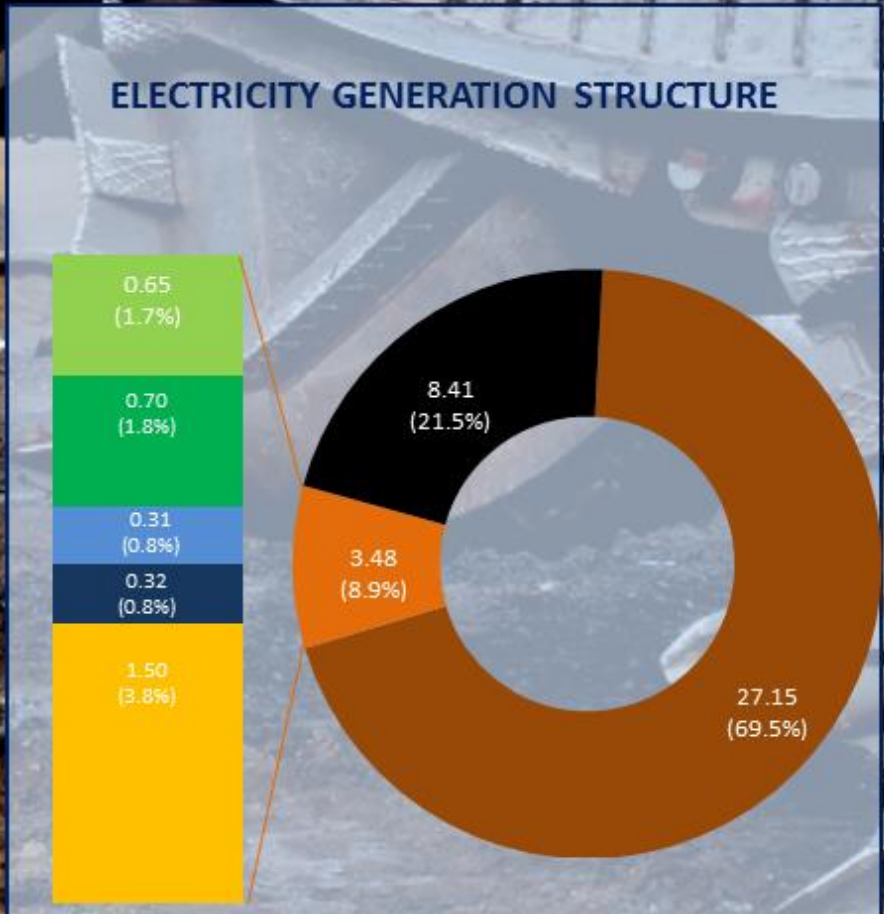
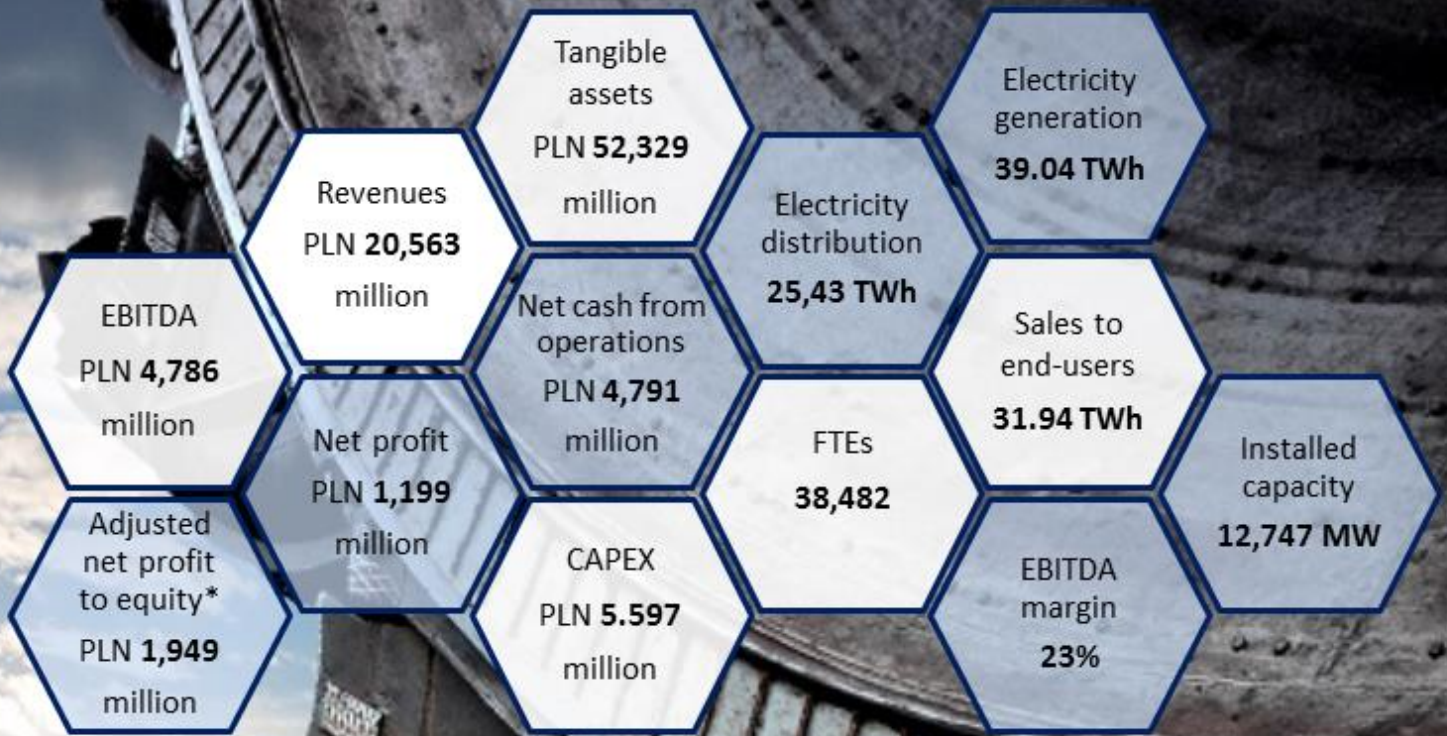


**Management Board's report on
activities of the Capital Group of
PGE Polska Grupa Energetyczna S.A.
for the 3-month and 9-month period**

ended September 30, 2016

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

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 9M 2016
37.71 TWh

Generation
in 9M 2016
1.33 TWh

Market position

PGE is a leader
in lignite mining

PGE is the leading
producer of energy
from renewable sources

Revenues [PLNm]

8,531

496

EBITDA [PLNm]

2,446

256

Share of Group EBITDA

51%

5%

CAPEX [PLNm]

4,309

113

Assets [PLNm]

34,749

3,746

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

285,079 kms. of distribution lines

Energy volumes

Sales to end-users in 9M 2016
31.90 TWh

Electricity distributed in 9M 2016
25.43 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]

11,832

4,366

EBITDA [PLNm]

320

1,685

Share of Group EBITDA

7%

35%

CAPEX [PLNm]

14

1,135

Assets [PLNm]

3,485

16,968

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's Management Board, the following factors will influence the Group's results within at least next quarter:

Market environment	Description in p.
Demand	1.2.1
<ul style="list-style-type: none"> ● demand for electricity and heat ● seasonality and weather conditions 	
Electricity market	1.2.4
<ul style="list-style-type: none"> ● wholesale electricity prices ● prices and tariffs on electricity and heat retail sale markets ● tariffs for transmission and distribution of heat and tariffs for electricity distribution 	1.2.3
Related markets	1.2.5
<ul style="list-style-type: none"> ● prices of property rights (certificates of origin of electricity) ● availability and prices of fuels used in generation of electricity and heat, in particular prices of hard coal, fuel gas and biomass, as well as costs of fuels transportation to the generating units ● prices of CO2 emission rights 	1.2.2
Power infrastructure	1.2.4
<ul style="list-style-type: none"> ● availability of cross-border transmission capacities ● growth of generating capacity in national electro-energy system, including renewable energy and cogeneration ● development and modernisation of energy grid 	1.2.4
Macroeconomic environment	1.2.1
<ul style="list-style-type: none"> ● GDP dynamics, particularly in industrial production ● interest rates and exchange rates, values of which affect evaluation of assets and liabilities shown by the Group 	
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 as well as general directional guidelines indicated in the Strategy Of Responsible Development ● changes in scope of services like: <ul style="list-style-type: none"> ▪ modification of current Operational Reserve mechanism ▪ modification of cold reserve mechanism ▪ implementation of further packages for demand reduction services ● implementation of capacity market ● further amendments to the Law on Renewable Energy Sources, defining support scheme for energy generation in renewables ● obligation to redeem RES certificates in next years ● parameters and auction schedule for RES installations and level of reference prices ● change of the rules of obtaining energy efficiency certificates and the expected publication of the list of projects for energy efficiency improvement ● 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.") ● 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 21.4 to the consolidated financial statements ● draft Water Law Act introducing fees for water services, including the use of water for energy purposes 	
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 CO₂ 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

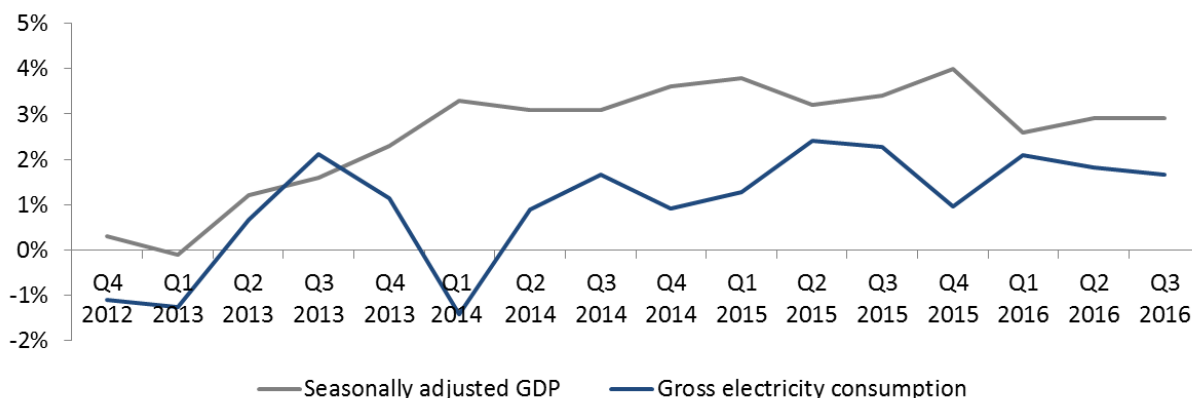
PGE Group's main operating area is Poland, and the domestic macroeconomic backdrop has a substantial impact on Group's results. At the same time, the condition of Poland's economy remains largely tied to the situation across the European Union and in global markets. The Group's financial results are 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 third quarter of 2016, gross electricity consumption went up 0.7% compared to the third quarter of 2015. The increase was lower than in the previous year, when consumption went up 2.3% from the analogical period of 2014.

Economic trends in the three quarters of 2016 largely remained positive although the pace of GDP growth remains lower than expected at the beginning of the year. According to the forecasts available as at the publication date, seasonally adjusted GDP in the third quarter of 2016 was higher by 2.9% in real terms than in the previous year.

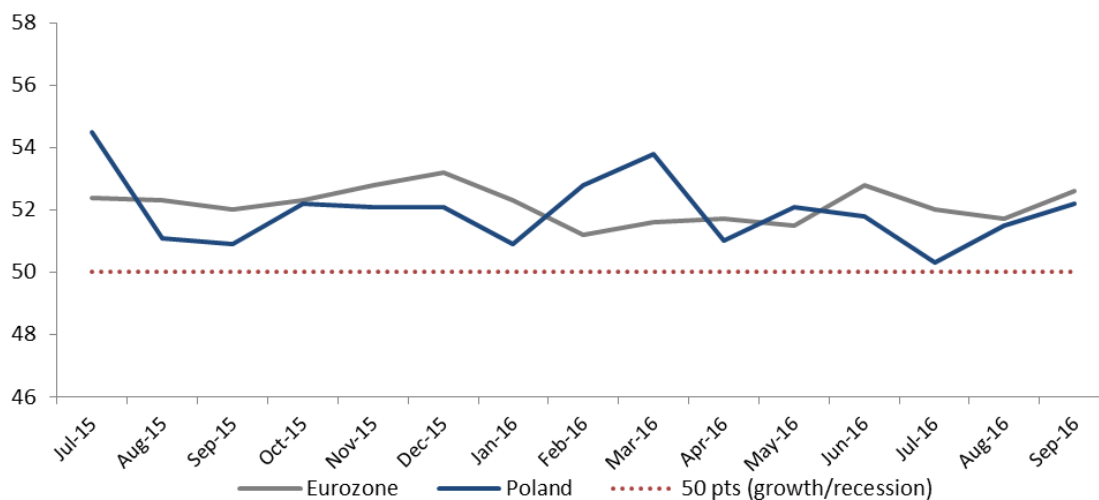
Diagram: Seasonally adjusted GDP change vs. change in gross electricity consumption.



* GDP for the Q3 2016 estimated according to analysts' forecasts, dynamics of gross electricity consumption according to PSE
Source: Central Statistical Office of Poland, PSE

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 reached 52.2 points in the third quarter of 2015, and 51.3 points in the third 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, employment and consumption. The results of the Polish industrial sector should be further strengthened by the Eurozone, whose PMI for the third quarter of 2015 remained at an average level of 52.2 points, and 52.1 points in the third 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 third quarter of 2016, it went up moderately by 2.5% y-o-y, compared to 4.3% in the analogical period of previous year. The change resulted from growth in industrial production (3.4% y-o-y in the third quarter of 2016 versus 5.3% in the third quarter of 2015). Production in the whole energy sector decreased again (-7.3% y-o-y in the third quarter of 2016 vs -3.3% in the third quarter of 2015). The value of industrial manufacturing depends on volumes of goods produced and prices. For the first time in more than three years PPI's dynamics was positive in September recording 0.2% growth in relation to the analogical period of 2015. CPI reading has remained negative since July 2014 and amounted to -0.5% y-o-y at the end of September.

Table: Key economic indicators for Poland.

Key economic indicators (% change y-o-y)	Q3 2016	Q3 2015
GDP ¹	2.9	3.4
CPI ²	-0.5	-0.8
PPI ³	0.2	-2.5
Sold industrial production ³	2.5	4.3
Sold production – manufacturing ³	3.4	5.3
Sold production – energy ³	-7.3	-3.3
Dynamics of domestic electricity consumption ⁴	0.7	2.3
Gross domestic electricity consumption (TWh) ⁴	39.6	39.3
EUR/PLN ⁵	4.34	4.19

Source: ¹ Central Statistical Office of Poland, GDP seasonally adjusted for the third quarter of 2016 estimated on the basis of analysts' forecasts, ² Central Statistical Office of Poland data as at the end of September, ³ Central Statistical Office of Poland, 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 third quarter of 2016 and 2015.

Type of fuel	Q3 2016		Q3 2015	
	Volume (tons ths)	Cost (PLNm)	Volume (tons ths)	Cost (PLNm)
Hard coal	1,417	303	1,414	329
Gas (cubic metres ths)	68,688	35	75,712	35
Biomass	247	57	236	63
Fuel oil	11	11	4	4
TOTAL		406		431

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

Type of fuel	Q1 – Q3 2016		Q1 – Q3 2015	
	Volume (tons ths)	Cost (PLNm)	Volume (tons ths)	Cost (PLNm)
Hard coal	3,755	807	3,781	900
Gas (cubic metres ths)	422,575	291	375,894	308
Biomass	748	168	932	261
Fuel oil	31	29	18	23
TOTAL		1,295		1,492

In the three quarters of 2016 the costs of purchasing primary fuels for generation needs from providers outside the Group amounted to PLN 1,295 million and were lower by PLN 197 million compared to the three quarters of 2015.

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

Biomass

- Lower volume of biomass purchase by 20% (PLN -52 million)
Lower volume of biomass purchase is a result of lower electricity production in co-combustion with biomass due to the decreased profitability of energy production in that technology (the impact of new regulations of RES law and low prices of green certificates).
- Average price lower by 20% (PLN -41 million)

Hard coal

- Lower purchase volume by 1% (PLN -6 million)
Lower volume of hard coal purchase results mainly from lower purchase volume by Pomorzany CHP, what is a consequence of lower electricity and heat production due to limitation of working time to 17,500h in years 2016-2023 because of non-compliance with the EU emission standards.
- Lower average price by 10% (PLN -87 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.

Gas

- Higher purchase volume by 12% (PLN +38 million)
Increased purchase volume in the three quarters of 2016 in relation to the three quarters of 2015 resulted from higher demand for gas fuel at branches of PGE GiEK S.A.
- Lower average price by 16% (PLN -55 million)
Lower average purchase price is connected with liberalisation of Polish gas market and decline of gas prices on the exchanges.

Fuel oil

- Purchase volume higher by 72% (PLN +17 million)
Higher purchase volume results from higher use of fuel oil for the needs of trial run of units after overhauls and modernisations in Bełchatów power plant.

- Lower average price by 27% (PLN -11 million)
Lower global prices of crude oil and refinery products attributed to the decrease of average purchase price of fuel oil.

In the three quarters of 2016 approximately 70% of the electricity was produced from internally sourced lignite, whose extraction price is fully controlled by PGE Capital Group.

1.2.3 Tariffs

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

- tariffs for the sale of electricity to households (G tariff group);
- tariffs of the distribution companies;
- 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 Dystrybcja 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 Dystrybcja 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 0.8%.

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 Dystrybcja 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 increases 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 Dystrybcja S.A. RES fee was also introduced. That fee – due to the amendments to the RES Law – came 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.

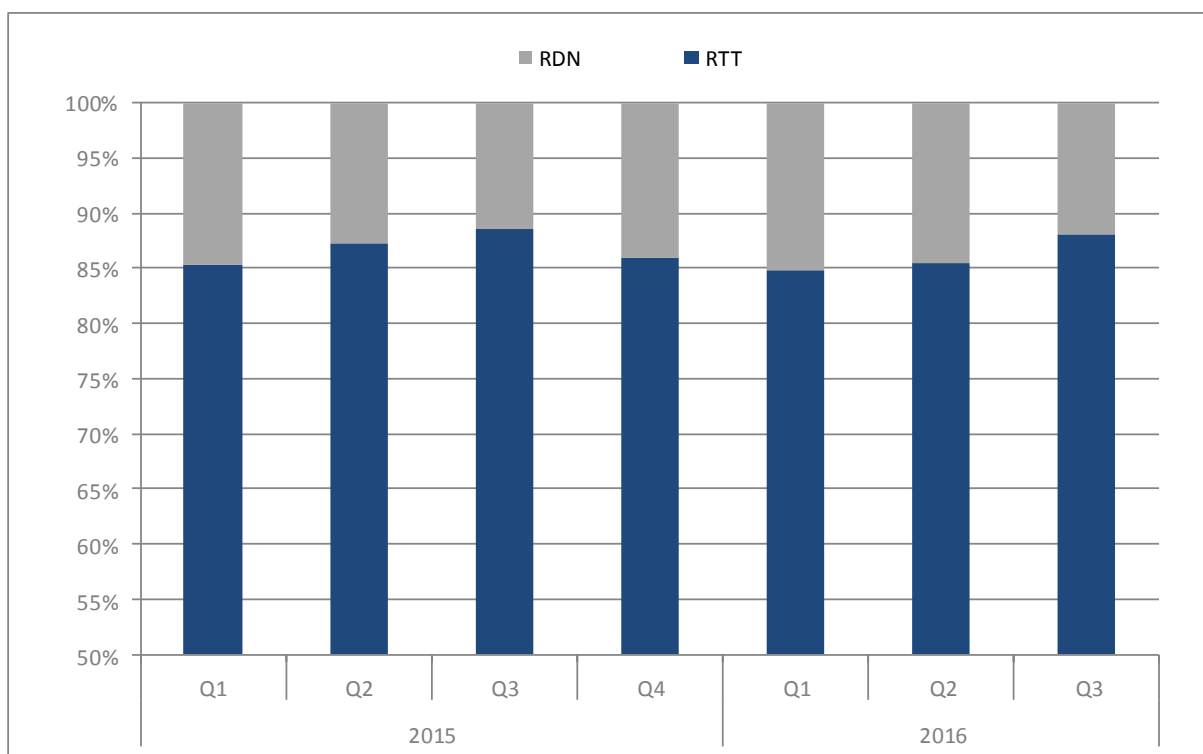
1.2.4 Electricity prices

Domestic market – trading volumes

Trading volume on electricity on the day-ahead market of Towarowa Giełda Energii S.A. (TGE – Polish Power Exchange) in the third quarter of 2016 amounted to 6.1 TWh and were 13% higher compared to the analogical period of 2015. The trading volumes on the forwards market (RTT) amounted to 45.0 TWh what means 8% growth y-o-y.

