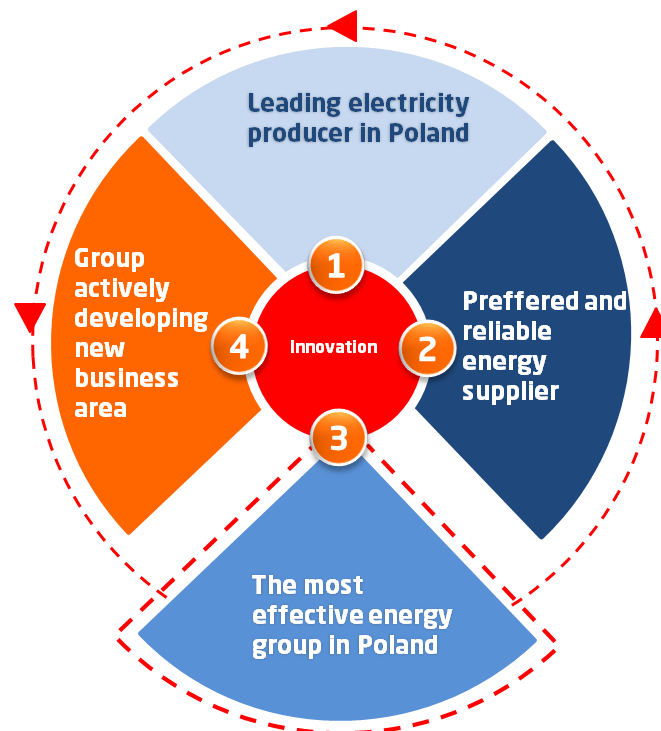
Market and regulatory environment is currently subject to constant changes, which require PGE Group to verify its strategy through prioritisation and potential correction of key aspirations and strategic activities.

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 commissioning of two new highly efficient hard coal units in Opole power plant 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 at the advanced stage of execution of 138 MWe co-generation project of CCGT unit in Gorzów CHP and started realisation of the waste incineration plant in Rzeszów CHP (Notice to Proceed issued in April 2016). 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 at the break of 2019 nad 2020 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 thanks to that, 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 the Renewable Energy 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 the first quarter of 2016

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 4.2 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: completed assembly of a steel structure for boiler no. 6 and construction of a concrete coating for cooling tower of unit no. 5; continuing construction of pressure parts of boiler no. 5, steel structure of turbine halls of units no. 5 and 6, completed concrete coating for cooling tower no. 6. Overall progress of the works as of the end of March 2016 reached 40.3%
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

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 286 million● fuel: local nitrogen-rich gas or methane-rich gas (Group E)● overall efficiency: 84%● contractor: Siemens● commissioning: H2 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, trial run works have been commenced.
Construction of a Thermal Processing Installation with Energy Recovery at Rzeszów CHP	<ul style="list-style-type: none">● construction of a thermal processing installation with energy recovery at Rzeszów CHP with capacity of approx. 8 MWe in condensation (approx. 5 MWe +17 MWt in co-generation)● budget: approx. PLN 293 million (net, without costs of financing)● capital expenditures incurred: approx. PLN 3 million● fuel: municipal waste● boiler's efficiency: 86%● contractor: Aster Resovia TM.E.S.p.A. Termomeccanica Ecologia Astaldi S.p.A spółka cywilna● commissioning: 2018● Agreement with the Contractor signed on December 22, 2015, Notice to Proceed issued on April 8, 2016● status: stage of project and preparatory works on the construction site
Investments in renewable energy sources	<p>Gniewino Lotnisko wind farm</p> <ul style="list-style-type: none">● budget: approx. PLN 516 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: investment completed, occupancy permit obtained in December 2015, concession for electricity generation obtained in January 2016 <p>Kisielice II wind farm</p> <ul style="list-style-type: none">● budget: approx. PLN 79 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: investment completed, occupancy permit obtained in December 2015, concession for electricity generation obtained in February 2016

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 4.6 billion (net, without costs of financing)
- work progress: units no. 7, 8, 11 and 12 commissioned, regulatory operation on unit no. 9 is ongoing, 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 156 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 456 million (net, without costs of financing)
- budget for unit 14: ca. PLN 91 million (net, without costs of financing)
- completion: 2018

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

- **project's objective:** to decrease the NO_x emission level from boilers of units no. 1, 2 and 4 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 99.5 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 determined, tender procedure ongoing
- 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 determined, tender procedure ongoing
- fuel: hard coal
- completion: 2019

Comprehensive reconstruction and modernisation of units no. 1-3 at Turów power plant

- **Aim of the project:** Adaptation to BAT Conclusions requirements regarding permissible emissions, increase of availability and efficiency, as well as expansion of each turboset's nominal capacity by 15 MW.
- budget to be determined
- fuel: lignite
- completion: 2020

Construction of flue gas desulphurisation and denitrification installations for WP-70 boilers at Lublin-Wrotków CHP

- **Aim of the project:** Adaptation of WP-70 water boilers to emission standards as per BAT Conclusions requirements for units smaller than 300 MWt.
- budget to be determined, tender procedure ongoing
- fuel: hard coal
- completion: 2018

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 of 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 the first quarter of 2016

Project of network losses reduction

- **the project is intended to** reduce electricity procurement costs for balancing differences
- **activities undertaken:**
 - 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.
- **the results of the project:** lowering of the balancing difference in 2015 to 5.91% (in 2014 it amounted to 6.32%); volume of balancing difference in 2015 amounted to 2.38 TWh and was lower than in 2014 by 4.4% with the simultaneous increase of volumes of energy delivered to off-takers by 2.6% in comparison to the previous year.
- **activities initiated in the first quarter of 2016:** project assumptions for 2016-2020 were updated in March 2016. Pursuant to the revision, activities aimed at reducing balancing differences at PGE Dystrybucja S.A. are to be continued. Level of balancing differences expected in 2016 – 5.90%.

CRM Billing

- **the aim of the project is deployment of support systems** for settlements and customer service in PGE Obrót S.A. and PGE Dystrybucja S.A.
- **the project will yield:**
 - 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
 - improved customer service quality
- the above objectives will be attained through the **deployment of IT tools** that support billing and settlement processes, debt collection, sales, post-sales services, CRM, customer service, exchange of metering data and information concerning technical operations

- **activities initiated in the first quarter of 2016:** A procurement proceeding was initiated to deliver and implement a system for customer service and settlements at PGE Obrót S.A. and PGE Dystrybucja S.A. 11 requests to participate in the proceeding were received. Moreover, implementation of a new eBOK/mBOK system for PGE Group clients was completed. The solution received a PayU Lab Award in the "eCustomer Experience – Energy" category.

The most effective energy group in Poland

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

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

Key projects in the first quarter of 2016

Human Capital Management Strategy („HCM Strategy")

- **the aim of this project is** supporting the business strategy goals through:
 - **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
- **activities in 2015:** communicating the Human Capital Management Strategy adopted by the PGE Group, commencement of works 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 bring standardisation to the integrated HR field across whole 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.
- **activities initiated in the first quarter of 2016:** Works were initiated in specific business lines to adapt procedures and instructions to guidelines contained in corporate rules in the area of human capital management. Also initiated were works on the second group of strategic initiatives, consisting of specific HR tools resulting from corporate rules.

Program SAP

● the aim of the project is:

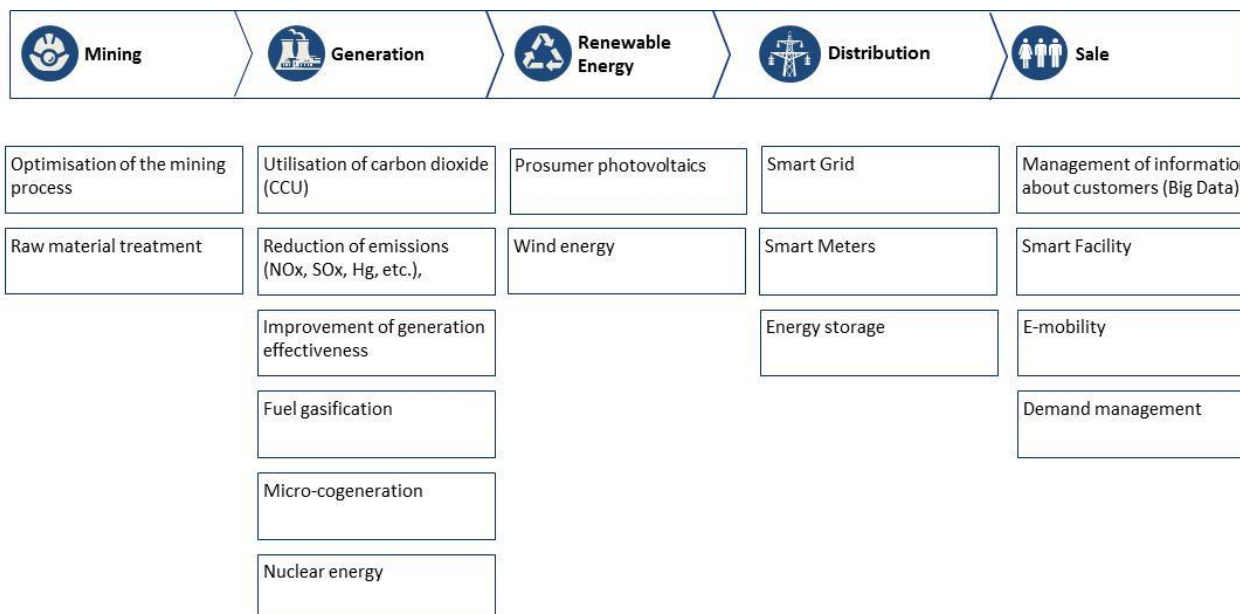
- **improved operational efficiency through:** standardisation of processes within the Group, the aim of the project, optimisation of the technical assets efficiency, more efficient maintenance and development of the system
- **improved transparency through:** creation of uniform records of economic events, access to the ongoing and compact of management information, streamlining and accelerating of decision making process
- **base creation for:** creation of Shared Services Centre within PGE Group, integration of procurement system, retention of market leadership in face of stiffening competition

Within PGE Group's SAP Programme, an ERP system is being implemented in the areas of accounting, controlling, logistics ("RiL"), asset management ("AM"), human capital management ("HCM"), financial consolidation ("FC") and SAP Fiori.

- **activities initiated in the first quarter of 2016:** implementation of AM area was completed in main companies of the PGE Group. SAP Fiori was also implemented with regard to basic services in Port@I HR. So far, implementation of SAP system encompassed 18 thousand users in areas of RiL, HCM, AM, FC in all companies of PGE Group companies. Implementation works are being pursued in areas of RiL, AM, HCM in companies Ramb sp. z o.o., Megaserwis sp. z o.o., Bestgum Polska sp. z o.o., Eltur-Serwis sp. z o.o., Elbis sp. z o.o., Betrans sp. z o.o. Production start took place April 1, 2016.

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, are currently the basis and are used for the defining of expansion projects or projects aimed at implementing solutions that are of most significance to PGE Group. Projects are launched gradually, taking into consideration their potential impact on the business and the capacity for executing them within the production environment.



Innovation

PGE focuses on initiating and executing R&D projects that fall within the SOBIR+NB areas. In the first quarter of 2016, 53 projects were continued within these areas.

Key projects in the first quarter of 2016

„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 feasibility study of construction of Power to Gas installation was developed on joint request of PGE S.A. and gas transmission operator Gaz-System S.A.
Cooperation with the National Centre for Research and Development ("NCBR")	<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 NCBR 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. So far, works on the Joint Venture Agreement consisted of preparing a draft of the Agreement and Financing Rules; agreements with contractors and the research agenda are currently being drafted. The aim of the joint undertaking is to address the challenges facing PGE Group as the sector's largest entity, thus increasing the level of innovativeness in PGE Group and 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 NCBR 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. Following a recommendation from the Centre's Council, work is under way to align the Programme's research agenda with the NCBR-approved ICT Sector Programme, as regards equipment solutions and software intended for use in the power sector. ▪ as part of works on setting up a joint funding mechanism, using public funds (at NCBR's disposal), TFI PZU proposed a modified structure based on funds of funds and venture capital funds. Due to formal (on the part of the NCBR) and business (on the part of PGE S.A.) considerations, the new solution must receive a general approval and organisational details must be worked out. Use of public and private funding, as initially proposed, remains a project priority, with emphasis on employing professional management teams and use of the potential of the Polish and foreign markets.