Total combined trading volume for the day-ahead market and RTT amounted to 146.6 TWh in the three quarters of 2016 what means increase by 4 % compared to previous year. TGE trading volumes exceeded domestic electricity consumption, which amounted to 121.2 TWh - according to PSE S.A.

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



Source: TGE

Domestic market - Prices

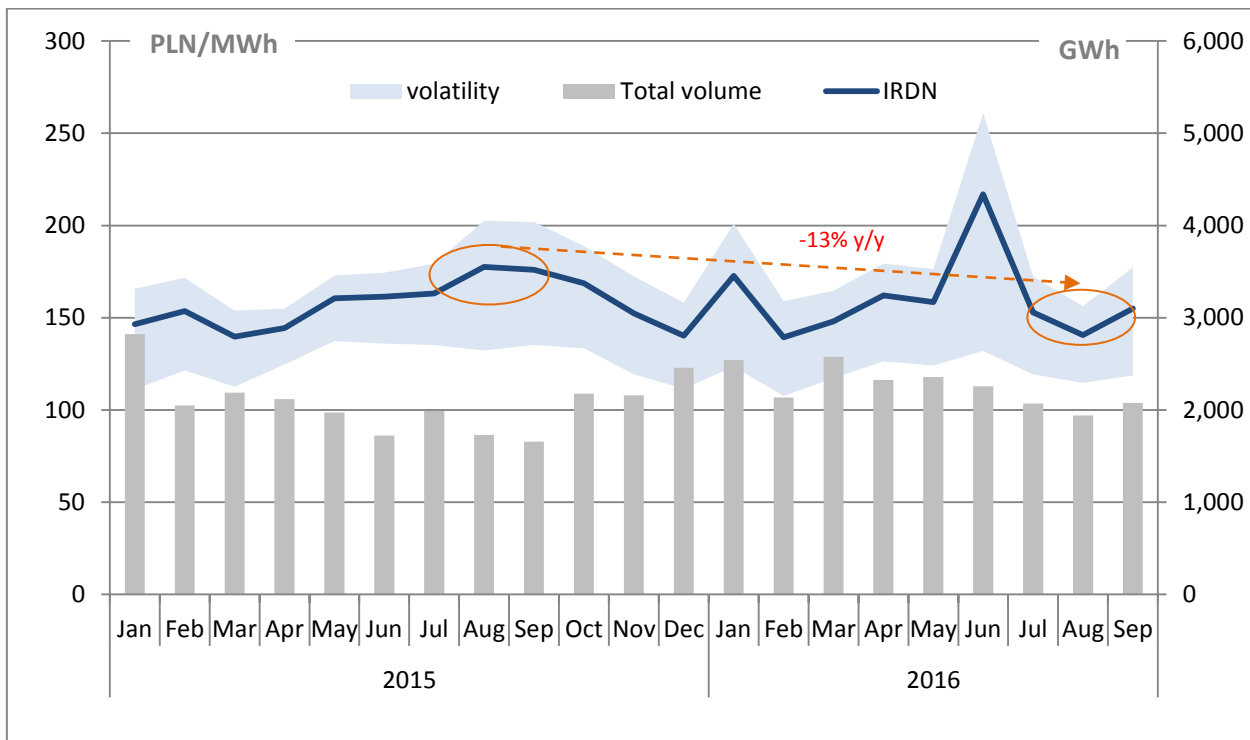
Day-ahead market

The average price in the third quarter of 2016 on the day-ahead market ("IRDN index") was PLN 150/MWh, compared to PLN 172/MWh in the previous year – decrease by 13%.

The decreasing electricity prices, both peak and off-peak, resulted mainly from:

- Lower capacity shutdowns in National Power System resulting from lower overhaul load,
- Decrease of hard coal prices in Poland,
- Lower prices of CO2 emission right,
- Higher generation in wind farms,
- Higher volume of energy import – particularly from the north.

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

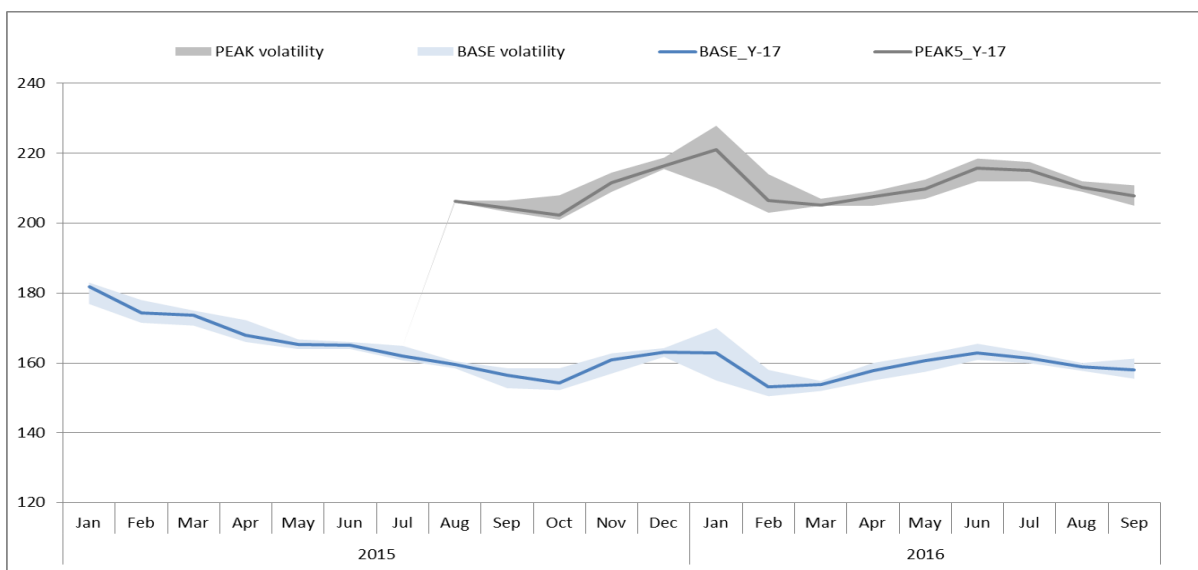


* arithmetic average monthly price from all power exchange transactions concluded at the session (IRDN) and prices spread (comparison of average monthly price of peak contracts sIRDN and off-peak offIRDN).

Forwards market

In the third quarter of 2016, the average price of annual contracts BASE Y-17 was PLN 159/MWh – no change in relation to the previous year price. During the quarter, the contract was trending down. Average peak contract price (PEAK Y-17) amounted to PLN 210/MWh in the third quarter of 2016 and was by 2% higher y-o-y.

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



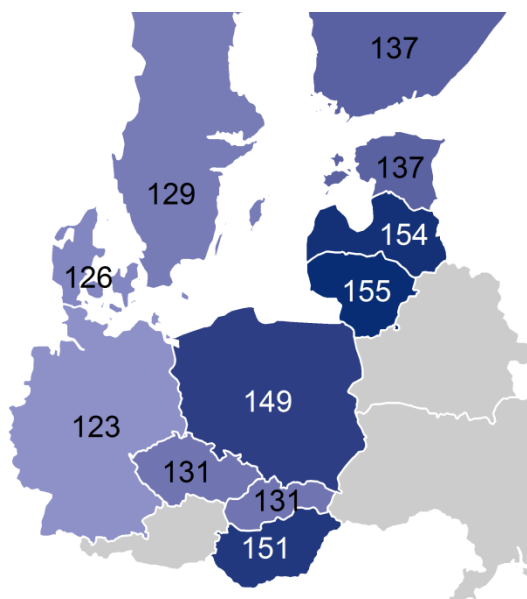
* arithmetic average monthly price from all transactions (PEAK volatility – difference between maximum and minimum price in a given month in peak contracts, BASE volatility – difference between maximum and minimum price in a given month in base contracts).

International markets

Wholesale market

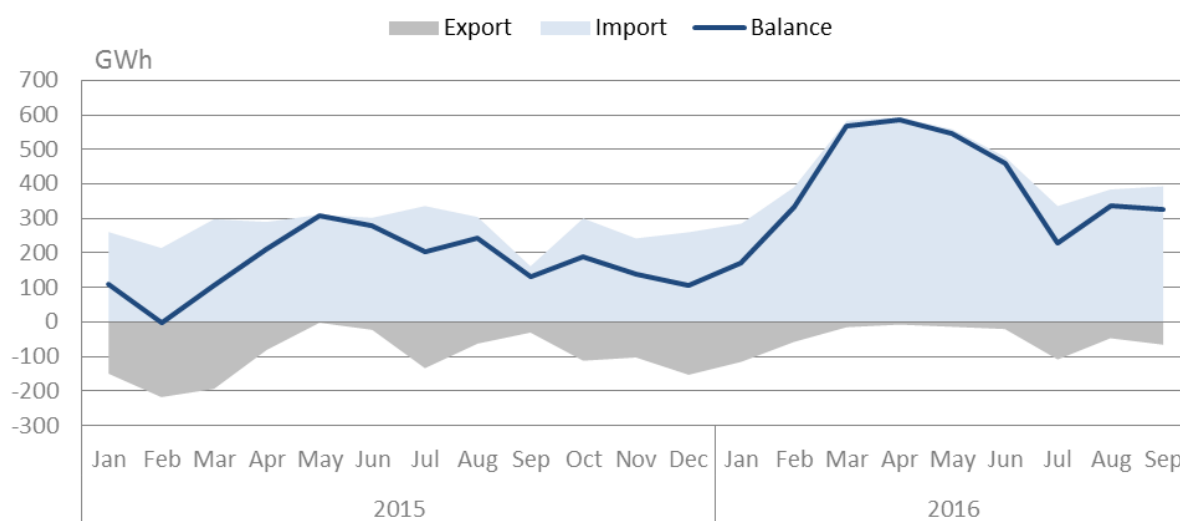
In the third quarter of 2016, average wholesale prices on the Polish market remained above the average values recorded in Sweden, Germany, Czech Republic and Slovakia. At the same time, the price differential between Poland and its neighbouring countries decreased from the second quarter of 2016, which was caused by a decline in prices in Poland and an increase in the above-mentioned countries. Moreover, the price relation between Poland and Lithuania reversed: in the third quarter of 2016, electricity prices in Poland were PLN 6/MWh lower than in Lithuania, whereas in the second quarter of 2016 electricity prices in Lithuania were PLN 19/MWh lower than in Poland. The declining price spread also resulted in a decrease in electricity imports to Poland on a q/q basis.

Chart: Comparison of average prices on Polish market and on selected European markets in the third quarter of 2016 (prices in PLN/MWh, average exchange rate EUR/PLN 4.34).



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

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

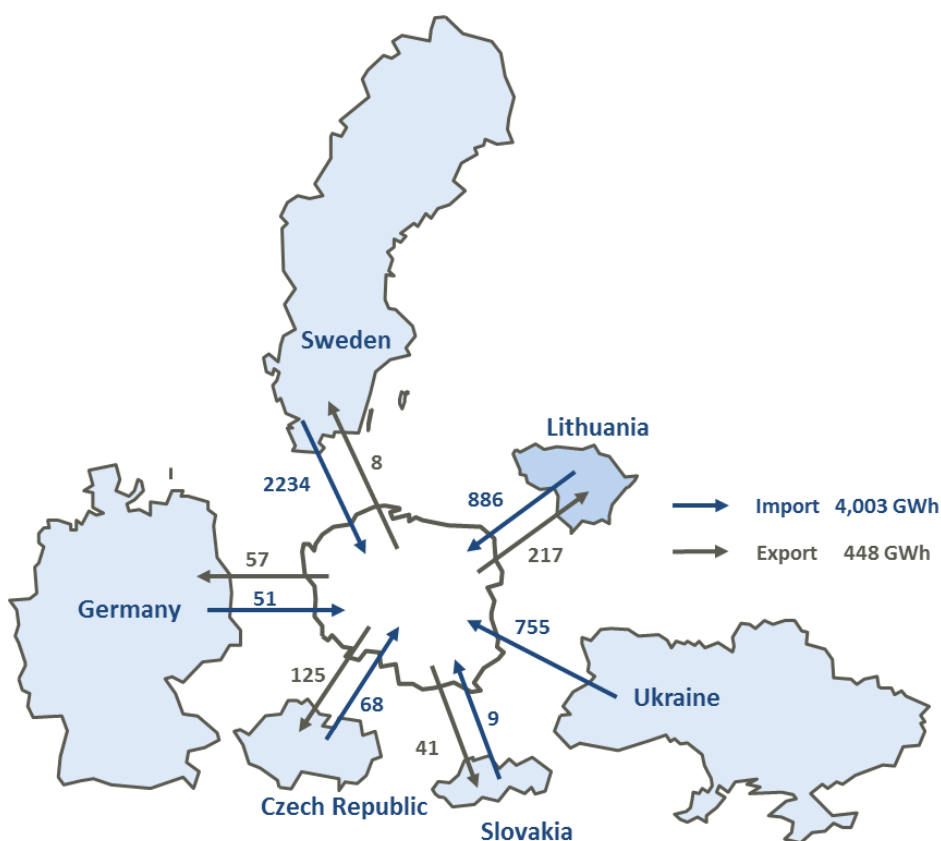


Source: own work based on PSE data.

The balance of commercial cross-border exchange in the third quarter of 2016 was 0.89 TWh, denoting growth by 55% from the same period last year. After the first three quarters of 2016, aggregated net imports were 3.55 TWh – close to 2 TWh more than in the previous year. On the other hand, this trend somewhat slowed: comparing with the second quarter of 2016, net imports declined by 44%. After the three quarters of 2016, aggregated import volumes were nearly nine times higher than export volumes, however in the third quarter alone imports were only five times higher than export.

Sweden continues to be the main source of net imports (0.68 TWh in the third quarter of 2016). A quarter-on-quarter decline in net imports was recorded with Lithuania (down to 0.17 TWh) and Ukraine (to 0.09 TWh) – wherein Lithuania and Ukraine had significantly contributed to the increase in imports during the first half of 2016. In the third quarter of 2016, Poland generated a positive electricity trade balance with the Czech Republic (net exports 0.05 TWh), whereas trade volumes on the borders with Germany and Slovakia remained marginal.

Diagram: Geographical structure of commercial exchange after three quarters of 2016 (GWh).



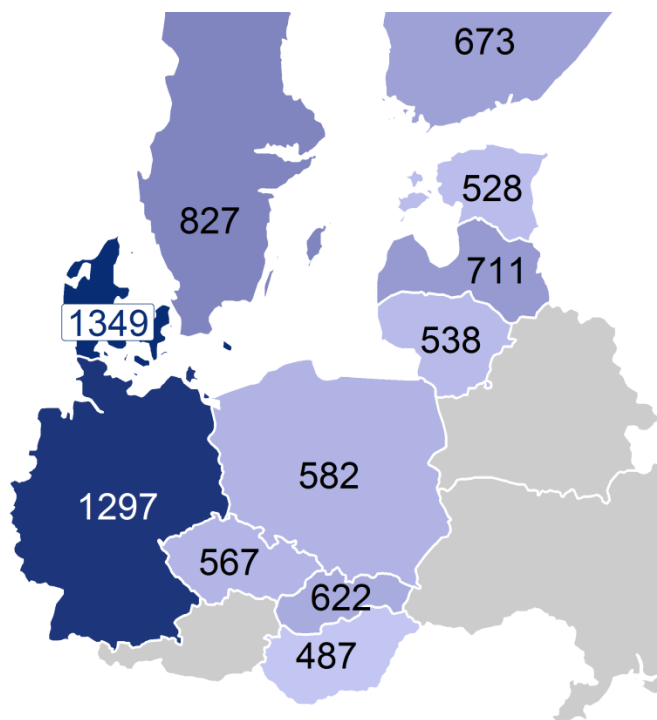
Source: own work based on PSE data.

Retail market

The diversity of electricity prices for retail customers in the European Union depends not only on the level of the wholesale prices of electricity. The fiscal system, regulation mechanisms and support schemes in particular countries all have significant impact on the final price of electricity. In Poland in the first half of 2016¹, 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%.

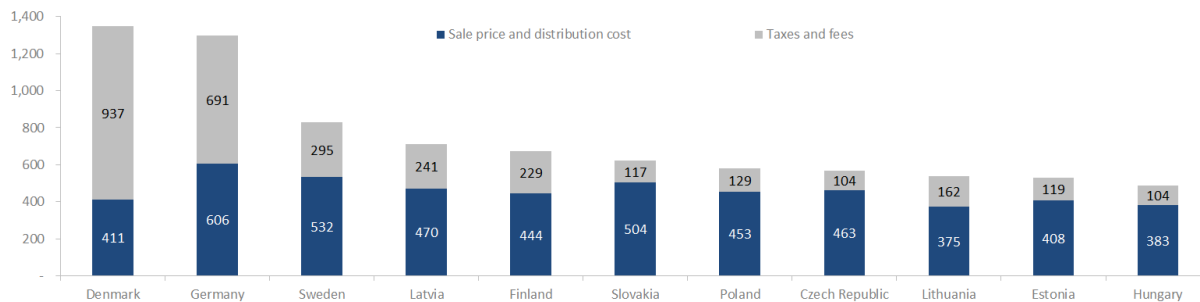
¹ Eurostat data are published every six months.

Diagram: Comparison of average electricity prices for individual customers in selected EU countries in the first half of 2016 (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. EUR/PLN 4.37

Diagram: The share of additional charges in electricity prices for the individual customers in selected EU countries in the first half of 2016 (prices in PLN/MWh, calculated with average exchange rate EUR/PLN 4.37).