3 Results achieved in PGE Capital Group

3.1 Financial results of PGE Capital Group

Key financial data	Unit	Q1 2016	Q1 2015 <i>data restated</i>	% change
Sales revenues	PLN million	7,133	7,553	-6%
EBIT	PLN million	1,123	1,416	-21%
EBITDA	PLN million	1,822	2,202	-17%
Net profit attributable to equity holders of the parent company	PLN million	870	1,095	-21%
LTC compensations	PLN million	278	162	72%
<i>Revenues from LTC compensations</i>	<i>PLN million</i>	<i>130</i>	<i>162</i>	<i>-20%</i>
<i>Reversal of LTC write-down (other operating revenues)</i>	<i>PLN million</i>	<i>148</i>	<i>0</i>	<i>-</i>
Capital expenditures	PLN million	1,841	1,393	32%
Net cash from operating activities	PLN million	1,068	1,361	-22%
Net cash from investing activities	PLN million	-2,522	-2,433	4%
Net cash from financial activities	PLN million	-20	-150	-87%
Net earnings per share	PLN	0.47	0.59	-20%
EBITDA margin	%	26%	29%	-
Key financial data	Unit	As at March 31, 2016	As at December 31, 2015	% change
Working capital	PLN million	4,121	4,126	0%
Net debt/LTM EBITDA *	x	0.53	0.32	

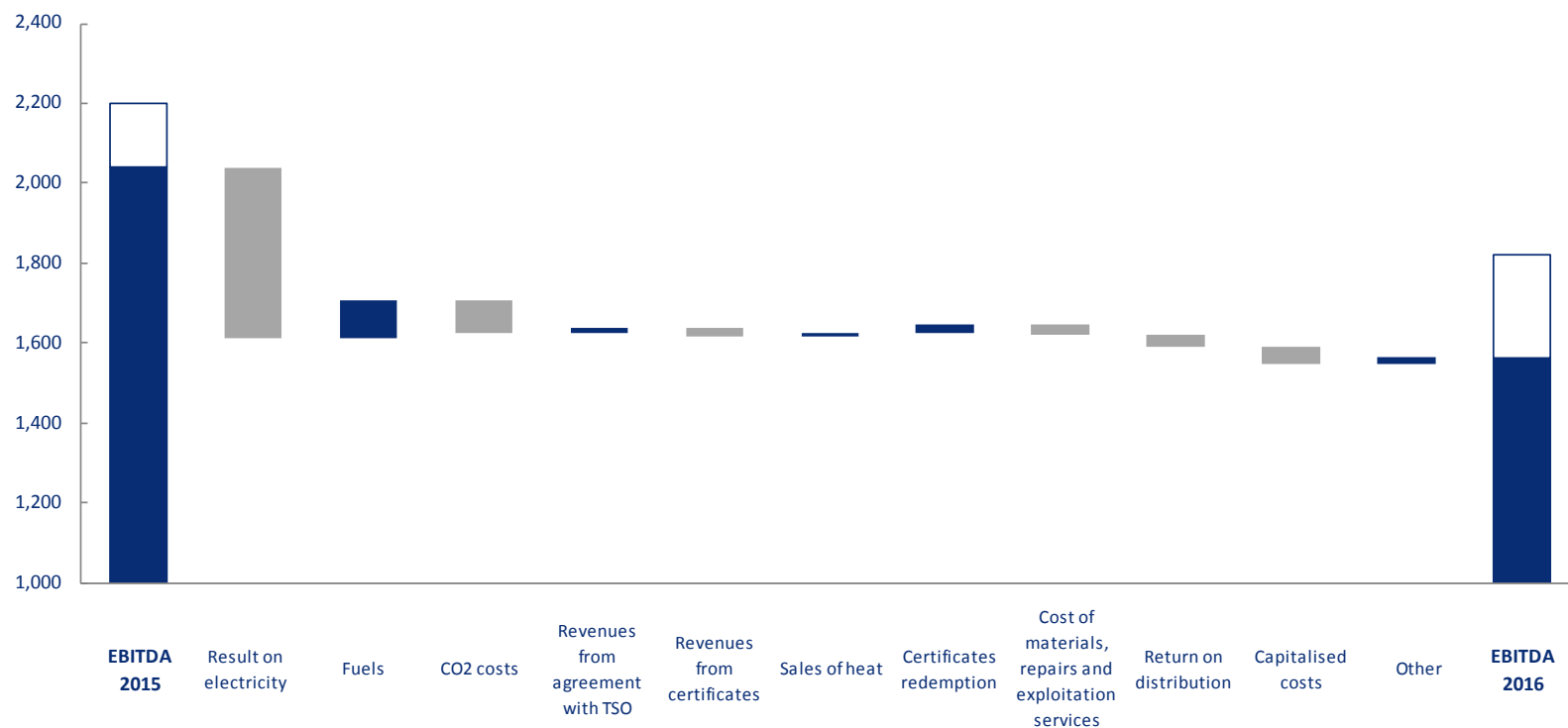
* LTM EBITDA - Last Twelve Months EBITDA

Table: Impact of one-offs on EBITDA.

One-offs	Q1 2016	Q1 2015	% change
LTC compensations	278	162	72%
Voluntary Leave Program	-19	0	-
Total	259	162	60%

3.1.1 Consolidated statement of comprehensive income

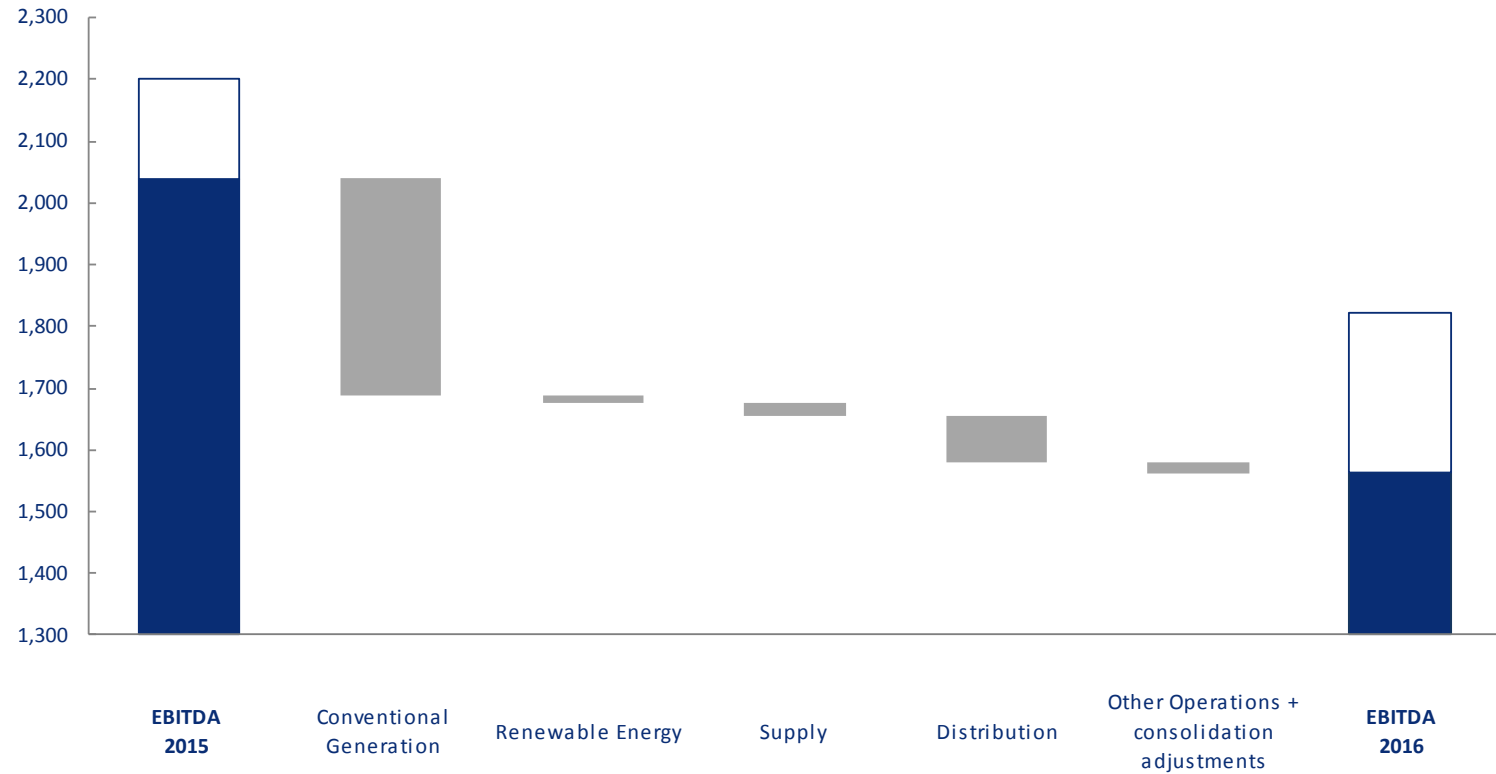
Chart: Key changes of EBITDA in PGE Capital Group [in PLN million].



	EBITDA 2015	Result on electricity	Fuels	CO2 costs	Revenues from agreement with TSO	Revenues from certificates	Sales of heat	Certificates redemption	Cost of materials, repairs and exploitation services	Return on distribution	Capitalised costs	Other	EBITDA 2016
Change		-427	93	-79	10	-22	12	18	-23	-33	-43	17	
EBITDA reported Q1 2015	2,202												
One-offs Q1 2015	162												
Recurring EBITDA Q1 2015	2,040	2,884	714	172	127	207	271	283	146	1,120	307		
Recurring EBITDA Q1 2016		2,457	621	251	137	185	283	265	169	1,087	264		1,563
One-offs Q1 2016													259
EBITDA reported Q1 2016													1,822

□ one-offs

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

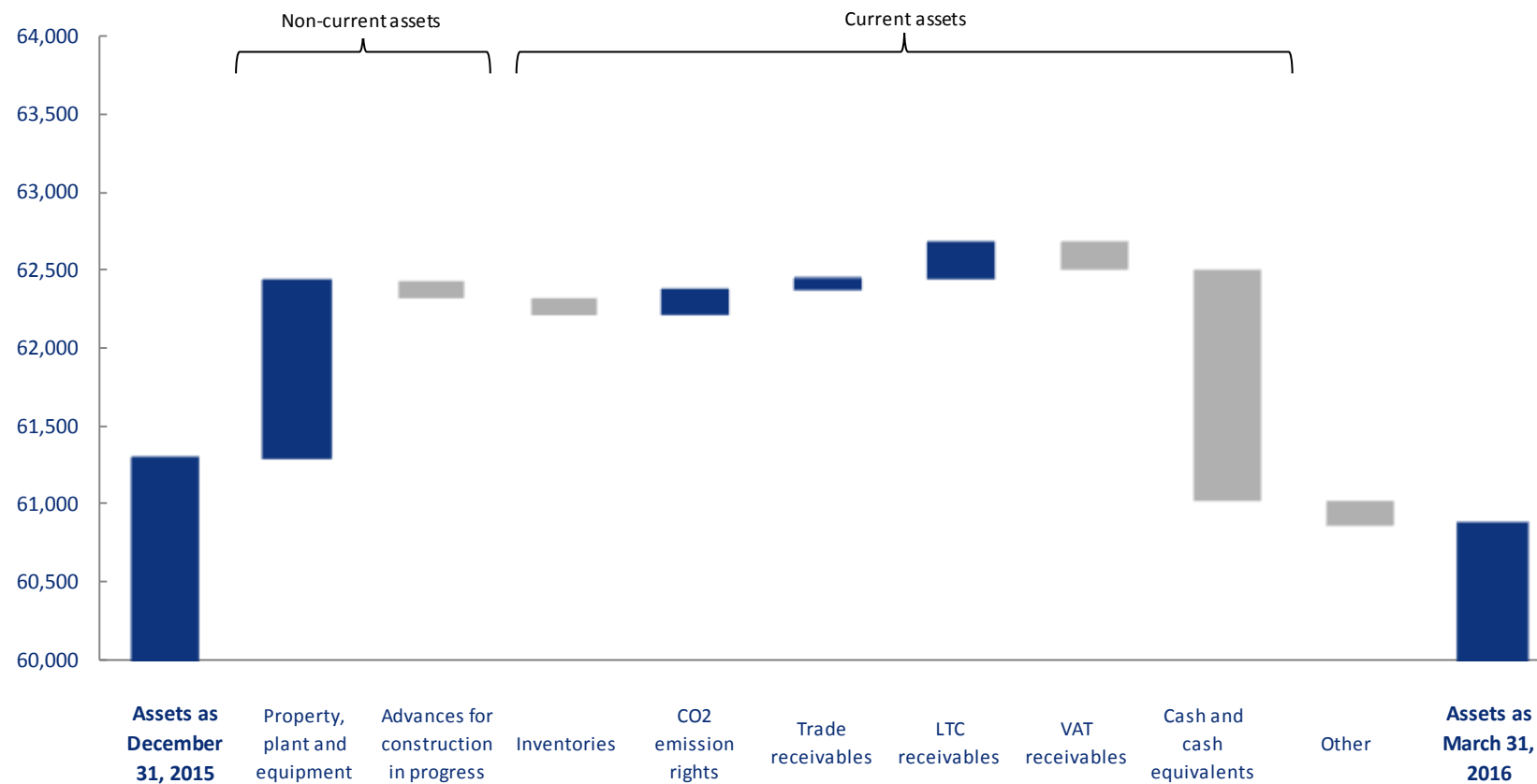


Change	-353	-11	-20	-77	-16	
EBITDA reported Q1 2015	2,202	1,256				
One-offs Q1 2015	162	162				
Recurring EBITDA Q1 2015	2,040	1,094	125	159	632	30
Recurring EBITDA Q1 2016		741	114	139	555	14
One-offs Q1 2016		259				
EBITDA reported Q1 2016		1,000				