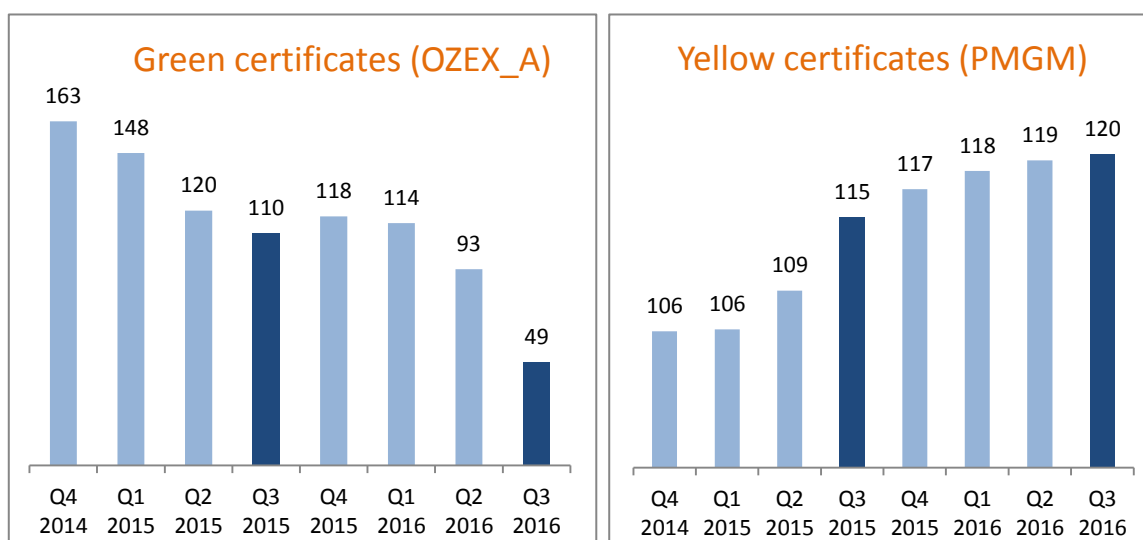


Source: own work based on Energy prices in the EU. Eurostat, the statistical office of the European Union. EUR/PLN 4.37

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 third quarter of 2016, the average price of green certificates reached PLN 49/MWh and was 56% lower y-o-y. The main reason of price pressure is oversupply of green certificates produced in previous years combined with the growing energy production from renewable sources. The obligation to redeem green certificates in the first half of 2016 was at level of 15%. In the second half of 2016, with the entry into force of RES Law, a obligation to redeem biogas certificates PMOZE-BIO was separated at level 0.65%, while obligation to redeem PMOZE certificates was set at 14.35%. PMOZE-BIO certificates have been quoted on TGE since September 2016 and the average price in the third quarter of 2016 amounted to PLN 278/MWh. For green certificates PMOZE and PMOZE-BIO one substitute fee is applied at PLN 300.03/MWh. The average price of yellow certificates in the third quarter of 2016 reached PLN 120/MWh and was by 4% higher compared to the average price in the third quarter of 2016. The growth resulted from regulatory changes (obligation of redemption² was raised from 4.9 % to 6%, while substitute fee grew from PLN 121.63/MWh to PLN 125.00/MWh).

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



Source: Own work based on TGE quotations. The yellow certificates prices presented on the chart are weighted average blended price – for products PMGM-14, PMGM-15 and PMGM-16.

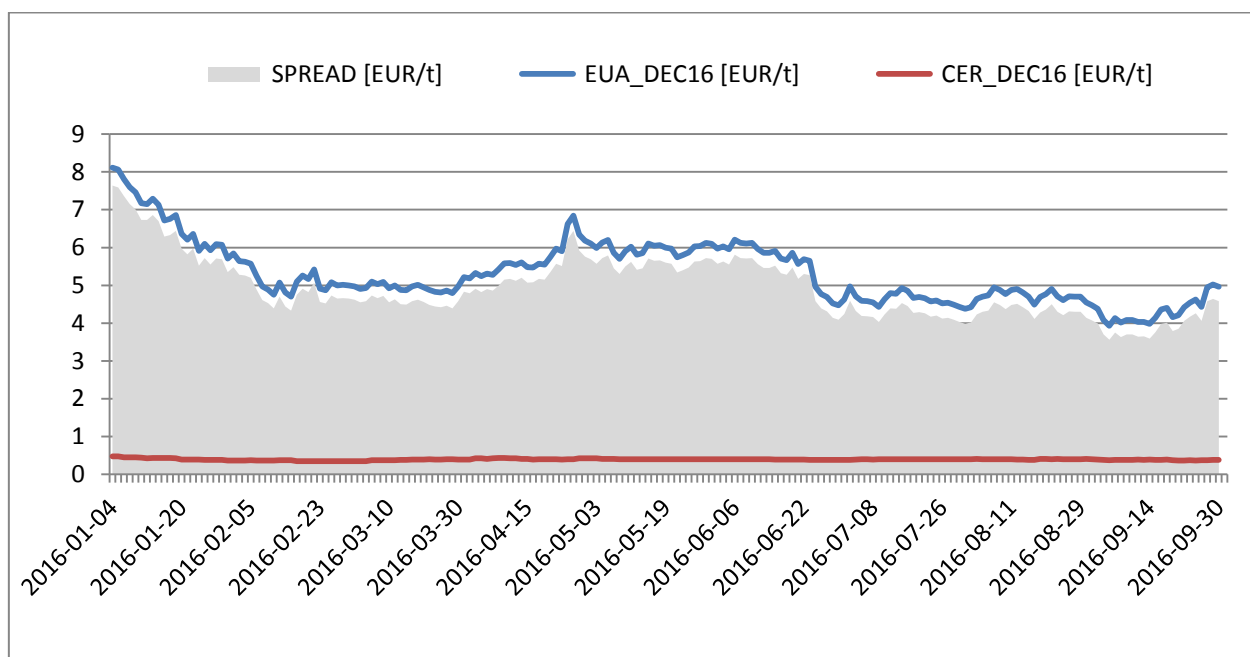
² Obligation of redemption concerns energy sales to final customer. The seller is obliged to redeem the certain amount of colour certificates indicated by the regulator (in relations to the volume of energy sold).

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 three quarters of 2016, the prices of EUAs were priced at average of EUR 5.30/t, including the substantial decline in the first quarter, mainly as a result of lower commodity prices on highly correlated markets, i.e. crude oil, gas, coal and electricity in Germany and increasing of volume intended for auctions in 2016. The first half of 2016 saw 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. In the second quarter, a trend reversal was observed along with a slight increase in prices as well as a rebound on commodity markets. At the end of June 2016, a record price decline took place. This was accompanied by turbulence in financial markets following the Brexit referendum in the U.K. In the third quarter the prices of allowances recorded low values despite EUA supply on the primary market cut by half. At the end of the third quarter, EUA prices recorded a slight increase due to the upcoming meeting of EU ministers in order to accelerate the process of ratification of the Paris Agreement on climate.

Chart: Prices of CO₂ emission rights in the three quarters of 2016.



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

In the three quarters of 2016, future EUA prices for December 2016 were priced in range EUR 3.93-8.11/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.

The table below presents data on Emission of CO₂ from major Group installations in the third quarter of 2016 and in three quarters of 2016 in comparison to allocation of CO₂ emission rights.

Table: Emission of CO₂ from major Group installations in the third quarter of 2016 and in three quarters of 2016 in comparison to allocation of CO₂ emission rights for 2016 (in tonnes).

Operator	CO ₂ emissions in Q3 2016*	CO ₂ emissions in Q1-Q3 2016*	Allocation of CO ₂ emission rights for 2016**
Bełchatów Power Plant	9,655,543	25,338,418	10,282,843
Turów Power Plant	2,135,932	5,902,337	4,137,453
Opole Power Plant	1,376,568	4,375,209	2,377,219
ZEDO	1,126,235	3,580,210	1,949,023
Bydgoszcz CHPs	105,287	514,906	442,383
Lublin Wrotków CHP	25,047	345,941	257,020
Gorzów CHP	79,714	305,783	201,665
Rzeszów CHP	26,258	197,134	107,381
Kielce CHP	12,751	118,129	83,196
Zgierz CHP	31,383	121,495	32,763
TOTAL	14,574,718	40,799,562	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 24.1 to the consolidated financial statements and in p. 6.9 of this report.

2 PGE Group's strategy update up to year 2020

On September 6, 2016 the Supervisory Board approved PGE Group's strategy update presented by the Management Board of PGE. The update is aimed at adapting the Group's activities to the changing environment. In the updated document, the Group also addresses threats and opportunities connected with, among others, volatility of fuel prices, climate policy directions, market model evolution and new technology development.

Mission, vision and overall objectives

In accordance with the updated strategy, PGE's mission is to ensure security and growth based on reliability of supply, technical excellence, modern services and partnership relationships. The overall objective of PGE Group's operations is to increase its shareholder value and the key role in ensuring Poland's energy security.

Diagram: Redefining PGE Group's mission



Updated vision determines the target position of the PGE Group in four areas:



Leader in electricity generation, actively seeking development opportunities

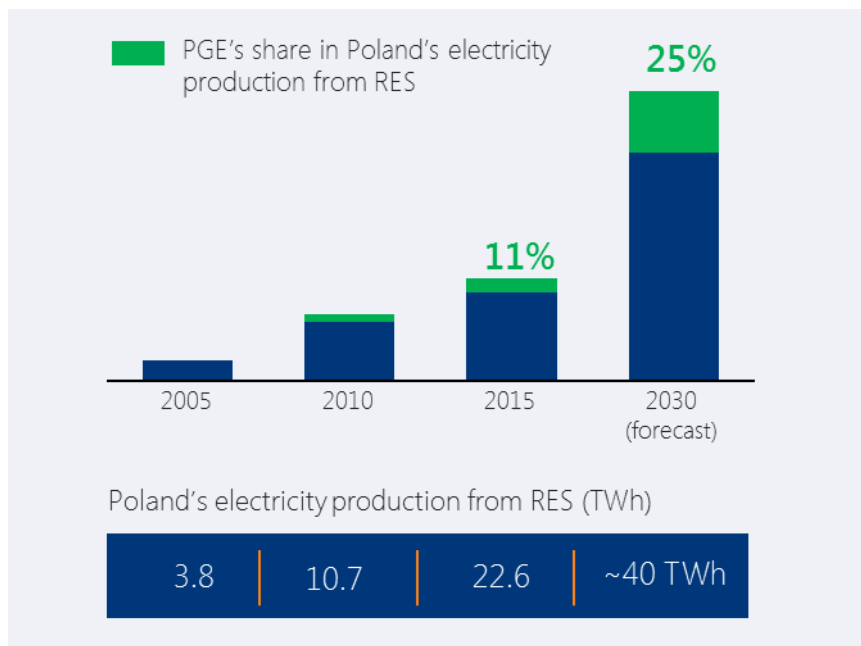
To retain its leading position in the area of electricity generation, PGE Group must secure at least a 40% share of the electricity generation market in Poland by 2020. PGE Group is continuing its flagship investments in Opole and Turów and may invite partners to participate in these projects. At the same time, further investments in conventional energy based on a new market model will be analysed, e.g. construction of new capacities at Dolna Odra power plant. Potential for the co-firing of biomass in PGE Group's existing production assets will be analysed, based on a new support system for renewables. The company will carry out modernisations of conventional plants and combined heat-and-power plants in an optimal scope so that they are adapted to new industrial emission standards BAT (Best Available Technology).

At the same time, within the generation area, PGE Group will seek innovative solutions that will cement its competitive advantage and allow it to reduce environmental impact, including through adapting production assets to a new energy market model, maintaining a competitive lignite extraction operation, reducing SO₂, NO_x, particulates and mercury emissions as well as increasing the efficiency of coal combustion by-product use.

PGE Group intends to retain its leadership in the renewables segment and account for approx. 25% of domestic renewables generation by 2030. To reach this ambitious target, PGE Group intends to complete those onshore wind farm projects that are at the most advanced stages, build an approx. 1,000 MW offshore wind farm and increase its presence in the distributed

generation segment. These investments will depend on successes in the auction support system, development of an innovative financing model and implementation of new business models for the micro-installations segment.

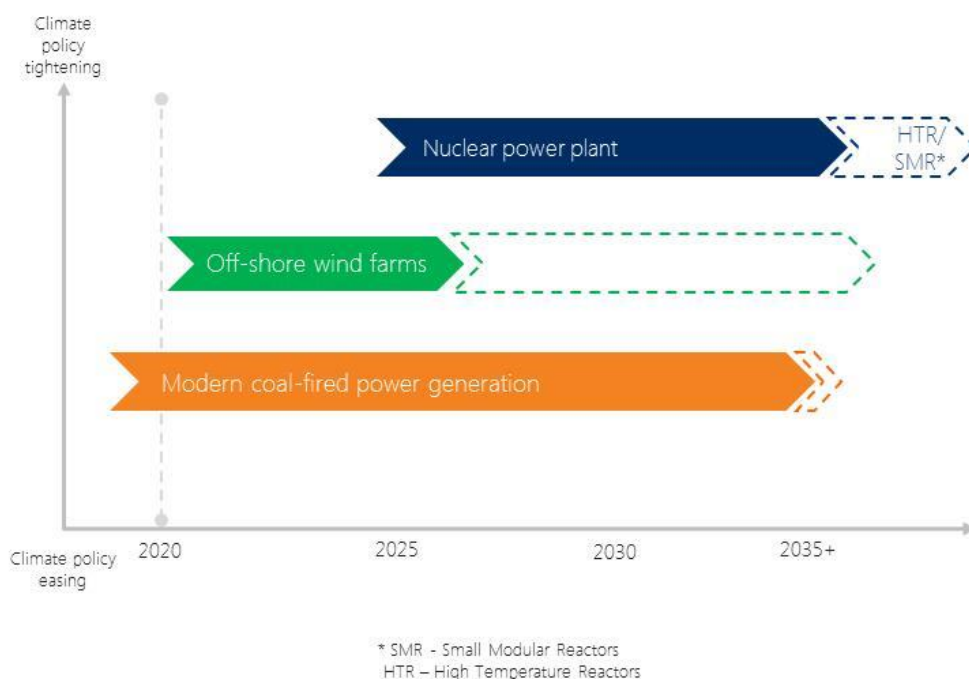
Diagram: PGE Group's aspirational share in Poland's electricity production from RES



In order to maintain a leading position in generation, in the long term PGE Group has three strategic options, thereby can make the optimal choice in the context of future climate policy:

- Construction of Poland's first nuclear power plant, following the development of a model guaranteeing economic viability of the investment
- Construction of approx. 1000 MW capacity in off-shore wind farms, based on an auction support system,
- Modern coal-fired power generation, including utilization of new lignite deposits in case there is a significant easing of the climate policy.

Diagram: Strategic options



Reliable and active utility and service supplier

Currently on-going investments in the distribution segment are intended to increase the reliability of supply and reduce SAIDI and SAIFI by 56% compared to 2015 and the average connection time by 40%. The achievement of these quality targets is being supported by, among others, the development of electricity quality monitoring systems, intelligent grid metering and automation as well as the construction of a digital transmission system.

In the retail area, PGE Group is planning to focus on strengthening relations with clients through gaining more knowledge about their needs. In response to identified expectations, PGE Group will expand its offering by, for example, adding new product and services that are complementary to electricity as well as through the development of new sales and communication channels.

Poland's most efficient and flexible energy group

PGE Group's cost and operational efficiency is one of key preconditions for accomplishing the other strategic goals. On the other hand, flexibility is key to achieving the ability to respond quickly to opportunities arising in PGE Group's environment

Due to efficiency improvement, in 2020 PGE Group plans to achieve reduction of the forecasted controllable costs in the amount of PLN 500m versus year 2016. This will allow for the total cost reduction in 2016-2020 by approx. PLN 3.5bn versus the current efficiency scenario.

The goal of the cost reduction is to strengthen PGE Group's competitiveness and potential, and it forms the basis for PGE Group's further expansion. Efficiency improvements will be implemented in PGE Group's each line of business.

Diagram: Total reduction of controllable in 2016-2020.



*Controllable costs

Improvements in operational efficiency will concern both the organisational structure and processes. Changes in the organisational structure are intended to prepare PGE Group for development in the most promising business areas as well as to eliminate redundant functions and simplify organisational structures. These changes will be introduced through, among others, standardisation and optimisation of support functions throughout PGE Group, implementation of mechanisms for effective formation of new business lines and formation of a new business line – "Co-generation". Process optimisation will apply to all processes at PGE Group, with a focus on the efficiency of sales and customer service channels as well as process support through modern IT systems

Moreover, within next four years, planned expenditures on modernization and replacements will be reduced by approximately PLN 500m in relation to forecasts. It will be possible thanks to introduction of integrated asset management system, among others. Unified approach to planning of expenditures on PGE Capital Group's production assets will allow for reducing asset maintenance costs and CAPEX, while maintaining the security of power supply.

Higher flexibility at PGE Group will be achieved mainly through mechanisms for monitoring the surrounding and rapidly responding to changes, cooperating with external partners, scientific and academic institutions, as well as streamlining decision-making, analytical and reporting processes. The organisation will become more flexible also thanks to simplified organisational structures in the distribution segment's locations and the separation of specialist functions.

Leader in development of new business models and operating segments

The updated strategy places particular emphasis on the development of new business models and operating segments. This will be possible through PGE Group's involvement in cooperating in the area of development and commercialisation of new technologies with credible partners having competences allowing to obtain synergies and competitive advantages. PGE Group's involvement may come in the form of financing, technical or organisational support, depending on the type of venture. New technological solutions that are of interest to PGE Group include energy warehouses, electromobility, power-to-gas technologies, LNG, diffuse energy sources, integrated intelligent solutions and the development of coal gasification installations

Involvement in the development and commercialisation of new technologies will allow PGE Group to introduce to the market a modern and comprehensive offering for clients, covering, among other things, photovoltaics, electromobility, intelligent home solutions, natural gas and demand management. A modern and comprehensive offering will contribute to the diversification of PGE Group's revenue streams.

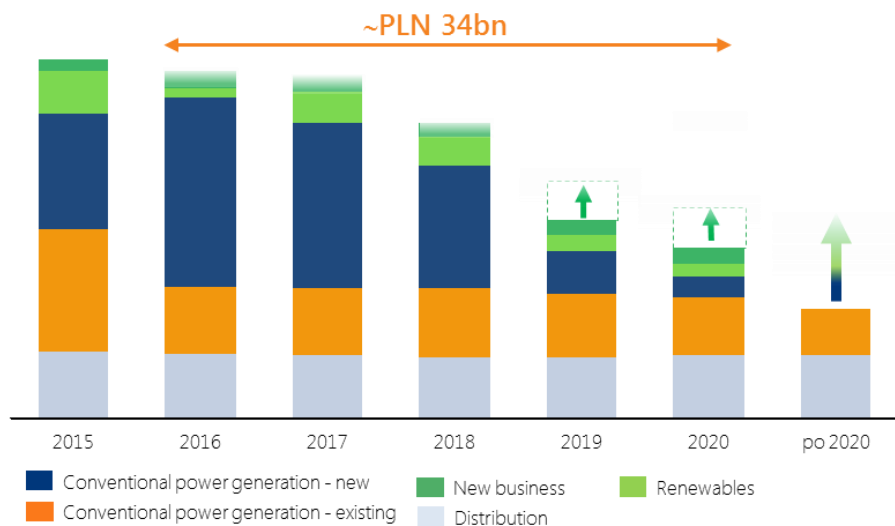
PGE Group intends to build up its brand of a leader on the energy efficiency market. New ESCO (Energy Saving Company) activities will provide clients with benefits such as reduced energy consumption costs, supply continuity and improved image. This will enable PGE Group to develop long-term beneficial client relationships with industry, local government and retail customers, among others.

To develop new solutions and technologies, PGE Group intends to build a research and development centre and a demo lab – PGE Lab.

Investments

The Group assumes capital expenditures of approximately PLN 34 billion in 2016-2020, including more than PLN 10 billion for ongoing projects in Opole and Turów. In connection with modernisation programs that are to be completed soon, the expenditures for the existing capacities in Conventional Energy will drop as from 2016. After construction of two flagship projects, PGE Group will be ready to invest significantly in new business areas, also abroad. Beyond 2020 PGE will be implementing a new investment program, dependent on selected strategic options, the power system's needs and new market model.

Diagram: Planned capital expenditures of PGE Group



Values of PGE Group

PGE Group's strategy will be implemented in accordance with values Partnership, Growth, Responsibility and principles in everyday work included in the Code of Ethics of PGE Group. PGE Group is a responsible organization, aware of its impact on the environment, thus in its operations PGE focuses on reducing impact on natural environment, operating based on ethical principles and involvement in activities for the benefit of local communities ensuring sustainable business growth.

3 Key projects in the three quarters 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 5.9 billion ● fuel: hard coal ● net efficiency: 45.5% ● contractor: syndicate of companies: Rafako, Polimex-Mostostal and Mostostal Warszawa with co-operation of GE as Project manager on behalf of the syndicate ● commissioning: unit 5 – H2 2018; unit 6 – H1 2019 ● January 31, 2014 – issue of Notice to Proceed ● status: ongoing construction of pressure parts of boiler no. 5 and assembly of technological equipment of turbine halls of unit no. 5, concrete coating for cooling tower no. 6 is completed; Overall progress of the works as of the end of September 2016 reached approximately 60%
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 160 million ● fuel: lignite ● net 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: ongoing reinforce and concrete works in the main building (boiler room, turbine hall and communication pylon) and cooling tower, excavation works also continue.
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 430 million ● fuel: local nitrogen-rich gas or methane-rich gas (Group E) ● overall net efficiency: 84% ● contractor: syndicate of companies from Siemens group ● commissioning: H2 2016 ● October 3, 2013 - issue of Notice to Proceed ● status: currently in trial run, synchronisation of unit with the National Power System completed, adjustment operation has commenced; final construction works are held at the construction site.
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. 4.6 MWe +16.5 MWt in co-generation) ● budget: approx. PLN 293 million (net, without costs of financing) ● capital expenditures incurred: approx. PLN 3.5 million ● fuel: municipal waste ● boiler's efficiency: 86% ● contractor: syndicate of TM.E.S.p.A. Termomeccanica Ecologia and Astaldi S.p.A spółka cywilna ● commissioning: H1 2018 ● Agreement with the Contractor signed on December 22, 2015, Notice to Proceed issued on April 8, 2016 ● status: reinforce and concrete works are held in the administration and main building, excavation works continue.
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

Kisielice II wind farm

- 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 lignite resources and boosting the efficiency of the units by approx. 2 p.p.
- budget: approx. PLN 4.6 billion (net, without costs of financing)
- work progress: in 2013-2015 units no. 7, 8, 11 i 12 commissioned. On June 21, 2016 unit no. 9 was commissioned, while unit no. 10 was commissioned on September 28, 2016
- fuel: lignite
- completion: 2017

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)
- work progress: all on-site works completed in the second quarter of 2016
- 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.
- work progress: the works related to protection and fulfilment of the landfill are still to be finished. Tenders and initial work on the installation for the unit no. 14 are underway
- 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)
- work progress: on site works completed in the first quarter of 2016 and installation on unit no. 2 was commissioned
- 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).
- work progress: commissioning of FGD installation in June 2016
- budget: ca. PLN 530 million (net, without costs of financing)
- fuel: lignite
- completion: 2016

Construction of overburden line GD.1 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 100 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: ca. PLN 52 million (net, without costs of financing)
- 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 future BAT conclusions as well as to ensure that the plant remains in operation until about 2040
- budget: ca. PLN 363.7 million (net, without costs of financing)
- fuel: hard coal
- completion: in terms of NO_x – 2017/2018 (unit A/B), in terms of FGD - 2019

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

- **Aim of the project:** Adaptation to future BAT conclusions requirements regarding permissible emissions of sulphur, NO_x and particulate, increase of availability and efficiency, as well as expansion of each turboset's nominal capacity by approx. 15 MWe
- budget: PLN 826 million (net, without costs of financing)
- work progress: receipt of main project for particular islands except AKPiA, which will be delivered in November 2016 and project of cooling tower, which will be delivered in December 2016
- 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 future BAT conclusions requirements
- work progress: assessment of bids in proceeding for General Contractor is underway
- budget: PLN 95.1 million (net, without costs of financing)
- fuel: hard coal
- completion: 2018

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 and MV/LV 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 three quarters 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 three quarters of 2016:** A procurement proceeding under public procurement law 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.

Then, the contractors taking part in the tender procedure called "Supply and implementation of operating systems and clients billing for PGE Obrót S.A. and PGE Dystrybucja S.A." were given information on the results of an assessment of meeting the conditions of participation in the proceedings. After reviewing this information, the two contractors appealed to the President of the National Chamber of Appeal against the decision and activities of the organizer of the proceedings which resulted in the hearing before the NCA. At the moment, the organizer of the procedure is awaiting a justification of the verdict.

Human Capital Management Strategy („HCM Strategy”)	<ul style="list-style-type: none"> ● the aim of this project is supporting the business strategy goals through: <ul style="list-style-type: none"> ■ enhancing the effectiveness of human resources management ■ reinforcing strategic HR management ■ optimisation and standardisation of HR processes in terms of: maximising the benefits through operational scale and specialisation (integration of IT tools and systems), harmonised operating standards, optimal use of resources. ● activities initiated in the three quarters of 2016: works in specific business lines were completed, aimed at adopting corporate rules. During this time, works were also on-going aimed at adapting each company's lower-tier procedures and instructions to comply with the corporate rules. In the second quarter, works were also on-going on preparing HR tools in the second group of strategic initiatives. Of key importance were works connected with preparing SAP HRM, which models HR processes. In addition to that, communications activities, including change management, were continued throughout the second quarter. In June, the first editions of HR Business Partner Academy and HR and Payroll Process Management Academy were completed, with over 80 participants from the HR areas from across all business lines. The aim of these programmes was to support the development of competences of HR staff within the HR Business Partner model. In the third quarter the works started on the Competencies Model common for the PGE Capital Group. Based on the values of PGE Group, company-wide and managerial competencies were developed in co-operation with the management boards. The next step will include development of specialised competencies.
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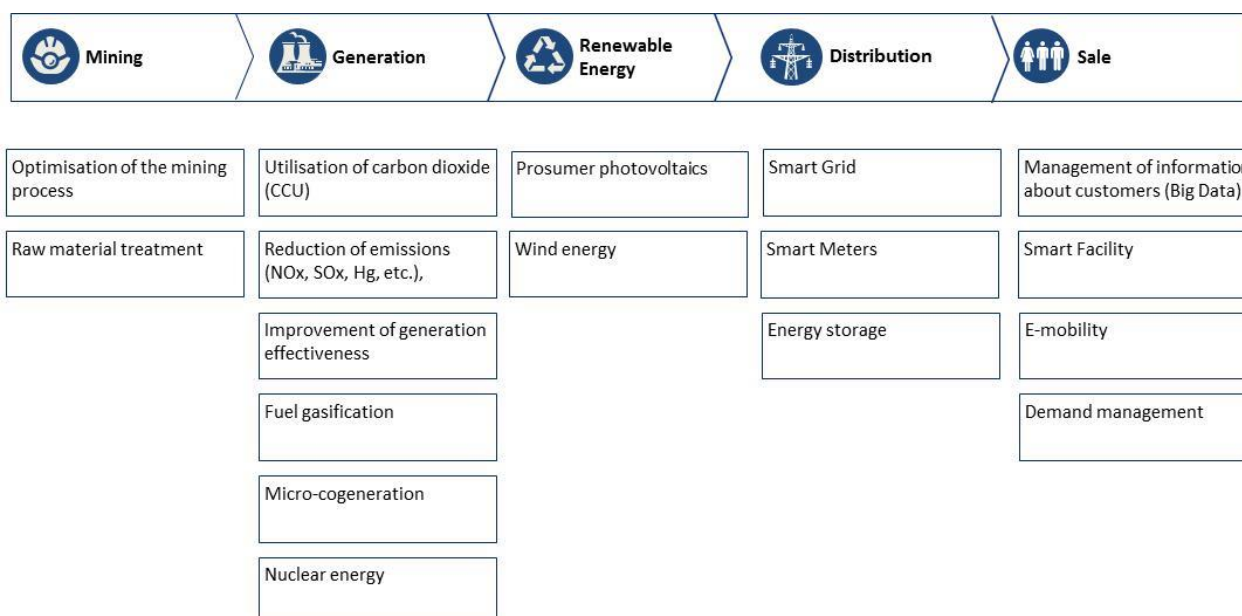
Program SAP	<ul style="list-style-type: none"> ● the aim of the project is: <ul style="list-style-type: none"> ■ improved operational efficiency through: standardisation of processes within the Group, the aim of the project, optimisation of the technical assets efficiency, more efficient maintenance and development of the system, ■ improved transparency through: creation of uniform records of economic events, access to the ongoing and compact of management information, streamlining and accelerating of decision making process, ■ base creation for: creation of Shared Services Centre within PGE Group, integration of procurement system, retention of market leadership in face of stiffening competition.
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Within PGE Group's SAP Programme, an ERP system is being implemented in the areas of accounting, controlling, logistics ("RiL"), procurement invoice workflow („OFZ"), electronic workflow of documents („EOD"), standard audit file („JPK"), Business Process Improvement („BPI"), asset management ("AM"), human capital management ("HCM"), financial consolidation ("FC") and SAP Fiori.

- **activities initiated in the three quarters of 2016:** implementation works were completed in areas of RiL, and AM 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. In July OFZ implementation for the above companies was completed and in HCM area implementation was completed in August. Implementation works for project HCM HRM Career and Development for the Group companies were completed in HCM area, including implementation in subsidiaries of PGE S.A. and PGE GiEK S.A. – the last phase of the HCM HRM W5 was completed on October 21, 2016. Works in EOD project are underway and project encompasses 8 PGE Group companies. JPK project is ongoing in: PGE S.A., PGE GiEK S.A., PGE Dystrybucja S.A., PGE Energia Odnawialna S.A., PGE Obrót S.A., PGE Systemy S.A., PTS Betrans sp. z o.o., Bestgum Polska sp. z o.o., Eltur-Serwis sp. z o.o., MegaSerwis sp. z o.o., Ramb sp. z o.o., PGE Dom Maklerski S.A., Exatel S.A. The first control file for VAT registration has been successfully and timely generated by all companies and included data for the month of July. A BPI pilot is being conducted at seven PGE Group companies – these are tools

supporting comprehensive effectiveness management for business processes carried out via SAP. So far, implementation of SAP system encompassed more than 20 thousand users in areas RiL, HCM, AM, FC in all companies of PGE Group and is one of the largest implementation of SAP system in Europe.

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, use of waste for electricity and heat production as well as coal enrichment technology. Characterisations and assessments of technology, carried out by teams, are currently the basis of expansion projects or projects aimed at implementing solutions that are of most significance to PGE Group.



In connection with an Update of the Group's Strategy being introduced in the third quarter of 2016, works commenced on updating the Development and Innovation Strategy, intended to set out the scope of technical changes in SOBiR and to verify implementation progress and level of use of tools for managing research, development and innovation at PGE Group. In effect, an updated Development and Innovation Strategy will be aligned with PGE Group's Strategy and its objectives, whilst at the same time indicating means for the operationalisation of priorities in the area of research, development and innovation. Updating the means for implementing and executing the Development and Innovation Strategy will also take into consideration the Group's surroundings (regulatory and business) in terms of raising funds for R+D+I activities as well as possible cooperation models and optimal management of R&D and innovation projects.

Innovation

PGE focuses on initiating and executing R&D projects that fall within the SOBiR+NB areas. In the three quarters of 2016, 51 projects were continued within these areas.

Key projects in the three quarters 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. Currently a plan of the Power to Gas project is being developed for a selected location and in a hydrogen use scenario.
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">▪ As part of works intended to sign the Joint Venture Agreement, a version of the PGE – NCBR Agreement was further adjusted to the new guidelines of the Operational Programme Intelligent Development, which is a financing source for part of the Joint Venture’s budget (public funds) and other guidelines introduced by NCBR as an effect of experiences from previously launched Joint Ventures and recommendations of POIR Managing Institution. Within this context, PGE – Contractor Agreement, which secures the interests of both of the Parties as regards intellectual property rights concerning R&D project results and establishes rules for the commercialisation of these projects’ results, has been reviewed and modified. Moreover, with Sectoral Program for the power sector taken into account, the proposed research agenda had to be modified. The agenda is ready for presentation in order to be verified in operating mode by NCBR. 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 September 2016, the National Centre for Research and Development in Poland announced the launch of a Feasibility Study for a Sector Programme for Electricity, as requested by the Polish Electricity Association. This is a consistent plan for a research agenda concerning the electricity value chain, which is to constitute a response to the key challenges facing the entire industry. The Sector Programme Feasibility Study is the first plan of its type prepared and approved by all major participants of the electricity market. The first competition within the Sector Programme is starting to accept applications on 2 November 2016, and its indicative budget is PLN 150 million. Application evaluations and announcement of the projects that will receive funding will take place in the first quarter of 2017. In accordance with the proposed schedule for the entire Programme, a second competition is to be announced in the second quarter of 2017.▪ As part of PGE Group’s involvement in funding mechanisms that support the development of new solutions and technologies, the Group is participating in a competition announced by the Polish Agency for Enterprise Development concerning the launch of an accelerator for small businesses, together with a 15-month acceleration programme. The competition is part of the Start in Poland programme, which is prepared by the Development Ministry and is the first tool intended to develop cooperation between small and large businesses using funding mechanisms (reimbursable equity mechanisms). Instead of a joint fund with PZU, which has not been finalised, work is underway to draft organisational and strategic assumptions intended for PGE to enter into a VC structure, with a target option to form its own CVC. For PGE to launch its own CVC, the relevant knowledge and competence must first be brought in as well as cooperation must be established at national and international level – because only then will PGE be able to successfully operate its own fund. The pathway to PGE’s CVC is currently being planned and agreed internally.
Electromobility	<ul style="list-style-type: none">● PGE Group has become involved in initiatives aimed at promoting and developing electromobility in Poland. These activities concern two areas: buses – public transport in urban areas, as well as individual transport – passenger cars used for professional and private purposes.

Within these two initiatives, PGE has:

- commenced cooperation with bus manufacturers in order to develop, test (through pilot implementation) and prepare for commercial implementation of a public transport model based on electric buses, with batteries being further used once they are no longer used in buses. This is an issue of particular importance in terms of improving the economic results of the entire use model for electric vehicles, with batteries being the main cost item,
 - set up a company, ElectromobilityPoland S.A., to be formed with the other three major energy groups in Poland, intended to rapidly develop individual electromobility in Poland.
-

4 Results achieved in PGE Capital Group

4.1 Financial results of PGE Capital Group

Key financial data	Unit	Q3 2016	Q3 2015*	% change	Q1-Q3 2016	Q1-Q3 2015*	% change
Sales revenues	PLN million	6,897	6,915	0%	20,563	21,160	-3%
EBIT	PLN million	895	1,312	-32%	1,847	-4,862	-
EBITDA	PLN million	1,643	2,002	-18%	4,786	6,230	-23%
Net profit/loss attributable to equity holders of the parent company	PLN million	656	1,029	-36%	1,202	-4,026	-130%
Adjusted net profit attributable to equity holders of the parent company**	PLN million	682	1,065	-36%	1,949	3,209	-39%
LTC compensations	PLN million	131	142	-8%	532	443	20%
Capital expenditures	PLN million	1,907	2,505	-24%	5,597	5,837	-4%
Net cash from operating activities	PLN million	1,934	2,148	-10%	4,791	5,217	-8%
Net cash from investing activities	PLN million	-1,835	-1,953	6%	-6,436	-6,019	-7%
Net cash from financial activities	PLN million	3,574	-26	-	3,928	-299	-
Net earnings per share	PLN	0.35	0.56	-36%	0.64	-2.15	-
Adjusted net earnings per share	PLN	0.36	0.57	-36%	1.04	1.72	-39%
EBITDA margin	%	24%	29%		23%	29%	

Key financial data	Unit	As at	As at	%
		September 30, 2016	December 31, 2015	change
Working capital	PLN million	6,118	4,126	48%
Net debt/LTM EBITDA ***	x	0.62	0.32	

*Data restated

** Net profit adjusted by impairment loss

*** LTM EBITDA - Last Twelve Months EBITDA

Table: Impact of one-offs on EBITDA [in PLN million].

One-offs	Q3	Q3	%	Q1-Q3	Q1-Q3	%
	2016	2015*	change	2016	2015*	change
LTC compensations	131	142	-8%	532	443	20%
Change in reclamation provision	0	0	-	0	193	-
Change in actuarial provision	0	1	-	0	54	-
Revaluation of balance sheet value of property rights	0	0	-	-118	0	-
Voluntary Leave Program	-8	0	-	-29	0	-
Total	123	143	-14%	385	690	-44%

4.1.1 Consolidated statement of comprehensive income

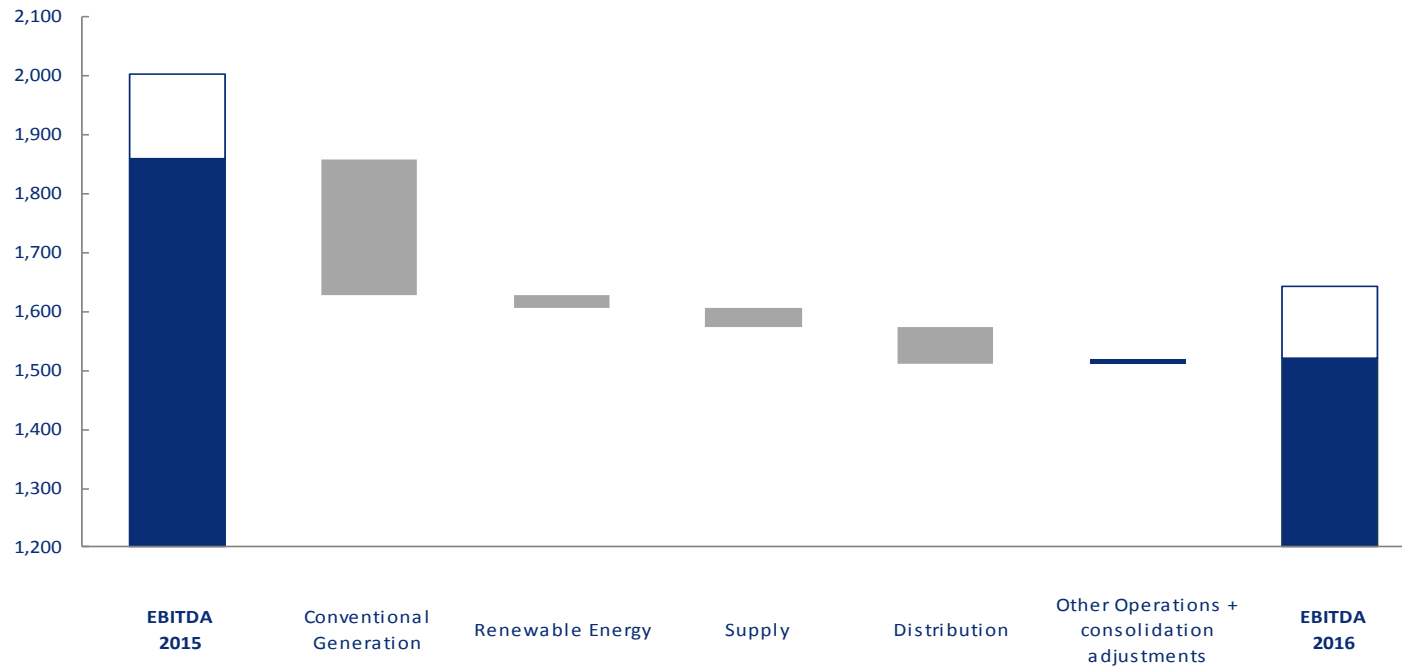
Chart: Key changes of recurring EBITDA in PGE Capital Group [in PLN million].