□ one-offs

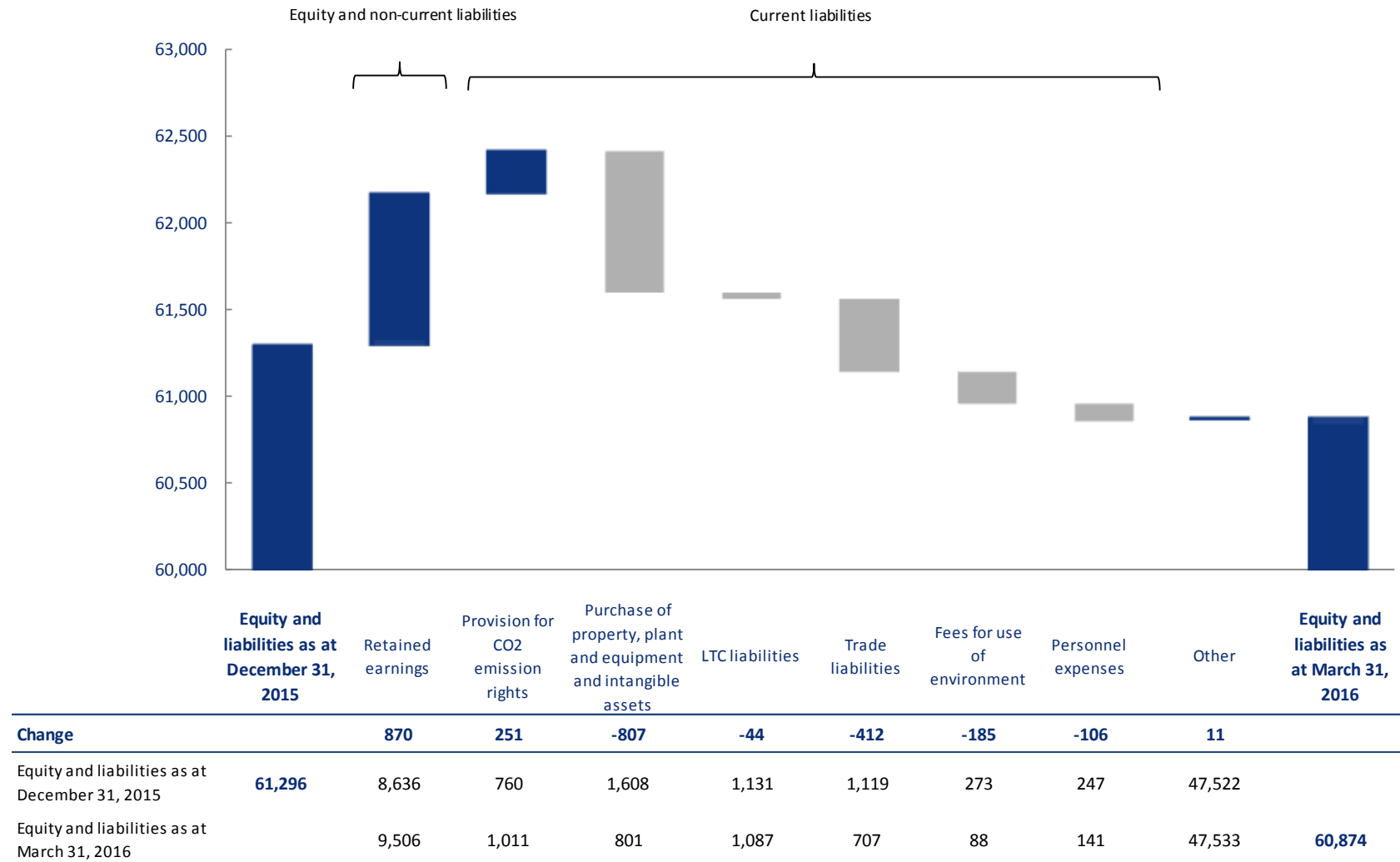
3.1.2 Consolidated statement of financial position

Chart: Key changes in Assets [in PLN million].



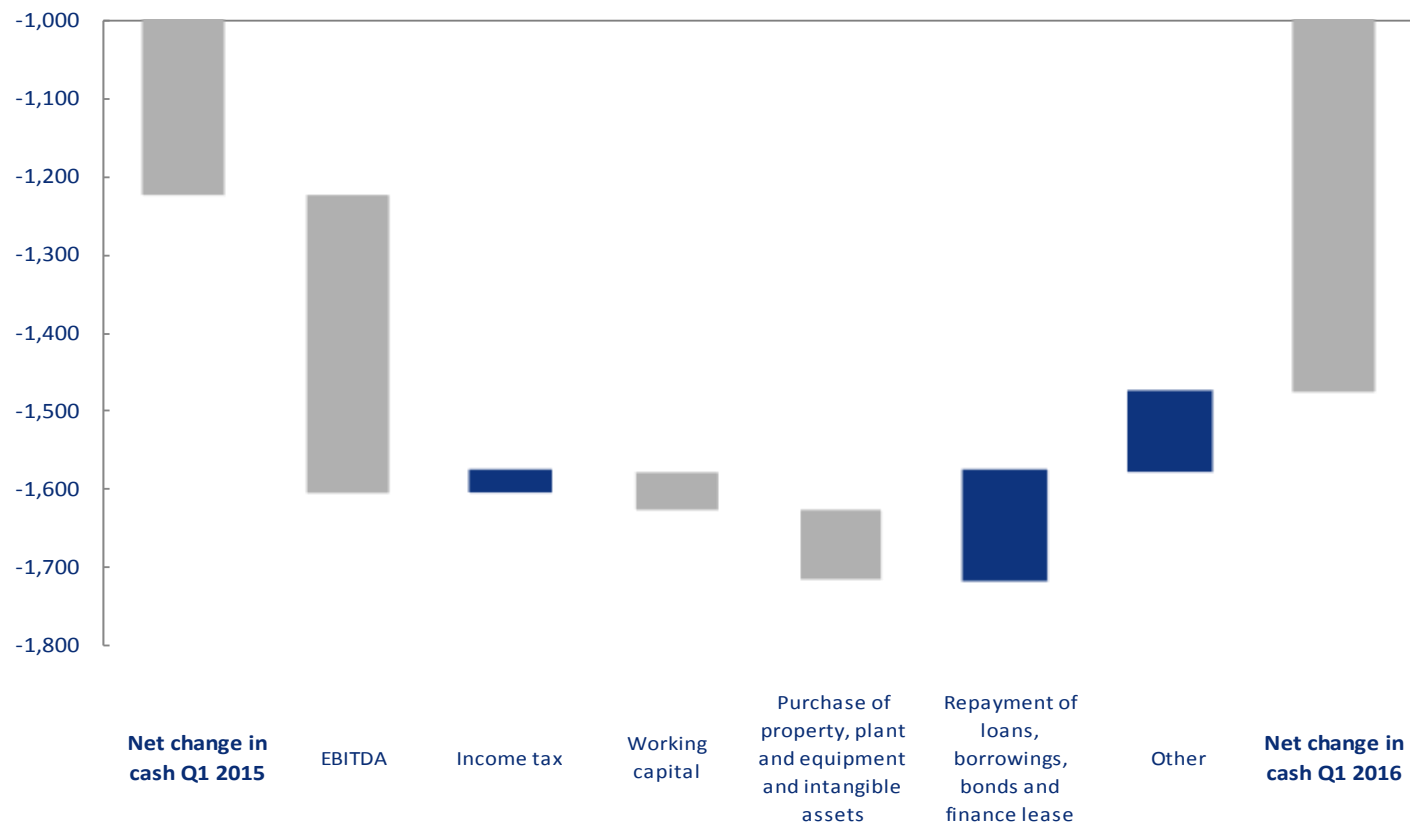
	Property, plant and equipment	Advances for construction in progress	Inventories	CO2 emission rights	Trade receivables	LTC receivables	VAT receivables	Cash and cash equivalents	Other	
Change	1,137	-108	-105	153	75	235	-174	-1,474	-161	
Assets as December 31, 2015	47,068	1,042	1,959	2,172	2,548	1,075	388	3,103	1,941	61,296
Assets as March 31, 2016	48,205	934	1,854	2,325	2,623	1,310	214	1,629	1,780	60,874

Chart: Key changes in Equity and Liabilities [in PLN million].



3.1.3 Consolidated statement of cash flows

Chart: Net change in cash [in PLN million].



	Net change in cash Q1 2015	EBITDA	Income tax	Working capital	Purchase of property, plant and equipment and intangible assets	Repayment of loans, borrowings, bonds and finance lease	Other	Net change in cash Q1 2016
Change	-1,222	-380	27	-49	-88	137	101	-1,474
Net change in cash Q1 2015	-1,222	2,202	-109	-908	-2,434	-170	197	
Net change in cash Q1 2016		1,822	-82	-957	-2,522	-33	298	-1,474

3.2 Operational figures of PGE Capital Group

Table: Key operational figures.

Key figures	Unit	Q1 2016	Q1 2015	% change	2015
Lignite extraction	Tons m	11.10	13.10	-15%	49.40
Net electricity production	TWh	13.16	14.53	-9%	55.58
Heat sales	GJ m	7.80	7.67	2%	18.19
Sales to final customers*	TWh	10.70	9.84	9%	39.00
Distribution of electricity**	TWh	8.64	8.41	3%	33.38

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

** with additional estimation

3.2.1 Balance of energy of PGE Capital Group

Sales of electricity

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

Sales volume	Q1 2016	Q1 2015	% change	2015
SALES IN TWh, including:	25.46	26.16	-3%	101.70
Sales to end-users *	10.71	9.85	9%	39.05
Sales on the wholesale market, including:	14.27	15.90	-10%	60.89
<i>Sales on the domestic wholesale market - power exchange</i>	12.75	15.07	-15%	57.71
<i>Other sales on the domestic wholesale market</i>	1.49	0.81	84%	3.07
<i>Sales to foreign customers</i>	0.03	0.02	50%	0.11
Sales on the Balancing Market	0.48	0.41	17%	1.76

* after elimination of internal sales within PGE Group

The growth in sales volumes to end customers resulted mainly from having contracted additional volumes in the corporate client segment. The decline in volumes sold via the power exchange largely resulted from lower output at the Bełchatów and Turów power plants (see p. Production of electricity). A higher sales volume on other wholesale markets was driven by performance of contracts for PSE S.A. and Enea Operator S.A. in the Conventional Generation segment. Higher sales volumes on the balancing market were due to sales under the Cold Intervention Reserve Service („IRZ”).

Purchases of electricity

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

Purchases volume	Q1 2016	Q1 2015	% change	2015
PURCHASES IN TWh, including:	14.02	13.06	7%	50.92
Purchases on the domestic wholesale market – power exchange	10.57	10.18	4%	40.54
Purchases on the domestic wholesale market, other	1.24	1.24	0%	3.99
Purchases from abroad	0.02	0.00	-	0.03
Purchases from Balancing Market	2.19	1.64	34%	6.36

Increased purchases on the domestic wholesale market – power exchange was caused by increased purchases pursued by Supply segment in order to sell to the final customers. Higher purchase volume on the balancing market is a consequence of balancing the contracted sale and generation.