	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		-144	106	-113	6	2	-8	-36	-21	-54	-128	51	
EBITDA reported Q3 2015	2,002												
One-offs Q3 2015	143												
Recurring EBITDA Q3 2015	1,859	2,744	504	217	117	56	89	213	170	1,056	378		
Recurring EBITDA Q3 2016		2,600	398	330	123	58	81	249	191	1,002	250		1,520
One-offs Q3 2016													123
EBITDA reported Q3 2016													1,643

one-offs

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



□ one-offs

4.1.2 Consolidated statement of financial position

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

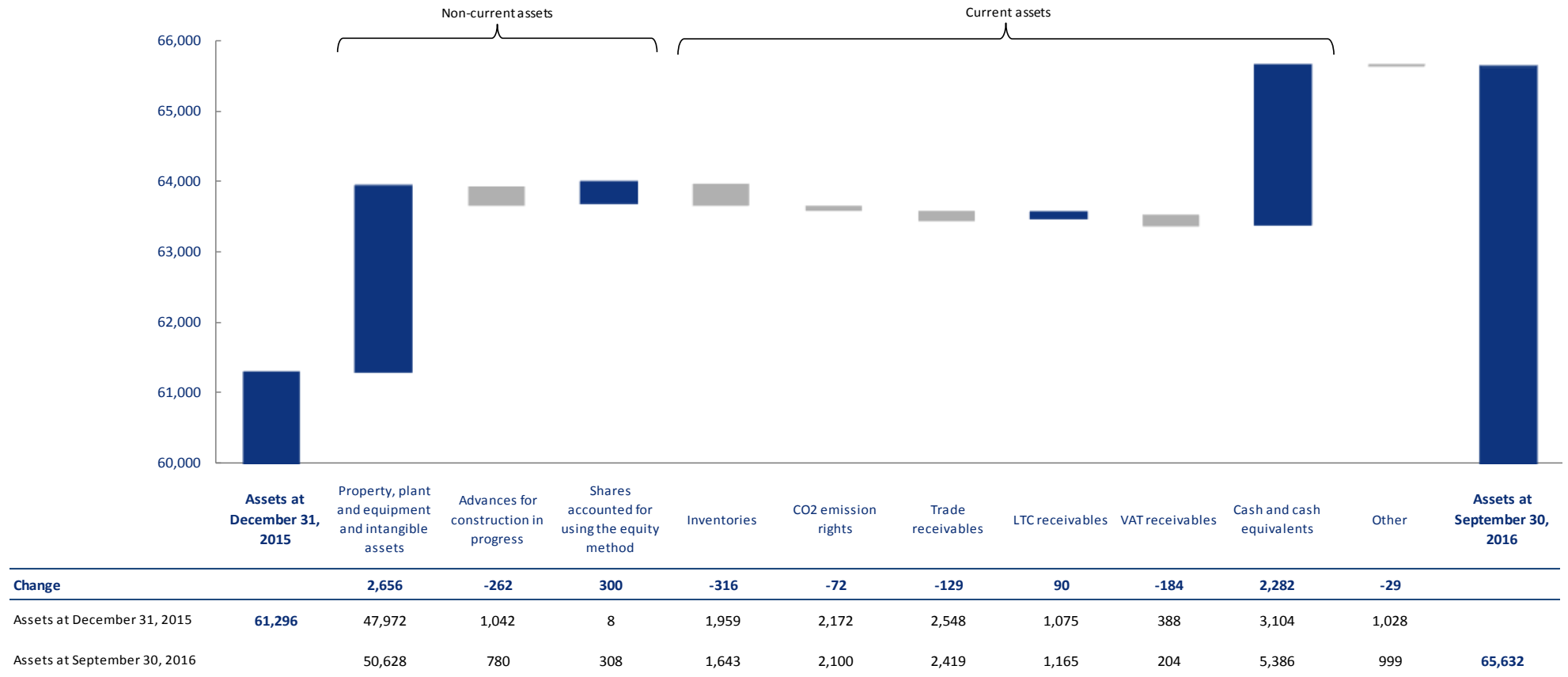
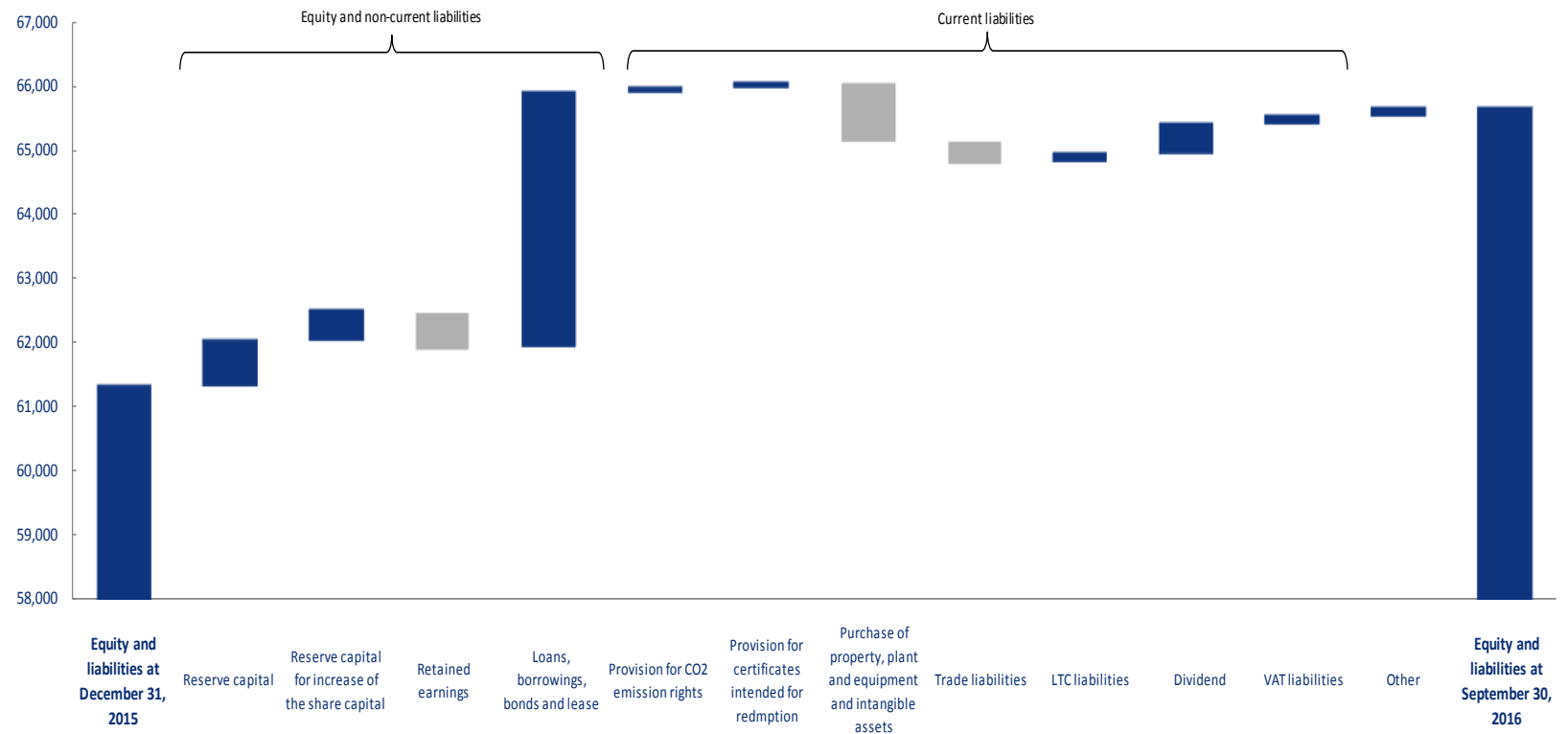


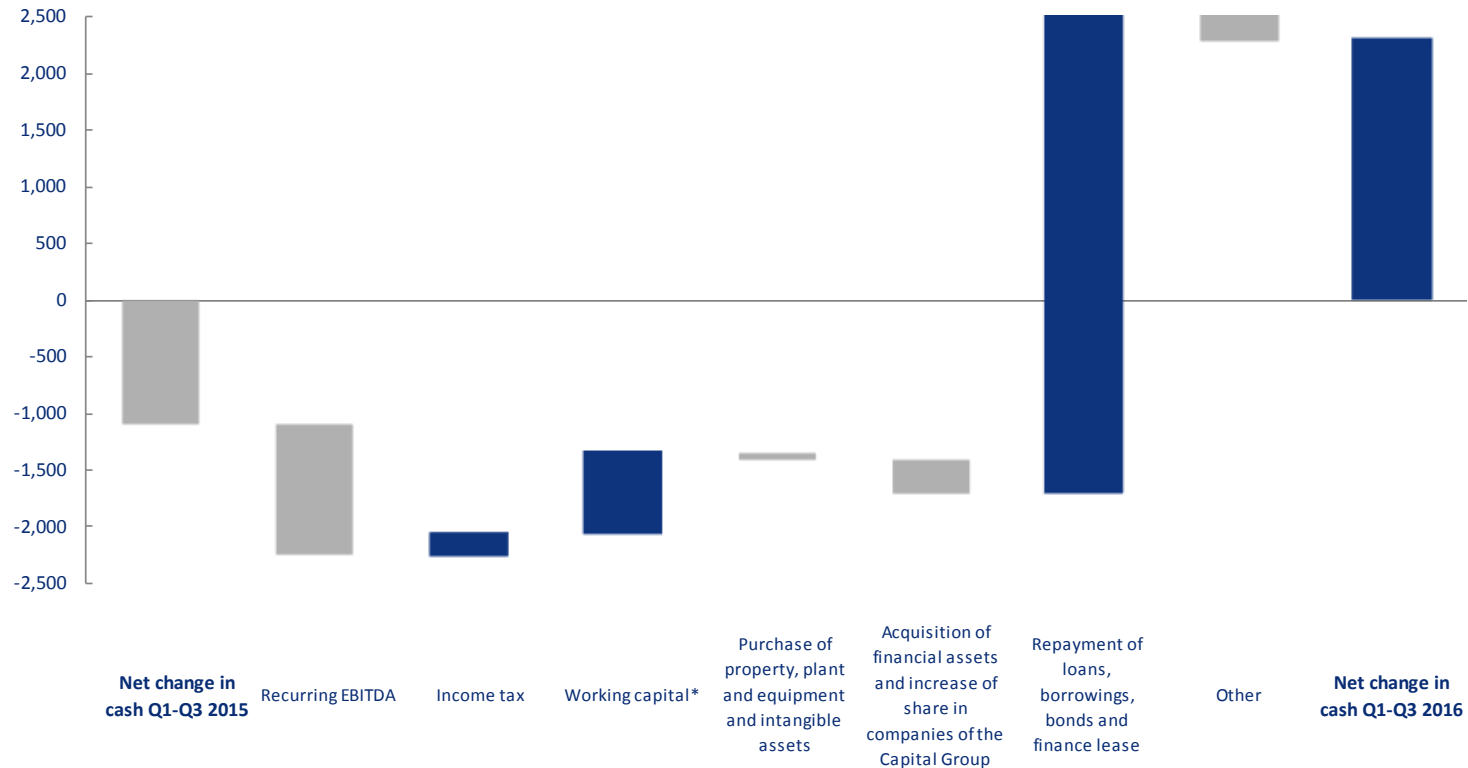
Chart: Key changes in Equity and Liabilities [in PLN million].



	Reserve capital	Reserve capital for increase of the share capital	Retained earnings	Loans, borrowings, bonds and lease	Provision for CO2 emission rights	Provision for certificates intended for redemption	Purchase of property, plant and equipment and intangible assets	Trade liabilities	LTC liabilities	Dividend	VAT liabilities	Other	Equity and liabilities at September 30, 2016
Odchylenie	721	467	-568	3,958	70	96	-898	-350	133	467	110	130	
Equity and liabilities at December 31, 2015	61,296	13,009	0	8,636	5,118	760	380	1,608	1,119	1,131	8	110	29,417
Equity and liabilities at September 30, 2016	13,730	467	8,068	9,076	830	476	710	769	1,264	475	220	29,547	65,632

4.1.3 Consolidated statement of cash flows

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



	Net change in cash Q1-Q3 2015	Recurring EBITDA	Income tax	Working capital*	Purchase of property, plant and equipment and intangible assets	Acquisition of financial assets and increase of share in companies of the Capital Group	Repayment of loans, borrowings, bonds and finance lease	Other	Net change in cash Q1-Q3 2016
Change	-1,101	-1,139	175	721	-63	-296	4,224	-238	
Net change in cash Q1-Q3 2015	-1,101	5,540	-358	-692	-6,018	-86	-204	717	
Net change in cash Q1-Q3 2016		4,401	-183	29	-6,081	-382	4,020	479	2,283

*Part of the working capital adjusting the cash flows from operating activities

4.2 Operational figures of PGE Capital Group

Table: Key operational figures.

Key figures	Unit	Q3 2016	Q3 2015	% change	Q1-Q3 2016	Q1-Q3 2015	% change
Lignite extraction	Tons m	13.07	12.54	4%	34.75	37.56	-7%
Net electricity production	TWh	13.62	14.11	-3%	39.04	41.73	-6%
Heat sales	GJ m	1.12	1.44	-22%	11.30	12.04	-6%
Sales to final customers*	TWh	10.47	9.77	7%	31.90	29.03	10%
Distribution of electricity**	TWh	8.52	8.35	2%	25.43	24.80	3%

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

** with additional estimation

4.2.1 Balance of energy of PGE Capital Group

Sales of electricity

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

Sales volume	Q3 2016	Q3 2015	% change	Q1-Q3 2016	Q1-Q3 2015	% change
SALES IN TWh, including:	26.29	25.66	2%	76.92	75.88	1%
Sales to end-users*	10.48	9.79	7%	31.94	29.06	10%
Sales on the wholesale market, including:	15.27	15.43	-1%	43.39	45.58	-5%
<i>Sales on the domestic wholesale market - power exchange</i>	13.82	14.70	-6%	39.04	43.27	-10%
<i>Other sales on the domestic wholesale market</i>	1.43	0.69	107%	4.28	2.23	92%
<i>Sales to foreign customers</i>	0.02	0.04	-50%	0.07	0.08	-13%
Sales on the Balancing Market	0.54	0.44	23%	1.59	1.24	28%

* 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 in A and C2x tariff groups. The decline in volumes sold via the power exchange is connected with decreased generation due to lower availability of the Bełchatów power plant (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	Q3	Q3	%	Q1-Q3	Q1-Q3	%
	2016	2015	change	2016	2015	change
PURCHASES IN TWh, including:	13.71	12.59	9%	41.40	37.55	10%
Purchases on the domestic wholesale market – power exchange	10.80	10.29	5%	32.01	30.21	6%
Purchases on the domestic wholesale market, other	1.24	0.66	88%	3.63	2.62	39%
Purchases from abroad	0.01	0.01	0%	0.05	0.03	67%
Purchases from Balancing Market	1.66	1.63	2%	5.71	4.69	22%

Increased purchases on the domestic wholesale market – power exchange was caused by higher demand for electricity in Supply segment due to higher volume of sales to final customers. Higher purchase volume was also recorded on other wholesale market what is a result of increased purchase on local market from Połaniec power plant executed by PGE Obrót S.A. Higher purchase volume on the balancing market is a consequence of necessity to balance the contracted sale, purchase and generation.

Production of electricity

Generation volume	Q3	Q3	%	Q1-Q3	Q1-Q3	%
	2016	2015	chang	2016	2015	chang
ENERGY GENERATION IN TWh, including:	13.62	14.11	-3%	39.04	41.73	-6%
Lignite-fired power plants	10.30	10.03	3%	27.15	29.64	-8%
<i>including co-combustion of biomass</i>	0.00	0.04	-100%	0.00	0.25	-100%
Coal-fired power plants	2.60	3.18	-18%	8.07	8.32	-3%
<i>including co-combustion of biomass</i>	0.10	0.12	-17%	0.28	0.34	-18%
Coal-fired CHP plants	0.09	0.25	-64%	0.62	0.92	-33%
Gas-fired CHP plants	0.19	0.20	-5%	1.50	1.30	15%
Biomass-fired CHP plants	0.13	0.11	18%	0.37	0.34	9%
Pumped-storage power plants	0.06	0.15	-60%	0.32	0.37	-14%
Hydroelectric plants	0.07	0.04	75%	0.31	0.30	3%
Wind power plants	0.18	0.15	20%	0.70	0.54	30%

Generation level in the three quarters of 2016 in comparison to the three quarters of 2015 was mainly affected by lower generation in lignite-fired power plants. It is a result of decline in production in Bełchatów power plant resulting from working time of unit no. 1 limited to 1,500 h in 2016 because of non-compliance with the EU emission standards as well as from longer by 3,681 h period of overhauls mainly:

- Unit no. 10 – modernisation from August 15, 2015 till May 7, 2016;
- Unit no. 3 – medium overhaul from February 15, 2016 till July 1, 2016;
- Unit no. 6 – medium overhaul from March 28, 2016 till May 23, 2016.

A decline in production at coal - fired power plants was caused by lower generation in Opole power plant and in Dolna Odra power plant what is a consequence of lower utilisation of units by PSE S.A. Moreover, unit no. 1 in Opole power plant was in medium overhaul from April 19, 2016 till May 18, 2016.

Decrease of production coal-fired CHP plants is a result of lower production of electricity in Pomorzany CHP what is a consequence of limitation of working time to 17,500 h in years 2016-2023 because of non-compliance with the EU emission standards. Additionally, lower electricity produced in co-generation in Bydgoszcz CHP is a consequence of taking over of part of the heat market by the Thermal Processing Installation in Bydgoszcz and technological restrictions of the desulphurisation installation.

Increased production in gas-fired CHP plants results mainly from continuation of electricity production in co-generation with heat after the heating season in Lublin Wrotków CHP due to favourable prices of gas fuel.

Higher production in wind farms results mainly from increased installed capacity by 178 MW in wind farms commissioned in the fourth quarter of 2015 and first quarter of 2016 i.e.:

- FW Resko II – 76 MW;
- FW Lotnisko – 90 MW;
- FW Kisielice II – 12 MW;

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

A slight increase of production in hydroelectric power plants is a consequence of more favourable hydrological conditions in the third quarter of 2016.

Lower production in pumped storage power plants results from the nature of these generation units, which in the three quarters of 2016 were used to a lower extent by PSE S.A.

4.2.2 Sales of heat

In the three quarters of 2016 the heat sales in PGE Capital Group totalled 11.30 GJ million and were lower by 0.74 GJ million than in the three quarters of 2015. Lower sales of heat resulted mainly from limitation of working time of Pomorzany CHP to 17,500 h in years 2016-2023 as the CHP fails to meet the EU emission standards. Additionally, a lower sale by ZEC Bydgoszcz is a result of new heat generator in Bydgoszcz that started operations in January 2016.