Production of electricity

Generation volume	Q1 2016	Q1 2015	% change	2015
ENERGY GENERATION IN TWh, including:	13.16	14.53	-9%	55.58
Lignite-fired power plants	8.50	10.13	-16%	38.98
<i>including co-combustion of biomass</i>	0.00	0.11	-	0.34
Coal-fired power plants	2.74	2.60	5%	11.04
<i>including co-combustion of biomass</i>	0.09	0.11	-18%	0.43
Coal-fired CHP plants	0.39	0.41	-5%	1.30
Gas-fired CHP plants	0.80	0.77	4%	2.05
Biomass-fired CHP plants	0.12	0.11	9%	0.46
Pumped storage power plants	0.18	0.14	29%	0.57
Hydroelectric plants	0.13	0.14	-7%	0.36
Wind power plants	0.30	0.23	30%	0.82

Generation level in the first quarter of 2016 in comparison to the first quarter of 2015 was mainly affected by **lower generation in lignite-fired power plant**. Decline in production in Bełchatów power plant results from working time of unit no. 1 limited to 1,500 h in 2016 because of restrictions resulting from the EU emission standards as well as from longer period of overhauls and modernizations of units in Bełchatów power plant:

- Unit no. 3 – planned overhaul from February 15, 2016;
- Unit no. 9 – modernisation from May 1, 2015 until February 6, 2016;
- Unit no. 10 – modernisation from August 15, 2015.

Decrease of production in Turów power plant results mainly from unit no. 1 being in medium overhaul from February 13, 2016 until March 27, 2016.

Decrease of production coal-fired CHP plants is a result of **lower production of electricity in co-generation with heat in Bydgoszcz CHP** what is a consequence of technological restrictions of the desulphurisation installation.

An increase in production of electricity at coal - fired power plants was caused by **higher generation in Opole power plant** what is a consequence of lower production in the comparable period of 2015 due to unit no. 4 being in overhaul from October 2014 till February 6, 2015.

Increased production in gas-fired CHP plants results from higher electricity production in co-generation with heat in Lublin Wrotków CHP and shorter overhauls of unit in Rzeszów CHP.

Higher production in wind farms results mainly from increased installed capacity by 218 MW in wind farms commissioned in the second half of 2015 i.e.:

- FW Lotnisko – 90 MW;
- FW Resko II – 76 MW;

- FW Karwice – 40 MW;
- FW Kisielice II – 12 MW;

with the lower generation from other wind farms due to unfavourable wind conditions.

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

Higher production in pumped storage power plants results from the nature of these generation units, which in the first quarter of 2016 were used to a higher extent by PSE S.A.

3.2.2 Sales of heat

In the first quarter of 2016 the heat sales in PGE Capital Group totalled 7.80 GJ million and was higher by 0.13 GJ million than in the first quarter of 2015. Higher sales of heat resulted from larger demand for heat due to lower average temperatures during the winter period.

3.3 Business segments – financial data

Table: Breakdown of the Group's income by business segments in the first quarter of 2016 and 2015.

in PLN million	Total income		
	Q1 2016	Q1 2015*	% change
Conventional Generation	3,073	3,517	-13%
Renewable Energy	213	215	-1%
Supply	4,142	3,797	9%
Distribution	1,510	1,541	-2%
Other operations	163	173	-6%
TOTAL	9,101	9,243	-2%
Consolidation adjustments	-1,968	-1,690	16%
TOTAL AFTER ADJUSTMENTS	7,133	7,553	-6%

*data restated

Table: Key figures for each business segment in the first quarter of 2016.

in PLN million	EBITDA	EBIT	Capital expenditures	Assets of the segment*
			Q1 2016	
Conventional Generation	1,000	680	1,471	33,467
Renewable Energy	114	49	76	4,717
Supply	139	132	4	3,615
Distribution	555	273	287	16,719
Other operations	15	-17	24	1,034
TOTAL	1,823	1,117	1,862	59,552
Consolidation adjustments	-1	6	-21	-2,228
TOTAL AFTER ADJUSTMENTS	1,822	1,123	1,841	57,324

* see note 5.1 to the consolidated financial statements

Table: Key figures for each business segment in the first quarter of 2015.

in PLN million	EBITDA	EBIT	Capital expenditures	Assets of the segment*
			Q1 2015**	
Conventional Generation	1,256	810	1,042	36,506
Renewable Energy	125	70	68	4,123
Supply	159	153	4	4,026
Distribution	632	367	263	15,732
Other operations	21	-5	33	940
TOTAL	2,193	1,395	1,410	61,327
Consolidation adjustments	9	21	-17	-1,965
TOTAL AFTER ADJUSTMENTS	2,202	1,416	1,393	59,362

* see note 5.1 to the consolidated financial statements

** data restated

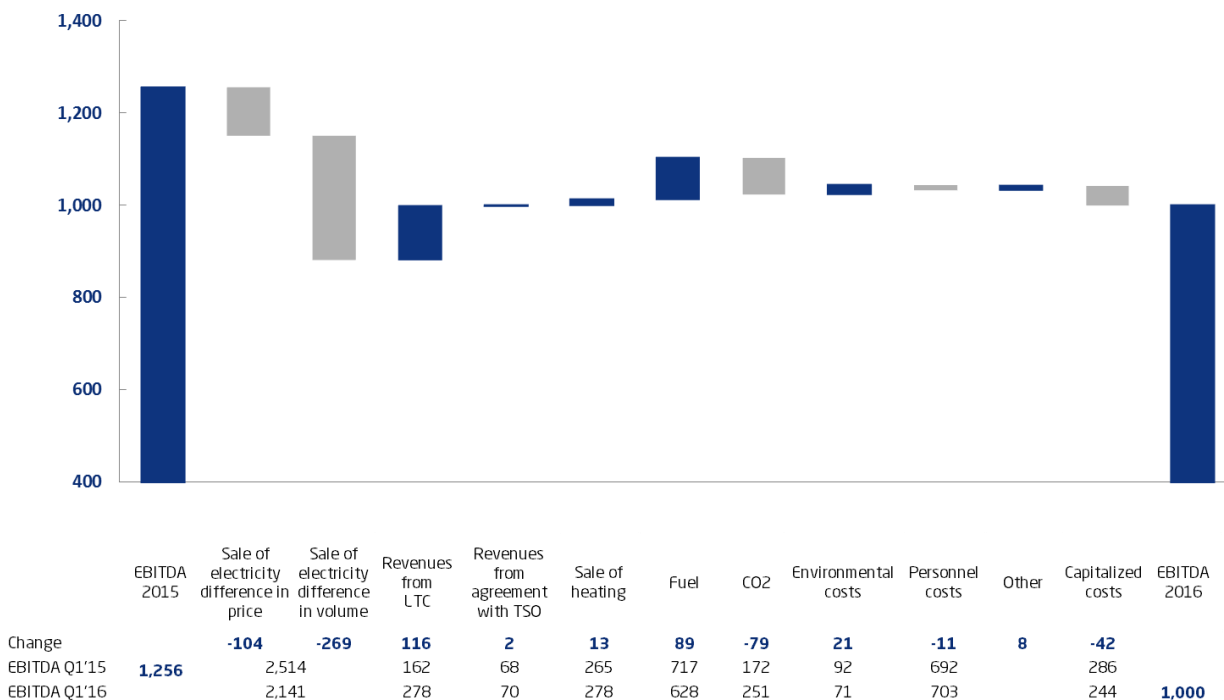
3.3.1 Conventional Generation

Table: Key figures for Conventional Generation.

PLN million	Q1 2016	Q1 2015*	% change
Sales revenues	3,073	3,517	-13%
EBIT	680	810	-16%
EBITDA	1,000	1,256	-20%
Capital expenditures	1,471	1,042	41%

* data restated

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

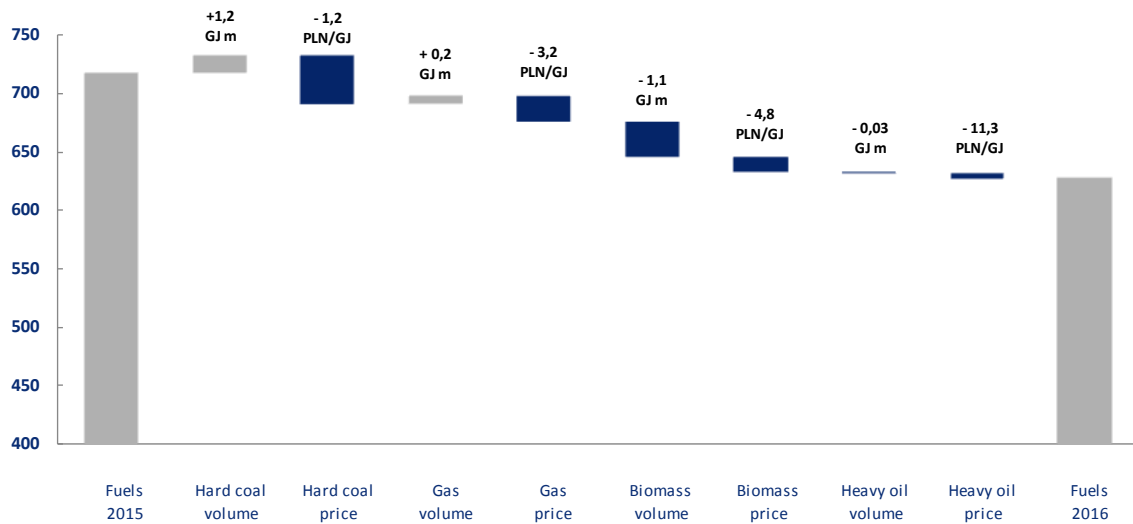


Key factors affecting the results of Conventional Generation in the first quarter of 2016 compared to the results of the comparable period of 2015 were:

- **Decreased sales volume of electricity** mainly as a result of lower production in Bełchatów power plant due to working time of unit no. 1 limited to 1,500 h in 2016 because of restrictions resulting from the EU emission standards. Additionally, in comparison to the first quarter of 2015, units 3, 9 and 10 in Bełchatów power plant were in overhaul and modernization for longer period.
- **Increase of electricity prices**, what attributed to the decrease of revenues from sales. Average sale price of electricity on the power exchange market amounted to PLN in the first quarter of 2016 amounted to PLN 166/MWh, while it amounted to PLN 174/MWh in the first quarter of 2015.
- **Higher LTC compensations** as a result of recognition in 2016 of LTC adjustment in amount of PLN 148 million in connection with the verdicts in court disputes: (i) favourable verdict of the Court of Appeal relating to adjustment of stranded costs for 2010 due to Opole power plant (PLN +173 million); (ii) unfavourable verdict of the Supreme Court in scope of gas adjustment for 2009 for Lublin Wrotków CHP and rejection of cassation appeal in case of gas adjustment for 2010 for Lublin Wrotków CHP and Rzeszów CHP (PLN -25 million).
- **Higher revenues from sale of heat** as a result of higher demand for heat caused by lower outside temperatures in winter.
- **Higher CO₂ costs** as a result of lower amount of allowances granted free of charge and higher cost per unit of CO₂ emission.
- **Lower fees for use of environment** mainly resulting from lower electricity generation and as a consequence lower emissions (SO₂, NO_x).

- **Higher personnel expenses** mainly as a result of provision raised for Voluntary Leave Program in amount of PLN 19 million due to newly submitted applications.
- **Lower capitalised costs**, among other, as a result of lower volume of overburden removal in mines and recognition of lower removal costs as asset.
- **Lower costs of fuels used**, including mainly hard coal and biomass. It is effect of lower hard coal prices and lower generation of electricity from co-combustion of biomass due to decreased profitability of energy production in that technology (the impact of provisions of RES law). Main changes on different types of fuel are presented on the chart below.

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



	Fuels 2015	Hard coal volume	Hard coal price	Gas volume	Gas price	Biomass volume	Biomass price	Heavy oil volume	Heavy oil price	Fuels 2016
Odchylenie		15	-42	7	-21	-30	-13	-1	-4	
Fuels Q1 2015	717	400		196		100		17		
Fuels Q1 2016		373		182		57		12		628

Capital expenditures

Table: Capital expenditures incurred in Conventional Generation segment in the first quarter of 2016 and 2015, by particular investment tasks.

in PLN million	Capital expenditures		
	Q1 2016	Q1 2015*	% change
Investments in generating capacities, including:	1,320	794	66%
▪ Development	920	471	95%
▪ Modernisation and replacement	400	323	24%
Purchase of finished capital goods	10	11	-9%
Vehicles	4	7	-43%
Other	4	55	-93%
TOTAL	1,338	867	54%
Capitalized costs of overburden removal in mines	133	175	-24%
TOTAL with capitalized costs of overburden removal	1,471	1,042	41%

* data restated

Highest capital expenditures in the first quarter of 2016 were incurred for the following projects:

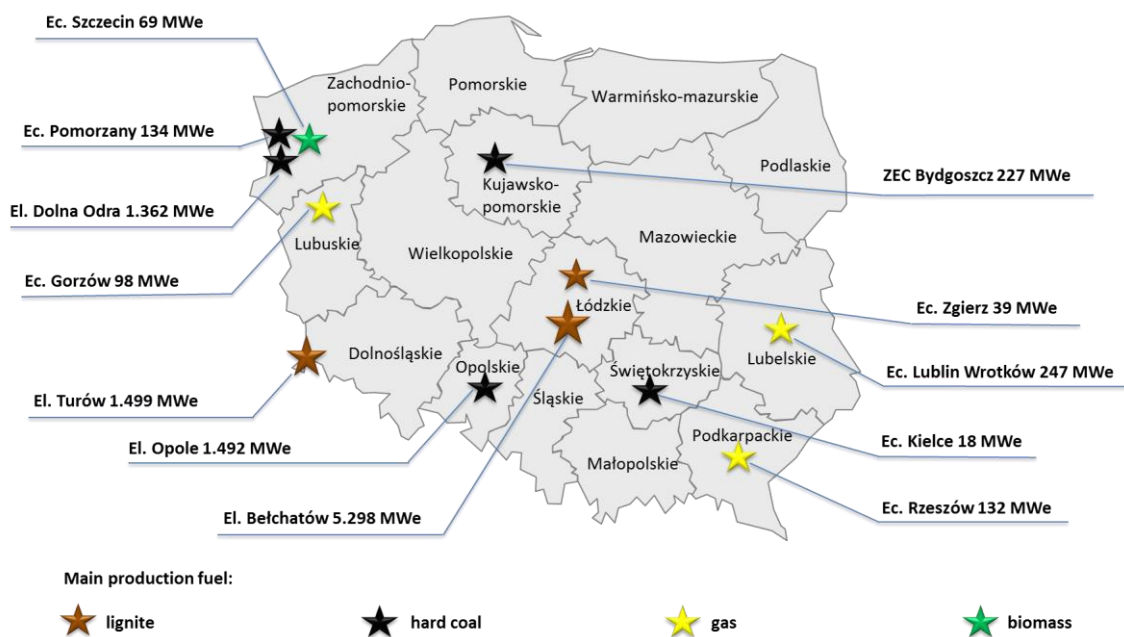
- construction of units 5 and 6 in Opole power plant PLN 904 million;
- comprehensive modernization of units 7-12 - Bełchatów power plant PLN 267 million;
- construction of desulphurization installations of units 4 - 6 in Turów power plant PLN 16 million;
- construction of overburden line GD 1 in Bełchatów lignite mine PLN 7 million;
- construction of unit no. 11 in Turów power plant PLN 5 million;
- construction of CCGT unit in Gorzów CHP PLN 2 million.

Key developments in the first quarter of 2016 in Conventional Generation:

- A contract to modernise generators 1-3 at Turów power plant was signed in January, and a contract to modernise electrostatic precipitators at Turów's units 1-3 was signed in March; as these contracts were signed, contractors for the specific modernisation "islands" at units 1-3 were issued declarations on the contracts' entry into force as of March 14, 2016;
- In February, modernised unit 9 at Bełchatów power plant was synchronised with the national power grid, following which regulatory operation of the unit was launched;
- In April, a notice to proceed was issued for the contractor in the task "Construction of a Thermal Processing Installation with Energy Recovery at Rzeszów CHP".

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

Diagram: Main assets of the Conventional Generation segment.



3.3.2 Renewable Energy

Table: Key figures for Renewable Energy.

PLN million	Q1 2016	Q1 2015*	% change
Sales revenues	213	215	-1%
EBIT	49	70	-30%
EBITDA	114	125	-9%
Capital expenditures	76	68	12%

* data restated

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



	EBITDA 2015	Sale of electricity - wind	Sale of property rights - wind	Sale of electricity - water	Sale of property rights - water	Revenues from agreement with TSO*	Personnel costs	Other	EBITDA 2016
Change		5	3	-4	-15	8	2	-10	
EBITDA Q1'15	125	40	37	27	19	59	21		
EBITDA Q1'16		45	40	23	4	67	19		114

* Excluding revenues and costs relating to balancing market not affecting EBITDA result

Key factors affecting the results of Renewable Energy in the first quarter of 2016 compared to the results of the first quarter of 2015 included:

- **The decline of revenues from sales of certificates**, resulting from ceased support for hydroelectric power plants with capacity exceeding 5 MW as from January 1, 2016 as well as from the lower realized average sale price in the first quarter of 2016 compared to the first quarter of 2015 by approx. PLN 36/MWh.
- **The increase of sales of electricity from wind power plants** was caused mainly by the increased volumes generated what is connected with increased installed capacity in wind farms by 218 MW (see p. 3.2.1 Balance of energy of PGE Capital Group). The above compensated lower production from other wind farms due to unfavourable wind conditions in the first quarter of 2016.
- **Higher sales revenues from ancillary control services** (agreement with PSE S.A.) mainly due to higher volume of intervention reserve and to higher rate for intervention reserve of active power.
- **Change in item Other** results mainly from higher operational expenses connected with the new wind farms (FW Karwice, FW Resko II, FW Kisielice II, FW Lotnisko).

Capital expenditures

Table: Capital expenditures incurred in Renewable Energy segment in the first quarter of 2016 and 2015.

in PLN million	Capital expenditures		
	Q1 2016	Q1 2015	% change
Investments in generating capacities, including:	76	67	13%
▪ Development	72	65	11%
▪ Modernization and replacement	4	2	100%
Other	0	1	-
TOTAL	76	68	12%

In the first quarter of 2016 the highest capital expenditures were incurred for the following projects:

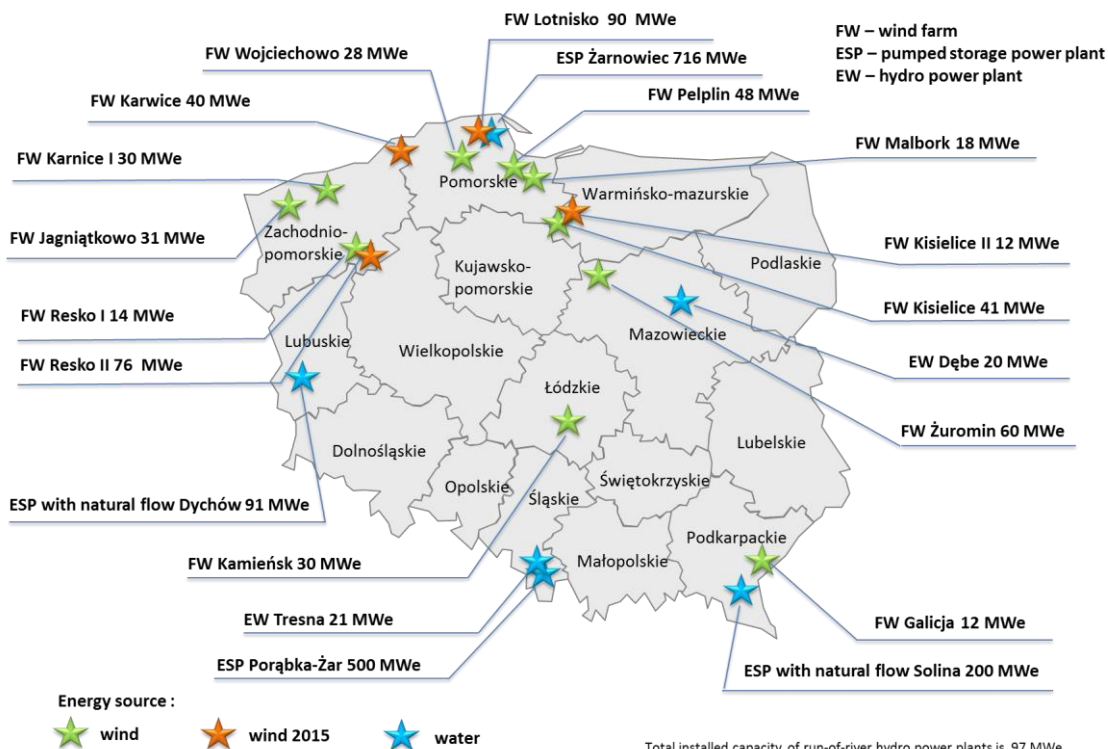
- Construction of Lotnisko wind farm with capacity of 90 MW (final settlement of the contract) PLN 69 million;

Key conclusions in Renewable Energy segment in the first quarter of 2016 included:

- concession for electricity generation in Lotnisko wind farm (90 MW) obtained in January 2016;
- concession for electricity generation in Kisielice II (12 MW) obtained in February 2016.

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

Diagram: Main assets of the Renewable Energy segment.



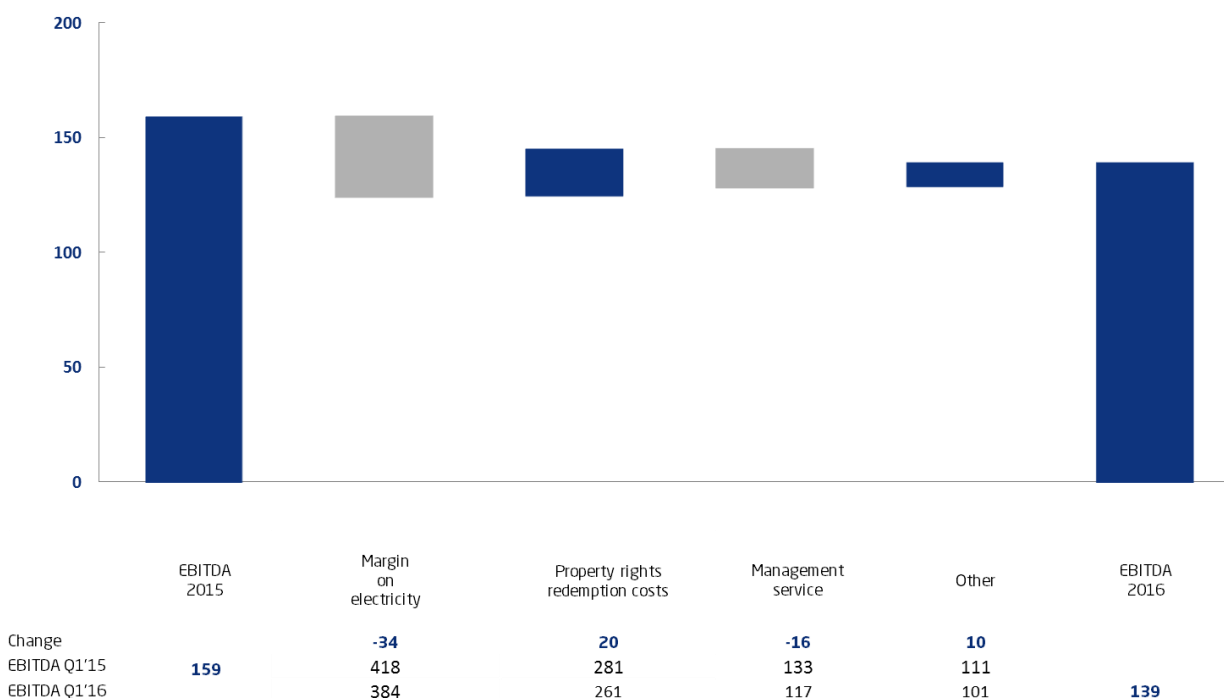
3.3.3 Supply

Table: Key figures for Supply.