4.3 Business segments – financial data

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

in PLN million	Total revenues		
	Q3 2016	Q3 2015*	% change
Conventional Generation	2,879	3,052	-6%
Renewable Energy	126	168	-25%
Supply	3,785	3,802	0%
Distribution	1,444	1,479	-2%
Other operations	178	172	3%
TOTAL	8,412	8,673	-3%
Consolidation adjustments	-1,515	-1,758	14%
TOTAL AFTER ADJUSTMENTS	6,897	6,915	0%

* data restated

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

in PLN million	EBITDA	EBIT	Capital expenditures	Assets of the segment*
Conventional Generation	878	500	1,454	34,749
Renewable Energy	51	-13	18	3,746
Supply	112	105	7	3,485
Distribution	568	289	422	16,968
Other operations	23	-10	34	1,029
TOTAL	1,632	871	1,935	59,977
Consolidation adjustments	11	24	-28	-1,928
TOTAL AFTER ADJUSTMENTS	1,643	895	1,907	58,049

* see note 6 to the consolidated financial statements

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

in PLN million	EBITDA	EBIT	Capital expenditures	Assets of the segment*
Conventional Generation	1,127	789	1,656	28,843
Renewable Energy	76	17	346	4,589
Supply	144	138	9	4,371
Distribution	630	360	450	16,050
Other operations	25	-5	61	994
TOTAL	2,002	1,299	2,522	54,847
Consolidation adjustments	0	13	-17	-1,908
TOTAL AFTER ADJUSTMENTS	2,002	1,312	2,505	52,939

* see note 6 to the consolidated financial statements

** data restated

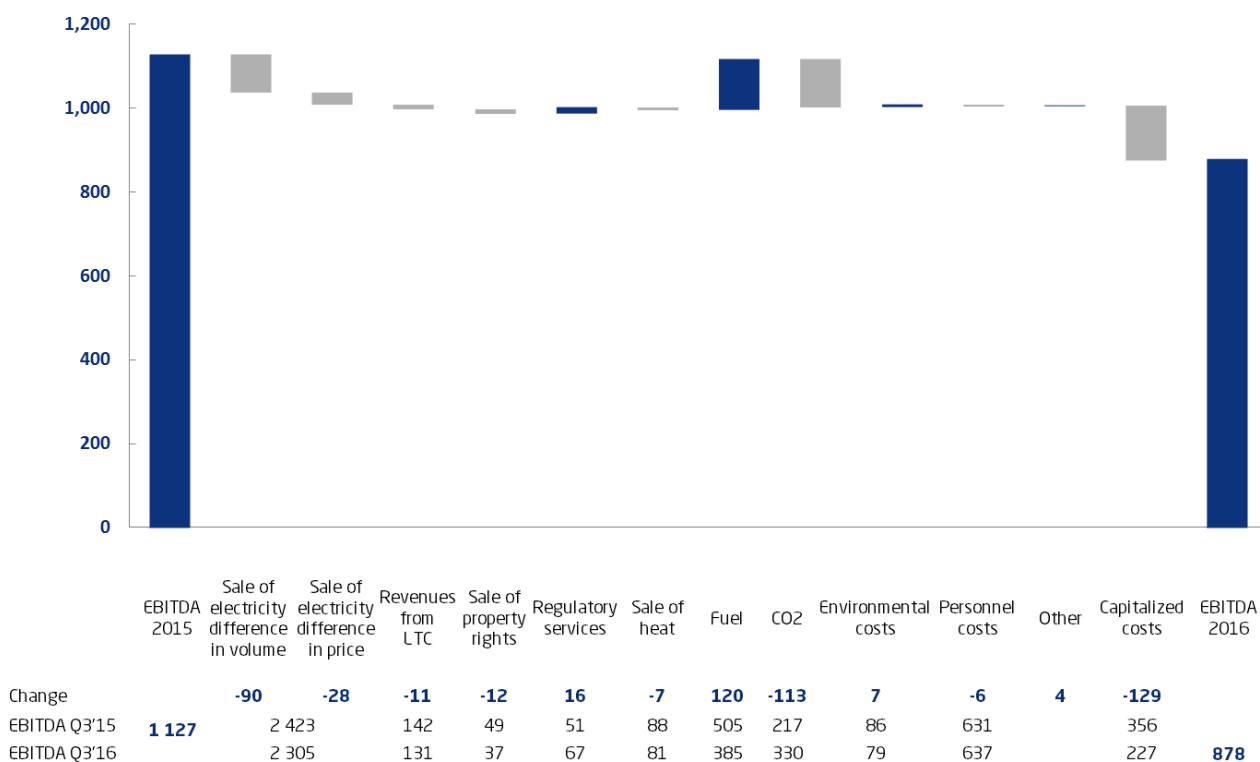
4.3.1 Conventional Generation

Table: Key figures for Conventional Generation.

in PLN million	Q3 2016	Q3 2015*	% change
Sales revenues	2.879	3.052	-6%
EBIT	500	789	-37%
EBITDA	878	1.127	-22%
Capital expenditures	1.454	1.656	-12%

* data restated

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

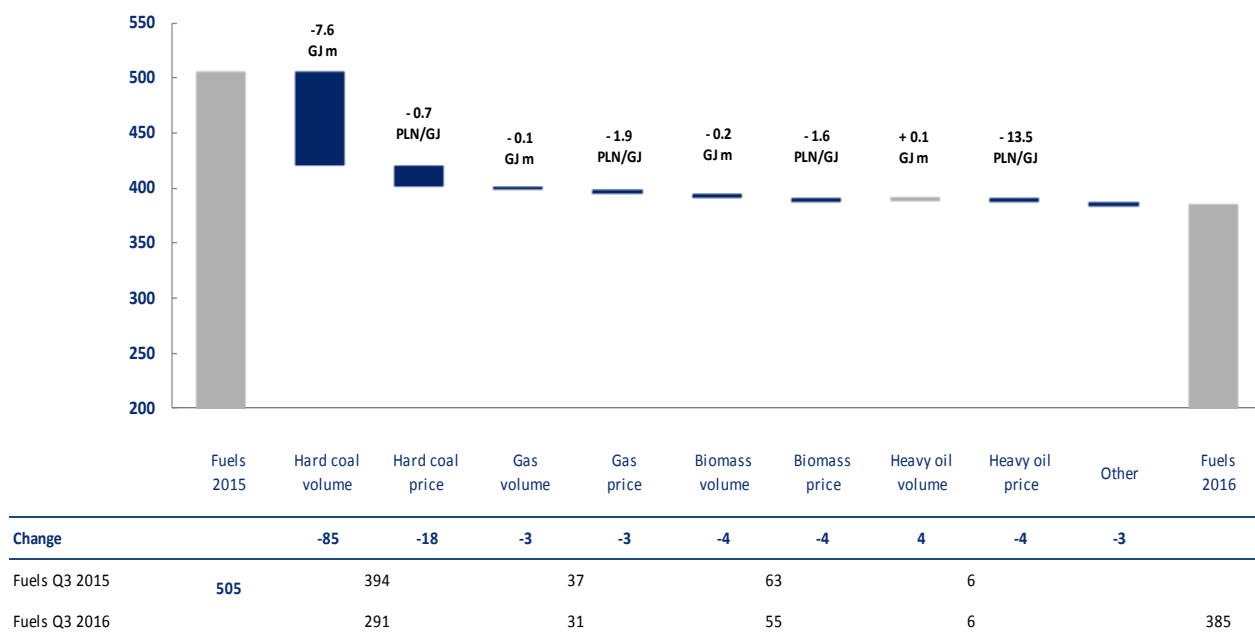


Key factors affecting the results of Conventional Generation in the third quarter of 2016 compared to the third quarter of 2015 were:

- **Decreased sales volume of electricity** mainly as a result of lower production at coal - fired power plants and CHPs. It was a consequence of lower utilisation of units by PSE S.A. in Opole power plant and in Dolna Odra power plant and limitation of working time of Pomorzany CHP to 17,500 h in years 2016-2023 because of non-compliance with the EU emission standards.
- **Decrease of electricity prices**, what attributed to the relevant decrease of revenues from sales. Average sale price of electricity realised by the Conventional generation segment in the third quarter of 2016 amounted to PLN 170/MWh, while it amounted to PLN 174/MWh in the third quarter of 2015.
- **Lower costs of fuels used**, mainly hard coal. It is effect of lower use of hard coal due to lower generation from this fuel and of lower hard coal prices. Main changes on different types of fuel are presented on the chart below.
- **Higher CO₂ costs** as a result of higher cost per unit of CO₂ emission and lower amount of allowances granted free of charge.
- **Lower capitalised costs**, among others, as a result of lower volume of overburden removal in mines in relation to the extracted coal observed in the corresponding period and recognition of lower removal costs as asset.
- **Lower revenues from certificates**, mainly due to significantly lower prices of green certificates.

- **Higher revenues from ancillary control services**, mainly resulting from cold reserve mechanism services provided by Dolna Odra power plant (units no. 1 and 2) to PSE S.A.
- **Lower revenues from sales of heat**, mainly caused by lack of production of heat in Pomorzany CHP due to non-compliance with the emission standards.
- **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 costs of VLP, which were not recognised in the comparable period.

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



Capital expenditures

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

in PLN million	Capital expenditures		
	Q3 2016	Q3 2015	% change
Investments in generating capacities, including:	1,304	1,424	-8%
▪ Development	1,041	808	29%
▪ Modernisation and replacement	263	616	-57%
Purchase of finished capital goods	12	17	-29%
Vehicles	0	5	-
Other	13	23	-43%
TOTAL	1,329	1,469	-10%
Capitalized costs of overburden removal in mines	125	187	-33%
TOTAL with capitalized costs of overburden removal	1,454	1,656	-12%

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

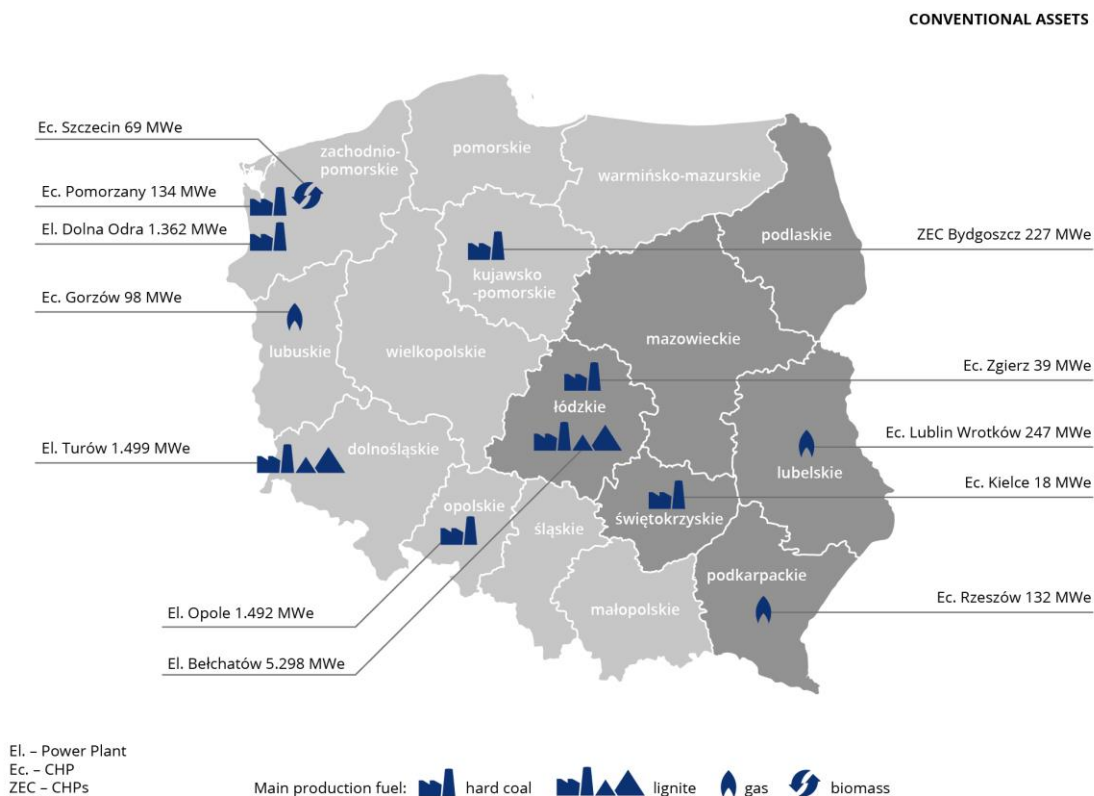
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| ■ construction of units 5 and 6 in Opole power plant | PLN 887 million; |
| ■ construction of CCGT unit in Gorzów CHP | PLN 125 million; |
| ■ comprehensive modernization of units 7-12 - Bełchatów power plant | PLN 68 million; |
| ■ construction of unit no. 11 in Turów power plant | PLN 18 million; |
| ■ comprehensive modernization of units 1-3 in Turów power plant | PLN 12 million; |

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

- On August 11, 2016 a contract was signed for construction of installation for flue gas desulphurisation in semi-dry method at Pomorzany power plant;
- On September 23, 2016 the steam turbine of the new unit in Gorzów CHP was synchronised with the system for the first time.
- On September 28, 2016 a unit no. 10 in Bełchatów power plant was commissioned following the completion of its modernisation.

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.



4.3.2 Renewable Energy

Table: Key figures for Renewable Energy.

in PLN million	Q3 2016	Q3 2015	% change
Sales revenues	126	168	-25%
EBIT	-13	17	-
EBITDA	51	76	-33%
Capital expenditures	18	346	-95%

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 regulatory services*	Personnel costs	Other	EBITDA 2016
Change		5	-17	5	-5	-10	1	-4	
EBITDA Q3'15	76	26	26	7	5	66	19		
EBITDA Q3'16		31	9	12	0	56	18		51

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

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

- **The decline of revenues from sales of certificates** resulting from: (i) valuation of production of certificates at a price lower by approximately PLN 59/MWh in the third quarter of 2016 compared to the third quarter of 2015, what decreased the revenues by approximately PLN (-) 9 million; (ii) adjustment of valuation of certificates sold and in inventories what resulted in decline of revenues by approximately PLN (-) 13 million.
- **The increase of sales of electricity** was caused mainly by the increased volumes generated what is connected with increased installed capacity in wind farms by 178 MW (see p. 4.2.1) following the commissioning of the new wind farms.
- **Lower sales revenues from ancillary control services** (agreement with PSE S.A.) result mainly from lower volumes of interventional active power due to modified shutdowns schedule of power plants.
- **Change in item Other** was caused mainly by higher operating expenses due to commissioning of new wind farms.

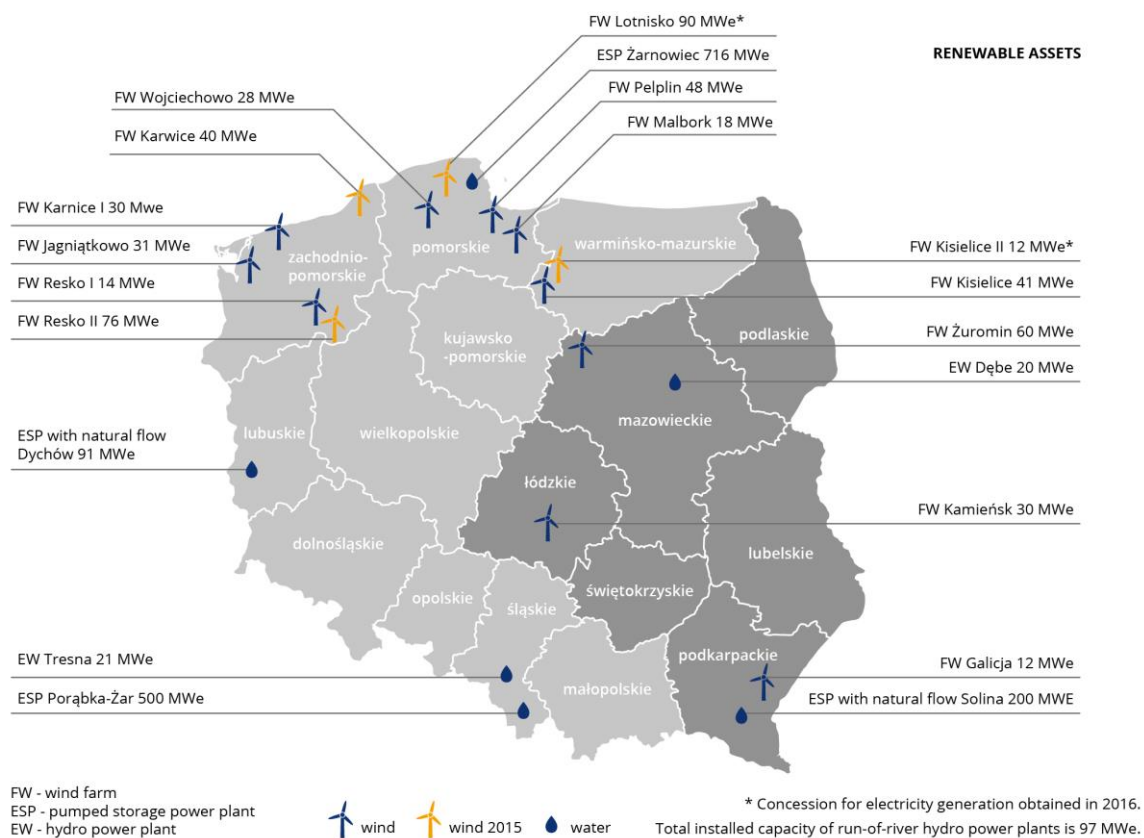
Capital expenditures

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

in PLN million	Capital expenditures		
	Q3 2016	Q3 2015	% change
Investments in generating capacities, including:	18	345	-95%
▪ Development	0	340	-
▪ Modernization and replacement	18	5	260%
Other	0	1	-
TOTAL	18	346	-95%

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.



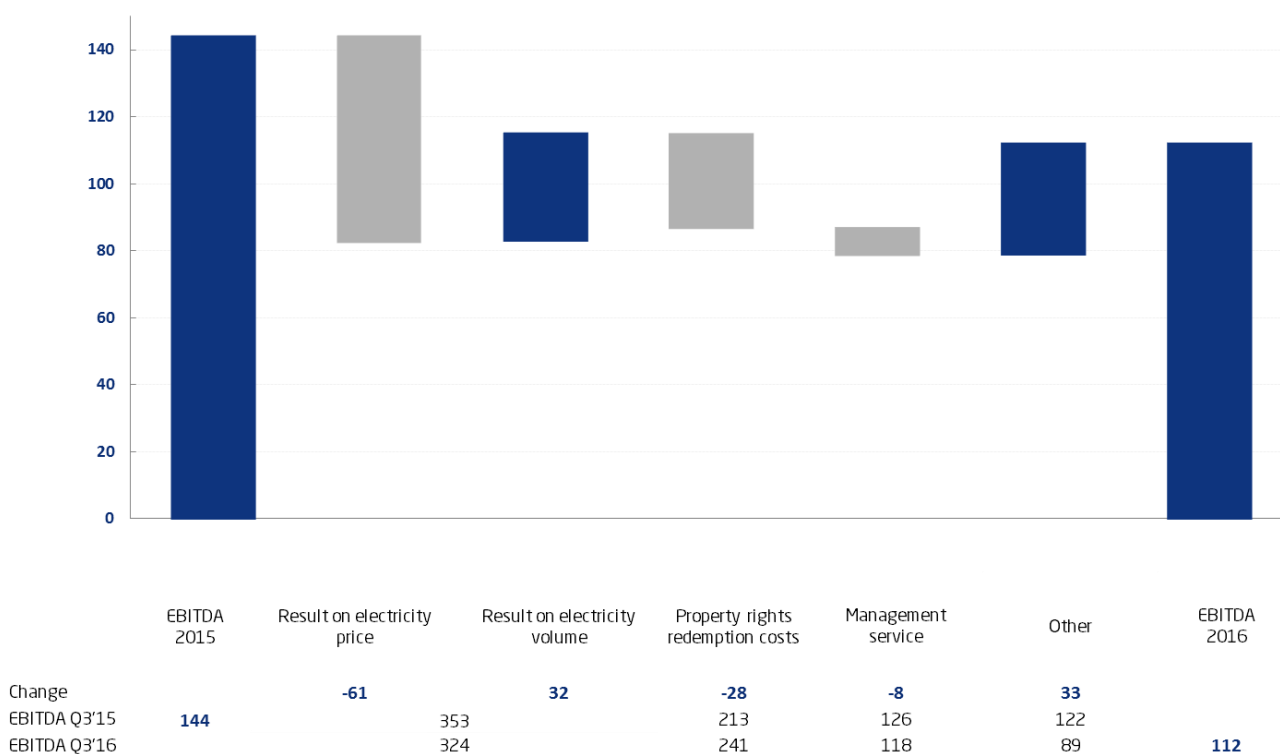
4.3.3 Supply

Table: Key figures for Supply.

in PLN million	Q3 2016	Q3 2015*	% change
Sales revenues	3,785	3,802	0%
EBIT	105	138	-24%
EBITDA	112	144	-22%
Capital expenditures	7	9	-22%

* data restated

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



Key changes in Supply segment in in the third quarter of 2016 compared to the results of the analogical period of 2015 included:

- **Decrease of results from electricity** by PLN 29 million due to lower margin per unit on energy sale due to less favourable spread between the average price of sale (decrease by PLN 8/MWh) and average price of purchase of electricity (decrease by PLN 3/MWh). Increase in volume of electricity traded by 9% partly compensated negative impact of lower price on the segment's results.
- **Increased costs of certificates redemption** mainly resulting from higher demand for co-generation certificates and introduction of duty to redeem the certificates granted for electricity produced in biogas plants, what is a consequence of amended RES Law. That growth was partly compensated by lower prices of green certificates.
- **Decrease of revenues from the Agreement for Commercial Management of Generation Capacities ("ZHZZ")** due to lower trading volume by 0.8 TWh and lower sale prices of electricity under management. Revenues of PGE S.A. from PGE GiEK S.A. decreased by PLN 9 million, while revenues from PGE EO increased by PLN 1 million.
- **Change in other** results mainly from: (i) higher revenues – by PLN 11 million – from services provided by the Corporate Centre to the companies from other segments of the PGE Capital Group and (ii) lower expenses for marketing and sponsorship by PLN 14 million.

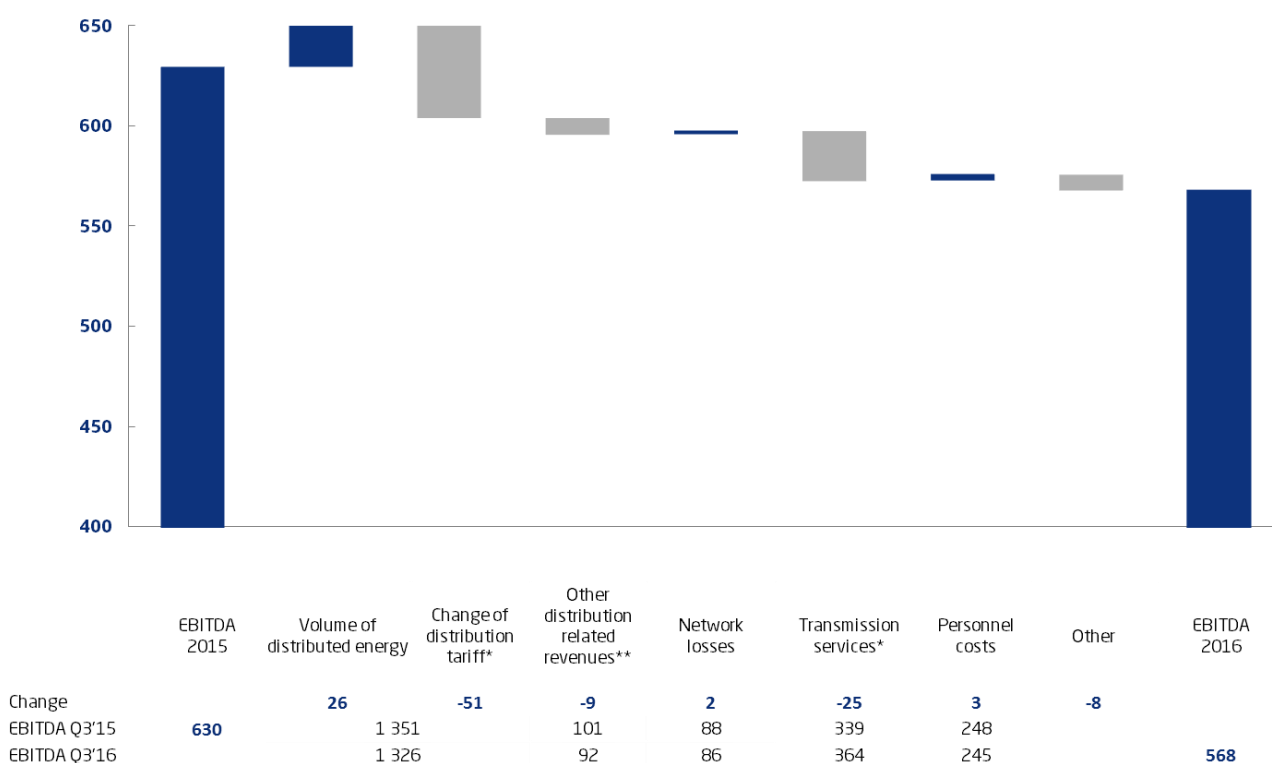
4.3.4 Distribution

Table: Key figures for Distribution.

in PLN million	Q3 2016	Q3 2015*	% change
Sales revenues	1,444	1,479	-2%
EBIT	289	360	-20%
EBITDA	568	630	-10%
Capital expenditures	422	450	-6%

* data restated

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

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

- **Increased volume of distributed energy** by 158.8 GWh, resulting mainly from increased electricity consumption by customers.
- **Decreased revenues from distribution services** results mainly from lower distribution tariffs for 2016 in comparison to the approved tariffs for 2015.
- **Decrease in other revenues** resulting mainly from lower revenues from reactive power and excess power.
- **Lower costs of balancing differences** resulted mainly from decline in purchase price of electricity intended for covering the balancing difference with volume increased by approximately 0.04 TWh.
- **Lower personnel costs result mainly from:** (i) reduction in employment, and (ii) recognition of a provision in 2015 for the regulation of salaries.
- **Change in other** results mainly from: (i) higher costs incurred for repairs and exploitation of the grid assets and (ii) higher property tax in connection with the increased value of grid assets.

Capital expenditures

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

in PLN million	Capital expenditures		
	Q3 2016	Q3 2015	% change
MV and LV power networks	134	131	2%
110/ MV and MV/MV power stations	39	45	-13%
110 kV power lines	16	7	129%
Connection of new off-takers	141	144	-2%
Purchase of transformers and energy counters	49	70	-30%
IT, telemechanics and communication	27	38	-29%
Other	16	15	7%
TOTAL	422	450	-6%

In the third 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”.

Diagram: Area of PGE's distribution grid.

PGE DISTRIBUTION NETWORK AREA



4.3.5 Other operations

Table: Key figures for Other operations.

in PLN million	Q3 2016	Q3 2015	% change
Sales revenues	178	172	3%
EBIT	-10	-5	-100%
EBITDA	23	25	-8%
Capital expenditures	34	61	-44%

EBITDA lower by PLN 2 million is connected with lower margin on sale of services (inter alia voice transit) by Exatel S.A. and higher operating expenses of the company.

Capital expenditures

Capital expenditures in Other Operations in the third quarter of 2016 amounted to PLN 34 million compared to PLN 61 million in the third quarter of 2015.

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

- PGE Systemy S.A. – for IT infrastructure and software development PLN 14 million;
- Exatel S.A. – for telecommunication infrastructure development PLN 10 million.

4.4 Transactions with related entities

Information about transactions with related entities is presented in note 23 to the consolidated financial statements.

4.5 Publication of financial forecasts

PGE S.A. did not publish financial forecasts.

On October 25, 2016 PGE S.A. published current report no. 58/2016, in which disclosed EBITDA and net profit attributable to equity holders of the parent company for the 9 months of 2016.

4.6 Information about shares and other securities

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

According to the best knowledge of the Management Board of the Company, members of management and supervisory authorities of the Company as of the date of submission of this report and as of the date of publishing of the consolidated report for the first half of 2016 held following number of shares:

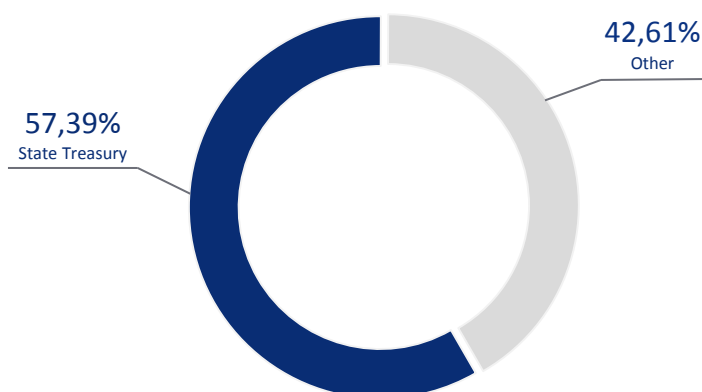
Table: PGE S.A. shares held and managed directly by the members of management and supervisory authorities of the Company.

Shareholder	Number of shares as of submission date of the half-year report for H1 2016 (i.e. August 11, 2016)	Change in number of owned shares	Number of shares as of submission date of the Q3 2016 report	Nominal value of shares as of submission date of the Q3 2016 report (PLN)
The Management Board	-	no change	-	-
The Supervisory Board	7	no change	7	70
Jarosław Głowacki*	7	no change	7	70

* 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.

4.6.2 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%

5 Description of the organisation of the PGE Capital Group

Companies comprising the main business segments of PGE Group as at September 30, 2016.

Segment	Spółka
CONVENTIONAL GENERATION	<ol style="list-style-type: none">1. PGE Górnictwo i Energetyka Konwencjonalna S.A.2. Przedsiębiorstwo Energetyki Ciepłej sp. z o.o.3. MegaSerwis sp. z o.o.4. ELBIS sp. z o.o.5. PUP ELTUR SERWIS sp. z o.o.6. TOP SERWIS sp. z o.o.7. ELMEN sp. z o.o.8. MEGAZEC sp. z o.o.9. EPORE sp. z o.o.10. RAMB sp. z o.o.11. PTS BETRANS sp. z o.o.12. BESTGUM POLSKA sp. z o.o.13. Energoserwis Kleszczów sp. z o.o.
RENEWABLE ENERGY	<ol style="list-style-type: none">14. PGE Energia Odnawialna S.A.15. Elektrownia Wiatrowa Baltica-1 sp. z o.o.16. Elektrownia Wiatrowa Baltica-2 sp. z o.o.17. Elektrownia Wiatrowa Baltica-3 sp. z o.o.18. PGE Energia Natury sp. z o.o.19. PGE Energia Natury PEW sp. z o.o.
SUPPLY	<ol style="list-style-type: none">20. PGE Polska Grupa Energetyczna S.A.21. PGE Dom Maklerski S.A.22. PGE Trading GmbH23. PGE Obrót S.A.24. ENESTA sp. z o.o.
DISTRIBUTION	<ol style="list-style-type: none">25. PGE Dystrybucja S.A.

5.1 Changes in organisation of the Capital Group

5.1.1 Changes in organisation of the Capital Group in period January 1, 2016 – September 30, 2016

The changes, which occurred in the PGE Capital Group's structure in period January 1, 2016 – September 30, 2016 are presented in note 1.3 to consolidated financial statements and described below.

Shares in subsidiaries and associates

In period January 1, 2016 – September 30, 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.
- On April 26, 2016 an agreement on initiation of Polska Grupa Górnicza sp. z o.o. ("PGG") was signed. On April 29, 2016 the Extraordinary Assembly of Partners of PGG adopted resolution in the increase of the share capital by PLN 1,805,557,200 to PLN 2,305,607,200, through issue of new shares taken up by: PGE GiEK S.A. with its seat in Bełchatów, ENERGA Kogeneracja sp. z o.o. with its seat in Elbląg, PGNiG TERMIKA S.A. with its seat in Warsaw, Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych with its seat in Warsaw, Towarzystwo Finansowe Silesia sp. z o.o. with its seat in Katowice, WĘGLOKOKS S.A. with its seat in Katowice who submitted appropriate declarations on acquisition of new shares in PGG and accession to the company. PGE GiEK S.A. took up 3,611,111 shares with a nominal value of PLN 361,111,100, representing 15.7% in the increased share capital of PGG. On July 25, 2016 the increase of the share capital was registered with the National Court Register.
- On June 13, 2016 PGE S.A. and PGE Inwest 2 sp. z o.o. (100% subsidiary of PGE S.A.) signed an agreement for sale of 220,000 shares of Telewizja Familijna S.A. in bankruptcy with its seat in Warsaw, held by PGE S.A., representing 11.96% of the share capital of the company. As at the agreement date, the ownership of shares was transferred to PGE Inwest 2 sp. z o.o.
- On June 22, 2016 PGE Energia Odnawialna S.A. („PGE EO”) and Bank Ochrony Środowiska S.A. with its seat in Warsaw („BOŚ”) signed an agreement for subscription of new shares in the increased share capital of BOŚ (the "Agreement"). In accordance with the Agreement, BOŚ offered PGE EO to acquire 2,000,000 ordinary bearer shares with a nominal value of PLN 10 each total nominal value of PLN 20,000,000. Submission of subscription offer took place through private placement (addressed only to certain investors). PGE EO accepted the offer and on June 23, 2016 paid the total issue price to BOŚ. On July 12, 2016 the increase of the share capital of BOŚ was registered with the National Court Register. In addition the registration of above mentioned shares was completed by the National Depository of Securities and on August 5, 2016 the shares were registered on the securities account of PGE EO. As a result of the above transaction, PGE EO currently holds shares constituting 3.18% in the share capital of BOŚ.
- On June 22, 2016 the Ordinary Assemblies of Partners of PGE Inwest 5 sp. z o.o., PGE Inwest 6 sp. z o.o., PGE Inwest 7 sp. z o.o., PGE Inwest 8 sp. z o.o., PGE Inwest 9 sp. z o.o., PGE Inwest 10 sp. z o.o., PGE Inwest 11 sp. z o.o., PGE Inwest 12 sp. z o.o., PGE Inwest 13 sp. z o.o., PGE Inwest 14 sp. z o.o. and PGE Inwest 15 sp. z o.o. (the "Companies") adopted resolutions on the increase of the share capitals of those Companies in each case from PLN 10,000 to PLN 20,000, i.e. by PLN 10,000 PLN, through issue of new 10 shares in each of the Companies with a nominal value of PLN 1,000 each. The increase of the share capitals were acquired by the sole partner of the Companies, i.e. by PGE Polska Grupa Energetyczna S.A., in exchange for the cash contribution. The increase of the share capital was registered with the National Court Register: in PGE Inwest 5 sp. z o.o. on July 19, 2016, in PGE Inwest 6 sp. z o.o. on July 20, 2016, in PGE Inwest 7 sp. z o.o. on July 25, 2016, in PGE Inwest 8 sp. z o.o. on July 18, 2016, PGE Inwest 9 sp. z o.o. on August 12, 2016, PGE Inwest 10 sp. z o.o. on August 12, 2016, PGE Inwest 11 sp. z o.o. on July 19, 2016, PGE Inwest 12 sp. z o.o. on September 13, 2016, in PGE Inwest 13 sp. z o.o. on July 21, 2016, in PGE Inwest 14 sp. z o.o. on July 19, 2016, in PGE Inwest 15 sp. z o.o. on July 26, 2016. On September 15, 2016 PGE S.A. set up two companies with seats in Warsaw in form of limited liability companies named: PGE Inwest 17 sp. z o.o. and PGE Inwest 18 sp. z o.o. The share capital amounts to PLN 10,000 for each company. The companies were registered with the National Court Register: PGE Inwest 17 sp. z o.o. on October 20, 2016 and PGE Inwest 18 sp. z o.o. on October 19, 2016.

- On September 19, 2016 the Extraordinary Assembly of Partners of PGE Inwest 4 sp. z o.o. seated in Warsaw and RAMB sp. z o.o. seated in Piaski, Kleszczów community (subsidiaries of PGE S.A.) adopted resolutions on merger of PGE Inwest 4 sp. z o.o. (the Acquiring Company) with RAMB sp. z o.o. (the Acquired Company). The merger of the companies will be executed through the transfer to the Acquiring Company of all of the assets of the Acquired Company and subsequent dissolution of the Acquired Company without liquidation. As a result of the merger, the share capital of the Acquiring Company will be increased from PLN 10,000 to PLN 38,926,000, i.e. by PLN 38,916,000, through issue of 38,916 new shares with a nominal value of PLN 1,000 each. PGE S.A. as the sole shareholder of the Acquired Company took up all new shares in the increased share capital of the Acquiring Company in exchange for the shares in the share capital of the Acquired Company. As at the date of this report, there's been no information on registration of the merger by the register court.
- In the period from January 1, 2016 to September 30, 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 118,008 shares in PGE GiEK S.A. (constituting 0.02% of PGE GiEK S.A.'s share capital). Currently PGE S.A. holds shares representing 99.98% of the share capital of PGE GiEK S.A.

In period January 1, 2016 – September 30, 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. (the Agreement”), constituting 20% of the share capital of the company. According to the Agreement and annex no. 1 to the Agreement, Condition precedent for the transfer of ownership of shares to PGE Dystrybucja S.A. is the obtaining of the approval for concentration of the Office for Competition and Consumer Protection, wherein the transfer of shares will take place no earlier than December 31, 2016. On June 8, 2016 the Office for Competition and Consumer Protection issued its approval – condition precedent according to the Agreement.
- 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 sp. z o.o. executed an agreement on February 16, 2016 for the sale to the company of the shares being subject to voluntary cancellation. On September 26, 2016 the decrease of the share capital was registered with the National Court Register. Payment for the shares took place on September 29, 2016.
- On May 25, 2016 Pensjonat Dychów sp. z o.o. in liquidation, with its seat in Dychów, was deleted from the National Court Register as a result of the liquidation proceedings. PGE Energia Odnawialna S.A. held 100% shares in the share capital of the company.
- On August 17, 2016 the Extraordinary Assembly of Partners of PGE Energia Natury PEW sp. z o.o. and PGE Energia Natury Omikron sp. z o.o. (subsidiaries of PGE Energia Odnawialna S.A.) adopted resolutions on merger of PGE Energia Natury PEW sp. z o.o. (the Acquiring Company) with PGE Energia Natury Omikron sp. z o.o. (the Acquired Company). The merger of the companies was executed through the transfer to the Acquiring Company of all of the assets of the Acquired Company and subsequent dissolution of the Acquired Company without liquidation. As a result of the merger, the share capital of the Acquiring Company increased from PLN 31,000,000 to PLN 146,000,000, i.e. by PLN 115,000,000, through issue of 115,000 new shares with a nominal value of PLN 1,000 each. PGE Energia Odnawialna S.A. as the sole shareholder of the Acquired Company took up all new shares in the increased share capital of the Acquiring Company in exchange for the shares in the share capital of the Acquired Company. On August 31, 2016 the merger of the companies was registered with the National Court Register and the Acquired Company was deleted from the National Court Register.

In period January 1, 2016 – September 30, 2016 PGE Capital Group did not discontinue any of its substantial operations.

5.2 Branches of the companies of the PGE Capital Group

As at September 30, 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
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 Brzezine near Opole
EPORE sp. z o.o. with its registered office in Bogatynia	<ul style="list-style-type: none"> ● Branch Bogatynia ● Branch Bełchatów ● Branch in Brzezine ● 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.

6 Other significant events of the reporting period and subsequent events

6.1 Investment Agreement on the financial investment in Polska Grupa Górnicza sp. z o.o.

On April 28, 2016, PGE Górnictwo i Energetyka Konwencjonalna S.A. signed the Investment Agreement determining the conditions of the financial investment (the "Investment") in Polska Grupa Górnicza sp. z o.o. (the "Agreement"). The parties of the Agreement are: PGE Górnictwo i Energetyka Konwencjonalna, ENERGA Kogeneracja sp. z o.o., PGNiG TERMIKA S.A., Węglkokoks S.A., Towarzystwo Finansowe „Silesia” Sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw FIZAN (jointly referred later to as the „Investors”) and Polska Grupa Górnicza Sp. z o.o. („PGG”). PGG operates on the basis of selected mining assets, acquired from Kompania Węglowa S.A. (“KW”) (including 11 hard coal mines, 4 operational units and support, managing and supervisory functions of KW headquarters transferred therewith).