PLN million	Q1 2016	Q1 2015*	% change
Sales revenues	4,142	3,797	9%
EBIT	132	153	-14%
EBITDA	139	159	-13%
Capital expenditures	4	4	0%

* data restated

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



Key changes in Supply segment in the first quarter of 2016 compared to the results of the first quarter of 2015 included:

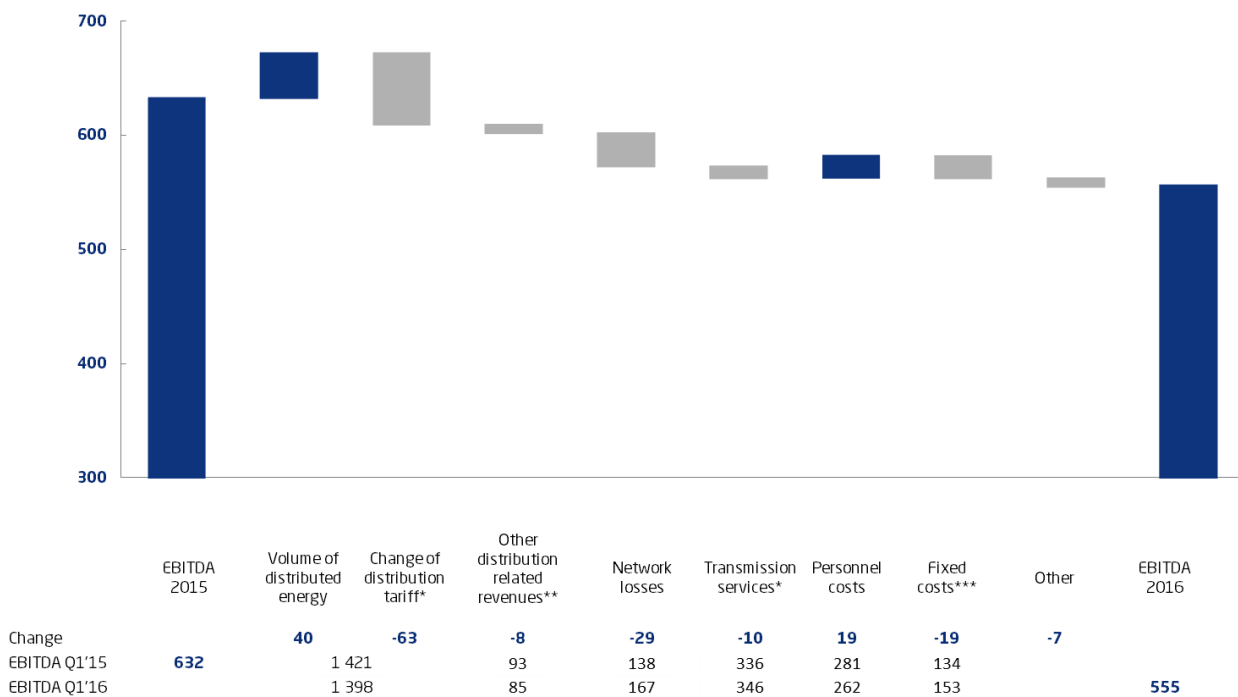
- **Decrease of results from electricity** due to lower margin per unit on energy sale due to less favourable spread between the average price of sale (decrease by PLN 11/MWh) and average price of purchase of electricity (decrease by PLN5/MWh). Increased volume of electricity traded by 10% compensated negative impact of lower price on the segment's results.
- **Decreased costs of certificates redemption** resulting mainly from the falling prices on the green certificates.
- **Decrease of revenues from the Agreement for Commercial Management of Generation Capacities ("ZHZZ")** due to lower trading volume by 1,8 TWh under management and lower market prices of sale under so called power exchange obligation. Revenues of PGE S.A. from PGE GiEK S.A. decreased by PLN 19 million, while revenues from PGE EO increased by PLN 3 million.
- **Increased revenues from other services**, mainly provided by the Corporate Centre to the companies from other segments of the PGE Capital Group.

3.3.4 Distribution

Table: Key figures for Distribution.

PLN million	Q1 2016	Q1 2015	% change
Sales revenues	1,510	1,541	-2%
EBIT	273	367	-26%
EBITDA	555	632	-12%
Capital expenditures	287	263	9%

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



* Increase of transmission costs with no impact on result, offset by the increased revenues from distribution services

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

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

Key factors affecting the results of Distribution in the first quarter of 2016 compared to the results of the first quarter of 2015 included:

- **Increased volume of distributed energy** by 234.8 GWh, resulting from – inter alia – higher number of customers measured by power take-off points (by approx. 39.7 thousand) in comparison to the first quarter of 2015.
- **Decreased revenues from distribution services** results mainly from lower distribution tariffs for 2016 in comparison to the approved tariffs for 2015.
- **Decrease of other revenues from distribution services** results mainly from lower revenues from reactive power and excess capacity in connection with: (i) price drop and (ii) optimisation of off-takers behaviour in that field, particularly more accurate capacity demand forecasts in relation to power consumption.
- **Higher costs of balancing differences** resulted from a higher volume of balancing differences, connected with weather conditions driving higher demand for electricity.
- **Increase of fixed costs** mainly resulting from: (i) higher costs incurred for repairs and exploitation of the grid assets; (ii) higher property tax in connection with the increased value of grid assets and (iii) higher costs of IT services and supporting services provided by the PGE Group companies.
- **Change in other** results from accrual of contractual penalties to one of the contractors of the company in the first quarter of 2015.

Capital expenditures

Table: Capital expenditures incurred in Distribution segment in the first quarter of 2016 and 2015.

in PLN million	Capital expenditures		
	Q1 2016	Q1 2015	% change
MV and LV power networks	91	90	1%
110/ MV and MV/MV power stations	22	21	5%
110 kV power lines	5	3	67%
Connection of new off-takers	116	100	16%
Purchase of transformers and energy counters	10	18	-44%
IT, telemechanics and communication	30	18	67%
Other	13	13	0%
TOTAL	287	263	9%

In the first quarter of 2016 in Distribution segment the highest capital expenditures were incurred for implementation of tasks from group: „Connection of new off-takers” and „MV and LV power networks”.

3.3.5 Other operations

Table: Key figures for Other operations.

in PLN million	Q1 2016	Q1 2015	% change
Sales revenues	163	173	-6%
EBIT	-17	-5	240%
EBITDA	15	21	-29%
Capital expenditures	24	33	-27%

EBITDA lower by PLN 6 million was mainly related to:

- **Lower result of PGE Systemy S.A.** due to increased operating expenses of the company as a result of broadening scope of existing services and introduction of new services for the PGE Group companies, that are being realized with the lower margin on sales PLN (-) 4 million;
- **Lower result of Exatel S.A.** caused by lower revenues from lease of lines and voice protocol services and higher employee benefits PLN (-) 1 million.

Capital expenditures

Capital expenditures in Other Operations in the first quarter of 2016 amounted to PLN 24 million compared to PLN 33 million in the first quarter of 2015.

Within the above amount, the highest capital expenditures in the first quarter of 2016 were incurred by the following companies:

- PGE Systemy S.A. – for IT infrastructure and software development PLN 12 million;
- Exatel S.A. – for telecommunication infrastructure development PLN 8 million;
- PGE EJ 1 sp. z o.o. – for nuclear project development PLN 4 million.

3.4 Transactions with related entities

Information about transactions with related entities is presented in note 21 to the consolidated financial statements.

3.5 Publication of financial forecasts

PGE S.A. did not publish financial forecasts.

On April 25, 2016 PGE S.A. published current report no. 24/2016, in which disclosed EBITDA and net profit attributable to equity holders of the parent company for the first quarter of 2016. Consolidated EBITDA and net profit attributable to equity holders of the parent company in the first quarter of 2016 were achieved at the estimated level and amounted respectively to PLN 1.8 billion and PLN 0.9 billion.

3.6 Information about shares and other securities

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

According to the best knowledge of the Management Board of the Company, members of management and supervisory authorities of the Company as of the date of submission of this report and as of the date of publishing of the consolidated report for 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 submission date of the annual report for 2015 (i.e. February 16, 2016)	Change in number of owned shares	Number of shares as of submission date of the quarterly report for Q1 2016	Nominal value of shares as of submission date of the quarterly report for Q1 2016 (PLN)
The Management Board	350	-	-	-
Grzegorz Krystek*	350	-	-	-
The Supervisory Board	-	-	7	70
Jarosław Głowacki**	-	-	7	70

*Mr. Grzegorz Krystek submitted his resignation from the position of Vice-President of the Management Board for Operations and Trading as of March 31, 2016

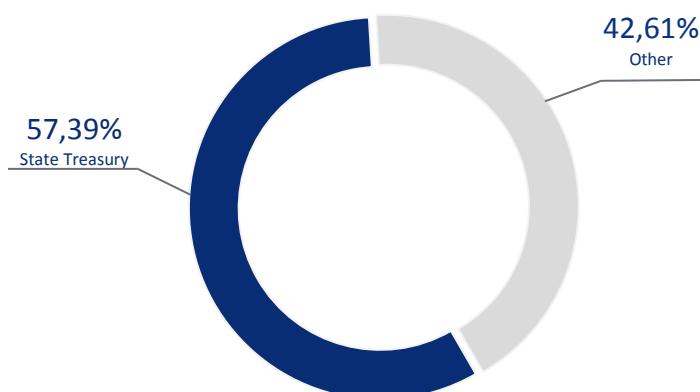
**Mr. Jarosław Głowacki was appointed to the Supervisory Board of PGE S.A. by the resolution no. 13 of the Extraordinary General Meeting of PGE S.A. on March 1, 2016.


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.

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

The State Treasury holds 1,072,984,098 ordinary shares of the Company with a nominal value of PLN 10 each, representing 57.39% of the share capital of the Company and entitling to exercise 1,072,984,098 votes at the General Meeting of the Company, constituting 57.39% of the total number of votes.





Shareholder	Number of shares	Number of votes	% in total votes on General Meeting
State Treasury	1,072,984,098	1,072,984,098	57.39%
Others	796,776,731	796,776,731	42.61%
Total	1,869,760,829	1,869,760,829	100.00%

4 Description of the organisation of the PGE Capital Group

Companies comprising the main business segments of PGE Group as at March 31, 2016.

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.

4.1 Changes in organisation of the Capital Group

4.1.1 Changes in organisation of the Capital Group in the first quarter of 2016

The changes, which occurred in the PGE Capital Group's structure in the first quarter of 2016 are presented in note 1.3 to consolidated financial statements and described below.

Shares in subsidiaries and associates

In the first quarter of 2016 **PGE S.A.** changed its equity interest in the following entities:

- On February 2, 2016 the Extraordinary Assembly of Partners of PGE Trading GmbH with its seat in Berlin adopted a resolution on increase of the company's share capital from EUR 3,350,000 to EUR 5,350,000, i.e. by EUR 2,000,000, through the creation of 1 new share with nominal value of EUR 2,000,000. The increase of the share capital was acquired by PGE S.A. in exchange for a cash contribution. On March 7, 2016 the increase of the share capital was registered with the German commercial register.
- On March 10, 2016 PGE S.A. and PGE GiEK S.A. signed an agreement for sale of 6,812 shares in RAMB sp. z o.o. with its registered office in Piaski (Kleszczów commune), owned by PGE GiEK S.A., constituting 100% of the share capital of that company. Ownership of the shares was transferred to PGE S.A. as of the agreement date. Currently PGE S.A. is the sole partner of the company.
- In the period from January 1, 2016 to March 31, 2016, PGE S.A. purchased from minority shareholders of PGE GiEK S.A., as a result of a mandatory buyback in accordance with art. 418 of the Polish Commercial Companies' Code, a total of 39,422 shares in PGE GiEK S.A. (constituting 0.006% of PGE GiEK S.A.'s share capital). Currently PGE S.A. holds shares representing 99.966% of the share capital of PGE GiEK S.A.

In the first quarter of 2016 **PGE Group companies** changed their capital exposure in the following entities:

- On December 9, 2015 PGE Dystrybucja S.A. and ENEA Operator sp. z o.o. with its seat in Poznań signed a conditional agreement for sale of 4 shares in Centralny System Wymiany Informacji sp. o.o. with its seat in Poznań to PGE Dystrybucja S.A. Shares constitute 20% of the share capital of the company. Condition precedent for the transfer of ownership of shares to PGE Dystrybucja S.A. is the obtaining of the approval of the Office for Competition and Consumer Protection for the transaction. As at the preparation date of this report, there's no information on the approval mentioned above.
- On February 16, 2016, an Extraordinary Assembly of Partners of BIO – ENERGIA sp. z o.o., based in Warsaw, passed a resolution on voluntary cancellation, for payment, of some of the company's shares, held by PGE EO S.A., i.e. 130,000 shares. In connection with the share cancellation, the Extraordinary Assembly of Partners passed a resolution on a reduction in the company's share capital by PLN 13,000,000, i.e. from PLN 22,597,800 to PLN 9,597,800. In connection with the above, PGE EO S.A. and BIO – ENERGIA S.A. executed an agreement on February 16, 2016 for the sale to the company of the shares being subject to voluntary cancellation. Payment for the shares will take place after the reduction in the company's share capital is registered by the National Court Register. Pursuant to art. 456 § 1 of the Polish Commercial Companies Code, a creditor notification procedure with regard to the share capital reduction will last until June 10, 2016. Once the procedure is completed, the company can file an application with the National Court Register for registration of the share capital reduction.

In the first quarter of 2016 PGE Capital Group did not discontinue any of its substantial operations.

4.2 Branches of the companies of the PGE Capital Group

As at March 31, 2016 the following PGE Group companies had their branches:

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

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

5 Other significant events of the reporting period and subsequent events

5.1 Signing of agreement on initiation of Polska Grupa Górnicza (Polish Mining Group)

On April 26, 2016, an agreement was reached regarding the launch of Polska Grupa Górnicza sp. z o.o. (PGG). The investors are entering PGG on market terms and will supervise the company in implementing its business plan. Analyses show that the investment will generate positive rates of return for investors.

The parties to the agreement are Energa Group, PGE Group, PGNiG Group, Węglokoks, Towarzystwo Finansowe Silesia (TFS), Fundusz Inwestycji Polskich Przedsiębiorstw (FIPP) FIZAN, as well as banks – Kompania Węglowa's bondholders – Alior Bank, BGK, BGŻ BNP Paribas, PKO BP, Bank Zachodni WBK, and 13 trade union organisations at Kompania Węglowa S.A.

PGG, which is set to become the largest producer of hard coal in Poland and in Europe, will comprise 11 mines, 4 facilities and parts of the headquarters of Kompania Węglowa S.A. PGG's shareholders from the energy sector will gain access to rich thermal coal resources with parameters corresponding to the needs of their existing and planned production units, which is in line with the energy groups' strategic objectives. Furthermore, cooperation between the generation sector and mining sector guarantees that recipients of energy services will gain stable partners capable of ensuring uninterrupted electric and thermal energy supplies at predictable prices.

The investors have committed to purchasing new shares of PGG for a total of PLN 2,417 million, of which PLN 1,800 million will be paid in cash, while the remaining PLN 617 million will be a conversion of debt owed to TFS and Węglokoks S.A.

Energa Kogeneracja, an Energa Group company, is investing PLN 500 million in PGG, PGE GiEK, part of PGE Group, PLN 500 million, PGNiG Group's PGNiG Termika PLN 500 million, FIPP FIZAN - PLN 300 million, TFS - PLN 400 million and Węglokoks S.A. PLN 217 million (Węglokoks' total exposure to PGG, together with previous capital commitments of PLN 500 million, will reach PLN 717 million). The investors are not planning on fully consolidating PGG's results.

Under refinancing of Kompania Węglowa's existing bond issue programme, the banks and Węglokoks S.A. are declaring to purchase new bonds issued by PGG worth PLN 1,037 million in three tranches, to be repaid over 2019-2026. Węglokoks's investment will reach PLN 422 million, while the banks will invest PLN 615 million.

Financial creditors took part in talks to reach the agreement, therefore showing readiness to participate over the long term in the changes occurring in key sectors of the Polish economy, which resulted in all of the bondholders accepting the agreement aimed at reaching profitability and improving the company's effectiveness.

PGG will operate based on a business plan, approved by the PGG's Management Board, that is aimed at maintaining strict control over coal production costs, improving the company's operating effectiveness and reaching specified profitability levels. Details in this regard will be set out in the investment agreement, which was signed on April 28, 2016 (the "Agreement").

The Agreement specifies the Investment conditions, including inter alia, conditions of PGG recapitalisation by the Investors, operating rules of PGG and corporate governance rules, including method of Investors' supervision over PGG.

Recapitalisation of PGG in total amount of PLN 2,417 million, will take place in 3 tranches, within which PGE GiEK will pay a total of PLN 500 million, including:

- PLN 361 million within the first tranche (payable within 4 business days after signing of the Bond Issue Agreement by PGG). As a result of the first payment, PGE GiEK will have 15.7% in the share capital of PGG;
- PLN 83 million within the second tranche (up to November 3, 2016). As a result of the second payment, PGE GiEK's share in the share capital of PGG will increase to 16.6%;
- PLN 56 million within the third tranche (up to February 1, 2017). As a result of the third payment, PGE GiEK's share in the share capital of PGG will increase to 17.1%.

The particular tranches will be released, on the condition, inter alia, that terms of PGG bonds issue are not breached.

The Agreement foresees several mechanisms allowing for on-going monitoring of the financial standing of PGG, including execution of business plan and taking further optimization measures, among others, in case of adverse changes in market conditions.

The Agreement assumes that each shareholder of PGG is entitled to appoint, recall and suspend one member of the Supervisory Board (individual rights).

An agreement reached with trade unions on April 19, 2016 regarding employee rights, constituted an important condition for establishing PGG and bringing in the investors. This agreement sees PGG implement its business plan, leading to more efficient mining operations by merging mines and temporarily suspending certain employee benefits.

5.2 Changes in the Management Board

Until January 28, 2016 the Management Board consisted of:

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

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.

On February 25, 2016 the Supervisory Board cancelled delegation of Mr. Marek Pastuszko to temporarily perform the duties of the Member of the Management Board and the Supervisory Board appointed him as a member of the PGE's Management Board entrusting him the position of the Vice-President for Corporate Affairs.

On February 26, 2016 the Supervisory Board appointed Mr. Emil Wojtowicz to the Management Board as from March 15, 2016 entrusting him the position of the Vice-President for Finance and appointed Mr. Ryszard Wasilek to the Management Board of office as from March 7, 2016 entrusting him the position of the Vice-President for Development.

On March 2, 2016 Mr. Marek Woszczyk and Mr. Grzegorz Krystek submitted resignations from their positions in the Management Board as from March 30, 2016.

On March 22, 2016 Mr. Paweł Śliwa submitted his resignation from the Supervisory Board and the Supervisory Board appointed four members of the Management Board as from March 31, 2016:

- Mr. Henryk Baranowski, entrusting him the position of the President of the Management Board;
- Ms. Marta Gajęcka, entrusting her the position of the Vice-President for Market Development and International Relations;
- Mr. Bolesław Jankowski, entrusting him the position of the Vice-President for Trading;
- Mr. Paweł Śliwa, entrusting him the position of the Vice-President for Innovations.

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
Henryk Baranowski	President of the Management Board
Marta Gajęcka	Vice-President of the Management Board for Market Development and International Relations
Bolesław Jankowski	Vice-President of the Management Board for Trading
Marek Pastuszko	Vice-President of the Management Board for Corporate Affairs
Paweł Śliwa	Vice-President of the Management Board for Innovations
Ryszard Wasilek	Vice-President of the Management Board for Development
Emil Wojtowicz	Vice-President of the Management Board for Finance

5.3 Changes in the Supervisory Board

Until January 28, 2016 the Supervisory Board consisted of:

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

On January 28, 2016 the State Treasury appointed Mr. Marek Pastuszko as a member of the Supervisory Board of the Company by way of a written declaration submitted to the Management Board of the Company. On January 29, 2016 Mr. Marek Pastuszko was delegated by the Supervisory Board to temporarily perform the duties of the Member of the Management Board - Vice-President for Corporate Affairs. Then, on February 25, 2016 Mr. Marek Pastuszko submitted his resignation from the Supervisory Board and the Supervisory Board appointed Mr. Marek Pastuszko for the position of the Vice-President of the Management Board for Corporate Affairs.

On February 5, 2016 the Company received a resignation from Mr. Piotr Machnikowski from the Supervisory Board.

On March 1, 2016 the Extraordinary General Meeting of the Company adopted resolutions on:

- dismissal of Mr. Jacek Barylski, Ms. Małgorzata Molas, Mr. Jarosław Gołębiowski, Mr. Jacek Fotek and Mr. Marek Ściążko from the Supervisory Board;
- appointment of Mr. Jarosław Głowacki, Ms. Janina Goss, Mr. Mateusz Gramza, Mr. Mieczysław Sawaryn, Mr. Artur Składanek and Mr. Grzegorz Kuczyński to the Supervisory Board.

Moreover, on March 1, 2016 the State Treasury appointed Mr. Paweł Śliwa as a member of the Supervisory Board of the Company by way of a written declaration submitted to the Management Board of the Company. On March 22, 2016 Mr. Paweł Śliwa submitted his resignation from the Supervisory Board and the Supervisory Board appointed Mr. Paweł Śliwa for the position of the Vice-President of the Management Board for Innovations as from March 31, 2016.

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

Name and surname of the Supervisory Board member	Position
Anna Kowalik	Chairman of the Supervisory Board
Małgorzata Mika-Bryska	Vice-Chairman of the Supervisory Board
Grzegorz Kuczyński	Secretary of the Supervisory Board - independent
Jarosław Głowacki	Supervisory Board Member - independent
Janina Goss	Supervisory Board Member - independent
Mateusz Gramza	Supervisory Board Member - independent
Mieczysław Sawaryn	Supervisory Board Member - independent
Artur Składanek	Supervisory Board Member - independent

Table: Composition of the standing committees of the Supervisory Board in the first quarter of 2016:

Name and surname of the Supervisory Board member	Audit Committee	Corporate Gov- ernance Commit- tee	Strategy and De- velopment Com- mittee	Appointment and Remuneration Committee
Janina Goss	Member from March 2, 2016			Member from March 2, 2016
Jacek Barylski		Member until March 1, 2016		Chairman until March 1, 2016
Jacek Fotek	Member until March 1, 2016			
Jarosław Głowacki		Member from March 2, 2016	Member from March 2, 2016	
Jarosław Gołębiowski	Chairman until March 1, 2016		Member until March 1, 2016	
Mateusz Gramza	Member from March 7, 2016	Member from March 2, 2016 until March 6, 2016		Member from March 2, 2016
Anna Kowalik	Member			Member
Piotr Machnikowski		Chairman until February 5, 2016		Member until February 5, 2016
Małgorzata Mika-Bryska		Member	Member	
Małgorzata Molas			Member until March 1, 2016	Member until March 1, 2016
Grzegorz Kuczyński	Member from March 2, 2016 Chairman from March 18, 2016	Member from March 2, 2016		
Mieczysław Sawaryn			Member from March 2, 2016	Member from March 2, 2016
Artur Składanek		Member from March 7, 2016	Member from March 2, 2016	
Paweł Śliwa		Member from March 2, 2016 until March 22, 2016		Member from March 2, 2016 until March 22, 2016
Marek Ściążko			Member until March 1, 2016	

5.4 Activities related to nuclear energy

Business partnership

As a result of the sale of shares to the Business Partners (TAURON Polska Energia S.A., ENEA S.A. and KGHM Polska Miedź S.A.) by PGE S.A., PGE S.A. holds 70% in the share capital of PGE EJ 1 sp. z o.o., and each of the Business Partners holds 10% in the share capital of PGE EJ 1 sp. z o.o.

According to the Partners' Agreement, concluded on September 3, 2014, the Parties jointly undertook to finance operations under the initial phase of the Program (the "Development Stage"), proportionally to their shareholdings. The funds for the Program are paid to PGE EJ 1 sp. z o.o. in form of the increase of the share capital. In the second quarter of 2016, it is intended to increase the share capital of PGE EJ 1 sp. z o.o. by approximately PLN 40 million. PGE's financial commitment in the Development Stage will not exceed amount of approx. PLN 700 million.

Financing

In the first quarter of 2016, the works were continued (for the needs of the integrated proceeding) on financing structure of the Program based on updated assumptions regarding capital expenditures and operating costs for the nuclear power plant and revised financing model for the investment. Preparatory works for the selection of financial and insurance advisor were also conducted.

Works in those areas are assumed to be continued in the second quarter of 2016.

Support schemes

In the first quarter of 2016, cooperation with the Polish government continued in the area of laying down the conditions for the Polish nuclear power project, taking into consideration the potential support mechanisms dedicated to nuclear power, including the contract for difference, among others.

In the second quarter of 2016, further work is planned together with the government, aiming to develop detailed proposals for economic, organisational and legal solutions, together with allocation of risks and a cost estimate for implementing such solutions. PGE S.A. awaits approval by the Government of the presented solutions (justification and general shape of the mechanism), as well as developing detailed economic, financial and legal solutions.

Integrated proceeding

The objective of the integrated proceeding is to select concurrently, within a single procedure, all of the key contractors to build the first Polish nuclear plant (i.e. an integrated investment and capital package combined with delivery of technology and related services, supplies and construction work (in the EPC formula), fuel supply as well as related services and O&M support services).

The key event of the first quarter of 2016 was development and approval by the procurement committee of documentation relating to the invitation to the integrated proceeding. A formal launch of the integrated proceeding in the third quarter of 2016 requires all essential decisions in this area to be made by the end of the second quarter of 2016.

Selection of nuclear plant location, including site and environmental decisions

In the first quarter of 2016, the approach to site and environment surveys was updated and the three potential sites for Poland's first nuclear plant, i.e. Lubiatowo-Kopalino, Choczewo and Żarnowiec, were verified in terms of hydrogeological, natural, infrastructural, social and economic conditions. Analysis was carried out regarding impact on the integrity, cohesiveness and subject of protection of Natura 2000 areas. Based on the results of the analysis and the verification procedure, a decision was made to select two locations, i.e. Lubiatowo-Kopalino and Żarnowiec, to launch in the second quarter of 2016 full-scale environmental and site surveys for the purposes of preparing an environmental impact assessment and site report.

The General Director for Environment Protection is expected to issue a decision in the second quarter of 2016 regarding the scope of the environmental impact assessment, taking into consideration the two potential sites: Lubiatowo-Kopalino and Żarnowiec.

Planning and preparing related infrastructure

Studies were being carried out in the first quarter of 2016 regarding preparations for potential access routes to construction sites at the locations being considered. These constitute the basis for designating environmental ground survey areas, which will begin in 2016.

In the second quarter of 2016, PGE EJ 1 sp. z o.o. is expected to participate in consultations for the "Pomeranian voivodship development plan" and the "Gdańsk-Gdynia-Sopot metropolitan area plan," which are currently being developed, in order to include in said plans infrastructure tasks related to the nuclear plant.

Overall decision from the Energy Minister (including general opinion from the President of the National Atomic Energy Agency)

Consultations were carried out with the President of the National Atomic Energy Agency (PAA) in the first quarter of 2016 regarding the processing of applications and schedule for issuing decisions by the PAA's President for nuclear technologies that are to be qualified for participating in the integrated procedure as well as the scope of application for issue of a general opinion and the type of documents required and the scope of information in the application expected by the PAA President. Further consultations and arrangements with the PAA President are planned for the second quarter of 2016.

Social acceptance

The main objective of activities in this area is garnering and maintaining a high level of social support at the potential nuclear plant locations (eventually, at the selected location), allowing to implement the programme to build Poland's first nuclear plant and provide knowledge about nuclear power and the programme to specific stakeholder groups at national and local level.

From the first quarter of 2016, applications can be submitted under the Programme to Support the Development of Site Municipalities („PWRGL”). Program's aim is to strengthen partnership-based relations between PGE EJ 1 sp. z o.o. and the local communities and authorities of the three municipalities by providing support to initiatives that are of significance to the residents and development of the region. Contracts with qualified applicants under the PWRGL programme are expected to be signed in the second quarter of 2016.

On national level, the third edition of the Atom for Science programme was initiated. As in the previous years, two competitions were part of the programme: for students and for academics. A study visit to an operational nuclear plant is to be organised in the upcoming months, with the participation of competition winners, among others.

5.5 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. The trial was held on April 12, 2016. The District Court in Warsaw dismissed the shareholder's claim in the verdict published on April 26, 2016.
- 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.

The court hearing took place on April 27, 2016. Both of the parties upheld their previous motions and statements, and Socrates Investment also filed a motion to dismiss PGE's motions from a letter dated April 10, 2016. The court scheduled the next hearing for August 10, 2016.

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, the court registered the merger of the companies.

Compensations from WorleyParsons

In 2013, PGE EJ 1 sp. z o.o. signed an agreement for environmental studies, site characterisation and services related to obtaining permits and permissions necessary in the investment process associated with the construction of a nuclear power plant with a consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc. and WorleyParsons Group Inc. ("WorleyParsons", the "Contractor"), in the amount of PLN 253 million net (including basic range of PLN 167 million). Due to delays in the implementation of the agreement, in 2013 the company accrued to WorleyParsons a contractual penalty in the amount of PLN 7 million. In addition, in connection with a further improper execution of services in 2014, the company accrued contractual penalties in the total amount of PLN 43 million. On December 23, 2014, PGE EJ 1 sp. z o.o. terminated the contract for reasons attributable to the Contractor.

Contractual penalties of 2013 were deducted from the remuneration payable to WorleyParsons in 2014. Penalties for 2014 in the total amount of PLN 30 million were deducted from the remuneration payable to WorleyParsons and the bank guarantee. After all deductions and amounts received by the company from the bank guarantee, the company is entitled to claim towards WorleyParsons for payment of PLN 14 million as a penalty by way of delay.

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

On January 8, 2016, PGE EJ 1 sp. z o.o. received a statement of defence from WorleyParsons International Inc. and WorleyParsons Group Inc. On April 20, 2016 PGE EJ 1 sp. z o.o. received a statement of defence from WorleyParsons Nuclear Services JSC.

Furthermore, on November 13, 2015, PGE EJ 1 sp. z o.o. received a payment demand from WorleyParsons for PLN 59 million due for, according to the claimant, remuneration and cost reimbursement that were incorrectly, according to the claimant, collected by the company from the bank guarantee. The court obligated PGE EJ 1 sp. z o.o. to submit a statement of defence within three months from receipt.

On February 13, 2016 PGE EJ 1 sp. z o.o. filed with the District Court in Warsaw a reply to the claim by WorleyParsons.

5.6 Description of material agreements

No material agreements occurred in the first quarter of 2016.

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

Within the Group, in the 3-month period ended March 31, 2016 PGE S.A. and its subsidiaries did not grant any loan securities or guarantees to another entity or its subsidiary, where the value of securities and guarantees constituted at least 10% of the Company's equity.

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

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

Until the preparation date of this report, producers from PGE Group received decisions on annual adjustments of stranded costs and costs related to natural gas fired entities for 2008-2014. The part of these decisions were disadvantageous for the particular entities and the Group believes that they were issued in violation of the Long-Term Contracts Act. As a consequence, since 2009, a number of proceedings have been pending before the Regional Court in Warsaw - Competition and Consumer Protection Court ("CCP Court") and before the Court of Appeal. As at the preparation date of this report, majority of the proceedings are conducted before the Supreme Court.

In the first quarter of 2016:

- A hearing before the Court of Justice of the European Union (CJEU) took place on January 27, 2016 regarding preliminary questions from the Supreme Court to the CJEU, where each of the parties presented their position. The Company is awaiting a ruling by the CJEU.
- On April 7, 2016 the court case was conducted before the Supreme Court, during which a cassation appeal of the ERO President was examined in case of the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków for 2009. The Supreme Court repealed the contested judgment of the Court of Appeal in Warsaw in full and dismissed the appeal of PGE GiEK S.A. Claim value in this case amounts to nearly PLN 7.0 million. As a consequence of the verdict, the company paid that amount to the account of Zarządca Rozliczeń S.A.
- On April 7, 2016 the Supreme Court refused to accept the cassation appeal for examination in case of the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Lublin and Branch Elektrociepłownia Rzeszów for 2010. The ruling ends the proceedings, meaning that rulings by the CCP Court and the Court of Appeal are binding. Claim value in this case amounts to PLN 4.4 million.
- On April 14, 2016 the court case was conducted before the Court of Appeal on determining the annual adjustment for stranded costs due to GiEK S.A. Branch Elektrownia Opole for 2010. The court allowed the appeal of PGE GiEK S.A. and at the same time dismissed the appeal of the ERO President. The above means that the court changed the contested decision as requested by the appeal of PGE GiEK S.A. The judgement is final and binding. The ERO President is entitled to file a cassation appeal with the Supreme Court. Claim value in this case amounts to approx. PLN 142 million. The company intends to apply for payment of that amount to Zarządca Rozliczeń S.A.

Moreover, in April 2016 the company filed a cassation appeal with the Supreme Court relating to a ruling by the Court of Appeal in a case on determining the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. for 2010. Claim value amounts to PLN 5 million.

Impact on the financial statements for the period ended March 31, 2016

In the financial statements for the period ended March 31, 2016, the Group recognized LTC revenue in sales revenue in the amount of PLN 130 million.

The verdict of the Court of Appeal on determining the annual adjustment for stranded costs due to GiEK S.A. Branch Elektrownia Opole for 2010 caused an adjustment of LTC settlements of approx. PLN (+) 173 million in the financial statements for the period ended March 31, 2016.

Moreover, refusal to accept the cassation appeal for examination in case of the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Lublin and Branch Elektrociepłownia Rzeszów for 2010 and unfavourable ruling of the Supreme Court in case of the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków for 2009 caused an adjustment of LTC settlements of PLN (-) 25 million in the financial statements for the period ended March 31, 2016.

Above adjustments are presented after compensation in the statement of the comprehensive income in other operating revenues.

The value of disputes in all matters relating to the years 2008 – 2012 amounts to PLN 1,660 million, including the value of disputes favourably resolved for PGE Group by the Court of Appeal and a favourable final judgment by the CCP Court in the amount of PLN 1,563 million.

In the period 2008 – March 31, 2016 the PGE Capital Group recognised LTC revenues in total amount of PLN 7,365 million.

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

As at March 31, 2016 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 19 to the consolidated financial statements.

5.10 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. 4.1. of the foregoing report.

6 Statements of the Management Board

6.1 Statement on the reliable preparation of the financial statements

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

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

7 Approval of the Management Board's Report

The foregoing Management Board's Report on activities of the Capital Group of PGE Polska Grupa Energetyczna S.A. was approved for publication by the Management Board of the parent company on May 11, 2016.

Warsaw, May 11, 2016

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

President of the Management
Board Henryk Baranowski

Vice-President of the Management
Board Marta Gajęcka

Vice-President of the Management
Board Bolesław Jankowski

Vice-President of the Management
Board Marek Pastuszko

Vice-President of the Management
Board Paweł Śliwa

Vice-President of the Management
Board Ryszard Wasilek

Vice-President of the Management
Board Emil Wojtowicz

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/off-taken 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 off-takers 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.
Best Practices	Document „Best Practice for GPW Listed Companies 2016” adopted by the resolution of the GPW Supervisory Board of October 13, 2015 and effective from January 1, 2016.
Biomass	solid or liquid substances of plant or animal origin, subject to biodegradation, obtained from agricultural or forestry products, waste and remains or industries processing their products as well as certain other biodegradable waste in particular agricultural raw materials.
Black energy	popular name for energy generated as a result of combustion of black coal or lignite.
CCS	Carbon Capture and Storage Technology used to capture CO ₂ from the emissions of fossil fuel power plants followed by its underground storage.
CDM	Clean Development Mechanisms, one of the flexible mechanisms introduced under Article 12 of the Kyoto Protocol.
CER	Certified Emission Reduction.
Co-combustion	the generation of electricity or heat based on a process of combined, simultaneous combustion in one device of biomass or biogas together with other fuels; part of the energy thus generated can be deemed to be energy generated with the use of renewable sources.
Co-generation	the simultaneous generation of heat and electricity or mechanical energy in the course of one and the same technological process.
Constrained generation	the generation of electricity to ensure the quality and reliability of the national power system; this applies to generating units in which generation must continue due to the technical limitations of the operation of the power system and the necessity of ensuring its adequate reliability.
Distribution	transport of energy through distribution grid of high (110 kV), medium (15kV) and low (400V) voltage in order to supply the customers.
Distribution System Operator (DSO)	a power company engaging in the distribution of gaseous fuels or electricity, responsible for traffic in the gas or electricity distribution systems, current and long-term security of operation of the system, the operation, maintenance, repairs and indispensable expansion of the distribution network, including connections to other gas or power systems.
ERO	Energy Regulatory Office (pol. URE).
ERU	Emission Reduction Units.
EUA	European Union Allowances: transferable CO ₂ emission allowances; one EUA allows an operator to release one tonne of CO ₂ .
EU ETS	European Union Greenhouse Gas Emission Trading Scheme) EU emission trading scheme. Its operating rules are set out in the ETS Directive, amended by the Directive 2009/29/EC of the European Parliament and of the Council of April 23, 2009 (OJ EU L. of 2009, No. 140, p. 63—87).
Generating unit	a technically and commercially defined set of equipment belonging to a power company and used to generate electricity or heat and to transmit power.
GJ	Gigajoule, a unit of work/heat in the SI system, 1 GJ = 1000/3.6 kWh = approximately 278 kWh.
GPZ	main power supply point, a type of transformer station used for the processing or distribution of electricity or solely for the distribution of electricity.
Green certificate	popular name for energy generated from renewable energy sources.
GW	gigawatt, a unit of capacity in the SI system, 1 GW = 109 W.
Gwe	one gigawatt of electric capacity.
GWt	one gigawatt of heat capacity.
HICP	Harmonised Index of Consumer Prices
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.
IRZ	Cold Intervention Reserve Service – service consisting of maintaining power units ready for energy production. Energy is produced on request of PSE S.A.
JI	Joint Implementation: one of the flexibility mechanisms introduced under Article 6 of the Kyoto Protocol.
Kyoto Protocol	the Kyoto Protocol to the United Nations Framework Convention on Climate Change of December 11, 1997 (Dz.U. of 2005, No. 203, Item 1684), in force since February 16, 2005.
KSE	the National Power System, a set of equipment for the distribution, transmission and generation of electricity, forming a system to allow the supply of electricity in the territory of Poland.
KSP	the National Transmission System, a set of equipment for the transmission of electricity in the territory of Poland.
kV	kilo volt, an SI unit of electric potential difference, current and electromotive force; 1kV= 103 V.
kWh	kilowatt-hour, a unit of electric energy in the SI system defined as the volume of electricity used by the 1 kW equipment over one hour. 1 kWh = 3,600,000 J = 3.6 MJ.
Low Voltage Network (LV)	a network with a nominal voltage not exceeding 1 kV.
LTC	Long-term contracts on the purchase of capacity and electricity entered into between Polskie Sieci Elektroenergetyczne S.A. and electricity generators in the years 1994-2001.
Medium-voltage network (MV)	an energy network with a nominal voltage higher than 1 kV but lower than 110 kV.
MEV	Minimum Energy Volumes.
MSR	Market Stability Reserve (relating to CO ₂)
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 m3 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 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 off-taking 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 CO ₂ 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.