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, was divided into 3 stages, within which PGE GiEK S.A. will pay a total of PLN 500 million, including:

- PLN 361.1 million within the first stage. The result was acquisition of 15.7% in the share capital of PGG by PGE GiEK S.A. on April 29, 2016;
- PLN 83.3 million within the second stage. The result was acquisition on November 3, 2016 of further shares increasing the share of PGE GiEK S.A. in the share capital of to 16.6%;
- PLN 55.6 million within the third stage (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.

PGG operates on the basis of the business plan, which aims at optimisation of coal production costs and achieving defined profitability levels. Business Plan assumes that in 2017 PGG will generate positive cash flows for the Investors. 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). Moreover, key decisions of the Assembly of Partners of PGG regarding the capital management and restructuring require the Investors’ approval.

Moreover, on June 17, 2016 PGE GiEK S.A., ENERGA Kogeneracja sp. z o.o., PGNiG TERMIKA S.A. and Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (jointly referred to as „New Investors”) signed an agreement concerning (the „Agreement”). The purpose of the Agreement is to provide increased control over PGG leading to higher probability of investment success in PGG, as well as increased impact on potential modifications to PGG’s business plan that would meet the expectations of New Investors and new market challenges.

On June 29, 2016 the Office of Competition and Consumer Protection issued consent for concentration that involves the taking of joint control over PGG by the New Investors.

In view of the powers indicated above that PGE GiEK S.A. is entitled to, in the consolidated financial statements investment in PGG is treated as jointly controlled entity and accounted for using the equity method.

6.2 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

6.3 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 – independent
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.

On September 5, 2016 the Extraordinary General Meeting of the Company appointed Mr. Witold Kozłowski to the Supervisory Board and recalled Ms. Małgorzata Mika-Bryska from the Supervisory Board. At the same time, On September 5, 2016 Mr. Radosław Osiński was appointed to the Supervisory Board by the Minister of Energy, pursuant to § 20 sec. 5 of the Company's Statutes.

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
Radosław Osiński	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
Witold Kozłowski	Supervisory Board Member - independent
Mieczysław Sawaryn	Supervisory Board Member - independent
Artur Składanek	Supervisory Board Member - independent

**MANAGEMENT BOARD'S REPORT ON ACTIVITIES OF THE CAPITAL GROUP
OF PGE POLSKA GRUPA ENERGETYCZNA S.A. FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016**

In period January 1, 2016 – September 30, 2016 the standing committees of the Supervisory Board acted in following composition:

Name and surname of the Supervisory Board member	Audit Committee	Corporate Governance Committee	Strategy and Development Committee	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 7, 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 until Sep- tember 5, 2016	Member until Sep- tember 5, 2016	
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		
Witold Kozłowski		Member from September 13, 2016		Member from September 13, 2016
Radosław Osiński			Member from September 13, 2016	Member from September 13, 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	

6.4 Activities related to nuclear energy

Business partnership

As a result of the sale of shares on April 15, 2015 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. Next increase of the share capital is planned in the fourth quarter of 2016. PGE's financial commitment in the Development Stage will not exceed amount of approx. PLN 700 million.

Financing

In the nine months of 2016, the works were continued 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.

Support schemes

In the nine months of 2016, dialogue 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 July 2016 the following events took place: (i) meeting in the Ministry of Energy concerning assumptions for the financial model for support mechanisms and (ii) training involving scope of assumptions for the financial model for the Ministry of Energy.

In the fourth quarter of 2016, further work is planned together with the government, aiming to develop detailed proposals for economic, organisational and legal solutions relating to the execution of the Polish nuclear project, together with allocation of risks and a cost estimate for implementing such 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).

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, for the needs of environmental and site surveys for the purposes of preparing an environmental impact assessment and site report.

In the second quarter of 2016 the General Director for Environment Protection issued a decision regarding the scope of the environmental impact assessment, taking into consideration the two potential sites: Lubiatowo-Kopalino and Żarnowiec. In July, the governor of the Zachodniopomorskie voivodship issued a decision declaring the expiration of a decision indicating an investment location, which concerned the Gąski site.

In August 2016, dialogue was commenced with the National Atomic Energy Agency (PAA) regarding detailed survey areas for the purposes of an environmental impact assessment report and site report, as well as interpretation of the provisions of the Scoping Decision and Site Ordinance. A meeting with the PAA was held, during which issues surrounding implementation of an integrated management system at PGE EJ 1 were presented. Work in these areas is expected to continue in the fourth quarter of 2016.

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.

In the second quarter of 2016, PGE EJ 1 sp. z o.o. participates in public consultations for the "Pomeranian voivodship development plan" and the "Gdańsk-Gdynia-Sopot metropolitan area plan" in order to include in said plans infrastructure tasks related to the nuclear plant.

In the third quarter of 2016 works related to planning and preparation of auxiliary infrastructure were continued. Works in this area are assumed to be continued in the fourth quarter of 2016.

In September 2016, a meeting with representatives of the Energy Ministry and Development Ministry was held in order to determine further activities aimed at drafting a Territorial Contract. Further work in this area is expected in the fourth quarter.

Decision in principle from the Minister of Energy (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. The second and third quarter of 2016 brought further arrangements with the PAA.

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 were signed in the second and third 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.

6.5 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 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 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 District Court in Warsaw dismissed the shareholder's claim in the verdict published on April 26, 2016.

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. On November 23, 2015 the Company filed response to the claim.

On May 20, 2016 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 March 1, 2016. On June 2, 2016 the Company filed response to the claim.

On September 12, 2016 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 Ordinary General Meeting

of the Company held on June 28, 2016 concerning the election of Chairperson of the Ordinary General Meeting, adopted on June 28, 2016. On October 11, 2016 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 a response to the lawsuit on March 28, 2015. In September 2015, Socrates Investment S.A. submitted a letter which constitutes a response to the response to the lawsuit.

On April 27, 2016 a hearing was held at which both parties reiterated previously raised conclusions and statements. At a subsequent hearing on August 10, 2016, the parties reiterated their motions and statements; the plaintiff's attorney responded, in the form of a written statement from the plaintiff, to a procedural document dated July 20, 2016 from PGE S.A.'s intervening party, PwC Polska sp. z o.o., and a statement was presented by PwC Polska sp. z o.o. showing the correctness of the valuation prepared for the purposes of the merger. The next hearing is to be held on November 9, 2016.

In addition, company Pozwy sp. z o.o. submitted a similar claim amounting to more than PLN 229 million in its letter dated October 31, 2016 which constituted a notification about the purchase of claims and demand for payment addressed to PGE Górnictwo i Energetyka Konwencyjna S.A., PGE S.A. and PwC Polska sp. z o.o. Pozwy sp. z o.o., indicated in its letter that the company bought claims of former shareholders of PGE Elektrownia Opole S.A. The claim concerns compensation for alleged incorrect determination of the share exchange ratio of PGE Elektrownia Opole S.A. for the shares of PGE Górnictwo i Energetyka Konwencyjna S.A. in the merger process of those companies.

The Group does not accept the claims of Socrates Investment S.A., Pozwy sp. z o.o. and of the other shareholders filing for a pre-trial settlement. The claims are unfounded. 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, plans of the above mentioned companies' merger, including the exchange ratios with respect to shares of the acquired companies for the shares of the acquiring companies were examined for accuracy and reliability by an expert appointed by the registration court; no irregularities were found. Then, the court registered the mergers of the companies.

For the reported claims, the Group has not created a provision.

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. A hearing in this matter has been scheduled for September 27, 2016. This was a closed-door meeting pursuant to art. 207 § 4 of the Polish Civil Procedure Code.

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.

On June 3, 2016 the District Court delivered notification informing about connecting for joint examination case filed by WorleyParsons against PGE EJ 1 sp. z o.o. with case filed by PGE EJ 1 sp. z o.o. against WorleyParsons.

On September 27, 2016, a closed-door meeting was held pursuant to art. 207 § 4 of the Polish Code of Civil Procedure, which concerned organisational issues related to examining the cases that have been selected for joint examination and ruling. The following took place in the course of the meeting.:

- Schedule for the exchange of further preparatory documents was established. The parties were given the right to two exchanges of documents. A reply to a statement of defence is to be filed by November 28, 2016, and a rejoinder by January 27, 2017.
- The court scheduled the first hearing for 15 March 15, 2017.
- The court has referred the case for mediation.

Furthermore, on May 20, 2016, PGE EJ 1 sp. z o.o. filed a motion with the Regional Court for the Capital City of Warsaw in Warsaw to commit WorleyParsons Nuclear Services JSC, WorleyParsons International Inc. and WorleyParsons Group Inc. ("Defendants") to attempt reaching a settlement concerning the Company's claims for compensation, i.e. payment to the company of PLN 41 million together with statutory interest for delays from the due date for payment of the above amount until the payment date for compensation for undue performance by the Defendants of obligations arising under agreement no. PGE/EJ1/08/2013 concerning environment surveys, site characterization and services connected with obtaining permits and authorisations for an investment process connected with the construction by PGE EJ sp. z o.o. of Poland's first nuclear plant with capacity of approx. 3,000 MW, executed by the Defendants as contractor and the company as contracting entity on February 7, 2013.

6.6 Description of material agreements

No material agreements occurred in the three quarters of 2016.

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

Within the Group, in the 9-month period ended September 30, 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.

6.8 Impairment of the power generating assets of Renewable energy segment

In the first half of 2016 the PGE Group identified impairment indications that could significantly influence the value of the power generating assets and goodwill of Renewables segment.

In the third quarter of 2016, the Group verified the indications once again and found no significant changes compared to the previous analysis.

In the PGE Group's opinion the most important factors influencing the recoverable amount of assets are:

- Changes in the market environment

The delayed entry into force of the new support system for the production of electricity from renewable energy sources causes that new units are involved in the current system of support. Although, since the beginning of 2016 support for large hydropower and biomass co-firing with coal technologies was limited, the delayed entry into force of the provisions of section 4 of the Act on Renewable Energy Sources dated February 20, 2015 contributed to even higher increase of a large surplus of green certificates. Additionally, expected changes of the support system contributed to the intensification of construction works, the consequence of which was a large number of wind power plants that were put into use in 2015 and in the first half of 2016. As a result, there have been further declines of prices of energy origin rights and worsening future forecasts.

- Changes in the legal environment

On May 20, 2016 act on investments in wind farms was passed. Among other things, it amends the definition of construction in the construction law. Changed definition of construction causes that the tax base of real estate tax will be expanded to wind farms.

Consequently the PGE Group forecasts a decrease in future cash flows and recognizes the risk of impairment of power generating assets of Renewables segment in the area of wind farms.

The impairment tests of cash-generating units ("CGU") were carried out as at June 30, 2016 in order to determine their recoverable amount. The recoverable amount was determined based on estimated value in use of the tested assets calculated using the discounted cash flow method on the basis of financial projections for assumed economic useful life of the particular CGU. According to the PGE Group, adoption of the financial projections longer than five years is reasonable due to the fact that property, plant and equipment used by the Group have significantly longer economic useful lives and due to the significant and long-term impact of projected changes in the regulatory environment.

The assumptions

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

- recognition as a single CGU of:
 - pumped-storage power plants
 - other hydro power plants
 - wind farms
- the production of electricity and energy origin rights based on historical data and expert estimates made for the investment needs and taking into consideration the availability of particular units.
- electricity prices forecasts for the years 2016-2030 assuming an increase in the wholesale market price by more than 20% till 2020 and a smaller increase in the following years (in fixed prices),
- energy origin rights prices assuming an increase in prices for the years 2017-2019 in relation to current prices and a significant decrease in the following years (with an exception that for the production of covered by binding contracts prices resulting from these contracts were assumed),
- increase of property tax,
- maintenance of production capacities at the current level, as a result of replacement investments,
- adoption of weighted average cost of capital after tax (WACC) at the level of 7.56%.

Forecasted electricity and energy origin rights prices are derived from the study prepared by an independent expert. The forecast of energy prices defined as the most likely was considered, with an exception that for the part covered by binding contracts, prices resulting from these contracts during their validity were assumed.

Impairment of the power generating assets of Renewable energy segment

The tests conducted indicate impairment of some of the wind farms and goodwill allocated to this CGU.

As at June 30, 2016 PLN million	Value before impairment	Impairment loss	Value after impairment
Power generating assets of Renewable energy segment			
Pumped-storage power plants	800	-	800
Other hydropower plants	349	-	349
Wind farms	2,636	479	2,157
Investment projects	220	32	188
Goodwill	284	272	12
TOTAL	4,289	783	3,506

Sensitivity analysis

The results of the sensitivity analysis show that changes in estimates regarding the sales prices of energy origin rights and electricity as well as weighted average cost of capital have the most significant impact on the recoverable amount of the measured assets. The table below presents the estimated impact of changes in key assumption on changes in impairment loss of Renewables segment assets as at June 30, 2016.

Parameter	Change	Impact on impairment loss in PLN million	
		Increase in impairment loss	Decrease in impairment loss
Change in electricity prices throughout the forecast period	+ 1%	-	20.6
	- 1%	20.6	-
Change in WACC	+ 0.5 p.p.	75.7	-
	- 0.5 p.p.	-	72.2
Change in energy origin rights prices throughout the forecast period	+ 1%	-	9.6
	- 1%	9.6	-

6.9 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 (branches of PGE GiEK) received decisions on annual adjustments of stranded costs and costs related to natural gas fired entities for 2008-2015. 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.

Until September 30, 2016:

- 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 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 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. Zarządca Rozliczeń S.A. transferred that amount to the company's account.
- On May 12, 2016 the court case was conducted before the Court of Appeal on determining the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2012. The Court of Appeal issued verdict in which it changed the verdict of the CCP Court in full and rejected the company's appeal. Claim value in this case amounts to approx. PLN 7 million.
- On May 12, 2016 the Supreme Court refused to hear the cassation appeal of the company in case of the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2009 and 2011. Claim value in both cases amounts to approx. PLN 10 million.
- On August 8, 2016 PGE GiEK S.A. received administrative decision of the ERO President regarding the annual adjustment of the stranded costs for the year 2015. The amount of the annual adjustment of stranded costs in generating units: Branch Elektrownia Turów and Brach Elektrownia Opole for 2015 amounts to approx. PLN (+) 326 million. The company does not dispute this amount. The amount of advances collected in 2015 amounted to PLN 251 million.
- On September 14, 2016, the company appealed a ruling of the District Court in Warsaw regarding a claim concerning the year 2008 against the State Treasury – President of the Energy Regulatory Office concerning lost benefits for the Company such as have resulted following issue by the President of the Energy Regulatory Office of unfavourable decisions regarding stranded costs for 2008. Claim value in this case amounts to PLN 57 million.
- On September 15, 2016, the Court of Justice of the European Union issued a ruling regarding prejudicial questions concerning the group in the meaning of the LTC Act.

The above question concerned two issues:

- whether national courts are competent to examine issues related to LTCs?
- whether entities in a group should be specified based on the group's state reflected in Annex 7 to the LTC Act or based on the actual state in the year covered by the programme?

The Court ruled that national bodies and courts are not authorised to verify whether national laws considered to be authorised state aid are in compliance with the assumptions listed in Commission communication relating to the methodology for analysing state aid linked to stranded costs; and that in determining the annual adjustment for compensation of stranded costs which is to be paid out to a generating entity belonging to a group, such group membership and therefore the group's financial results should be taken into consideration at the time when the adjustment is made. In the opinion of the PGE Capital Group, the Court's answer does not necessitate the adjustment of the LTC compensations settlement in the financial statements.

In connection with the above, a cassation hearing has been scheduled for November 10, 2016 regarding calculation of the annual adjustment for stranded costs at the Zespół Elektrowni Odra Dolna branch for 2009.

- A conciliation meeting is scheduled for December 8, 2016 between the company as applicant and the President of the Energy Regulatory Office as petitioned party in a case concerning a payment of PLN 107 million to the Company as compensation for lost benefits in connection with unfavourable decisions related to 2009. This is the second petition for a pre-trial settlement in this matter.

Impact on the financial statements for the period ended September 30, 2016

In the financial statements for the period ended September 30, 2016, the Group recognized LTC revenue in sales revenue in the amount of PLN 384 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 September 30, 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 September 30, 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 – September 30, 2016 the PGE Capital Group recognised LTC revenues in total amount of PLN 7,619 million.

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

As at September 30, 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 21.4 to the consolidated financial statements.

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

Information on issue, redemption and repayment of debt securities and other securities were described in p. 5.1. of the foregoing report.

6.12 Information concerning the payment of dividend for 2015

The Ordinary General Meeting of the Company of June 28, 2016 adopted the resolution on distribution of net profit for the financial year 2015 in amount of PLN 1,768 million. PLN 467 million was allocated for a dividend pay-out to the Company shareholders, what gives a dividend of 0.25 per one share of the Company. The remaining amount, i.e. PLN 1,301 million, was allocated for the reserve capital.

The dividend date (i.e. the day on which PGE shares have to be registered on the securities account to be entitled to dividend) set by the Ordinary General Meeting was September 23, 2016 and the dividend was paid on October 14, 2016.

6.13 Information concerning the potential disposal of shares of Exatel S.A. to Polska Grupa Zbrojeniowa

On May 31, 2016 PGE S.A. and Polska Grupa Zbrojeniowa S.A. (PGZ) signed a letter of intent in which they express their willingness to cooperate in order to conclude a sale of Exatel S.A. from PGE to PGZ. Currently PGE Group holds 100% shares of Exatel S.A., which is telecommunication operator providing solutions for business and public administration.

6.14 Information concerning the dispute between Exatel S.A. and Taifun Real sp. z o.o.

Since 2005 Exatel S.A. (Exatel) and Taifun Real sp. z o.o. (Taifun Real) have been in a dispute regarding lease agreement for the previous office of Exatel.

On June 23, 2016, the Court of Arbitration at the Polish Chamber of Commerce in Warsaw issued a verdict in a case claimed by Taifun Real sp. z o.o. against Exatel S.A. and ordered Exatel S.A. to pay PLN 51 million together with statutory interest from the date of July 2, 2013 to Taifun Real sp. z o.o. (total amount payable – PLN 67 million). On July 29, 2016, after the Court of Appeal ascertained enforceability of the arbitration award, the amount awarded by the Court of Arbitration was paid to Taifun Real, together with accrued interest and costs of the proceeding.

On August 26, 2016 an action for annulment of a ruling issued by the Arbitration Court of June 23, 2016 was filed with the Court of Appeal in Warsaw by Exatel S.A.

6.15 Rating

In the first half of 2016, rating agencies Moody's Investors Service and Fitch Ratings affirmed long-term ratings for PGE S.A. On May 25, 2016 Moody's affirmed its rating at Baa1 with stable outlook. Fitch affirmed PGE's long-term foreign and local currency Issuer Default Ratings at 'BBB+' with a stable outlook on August 5, 2016.

Moody's, in its release of May 25, 2016 appreciates strong position of PGE Group as an integrated power group dominant on the electricity market in Poland, including regulated distribution segment which is characterized by a low level of operational risk. At the same time Moody's indicates the significant fuel concentration of the generation assets posing a high exposure to carbon as well as weak electricity prices and substantial investment program. In addition Moody's indicates that prudent financial policies that balance shareholders and creditors needs will be key in preserving the current ratings. The assigned rating further takes into account an expected increase in leverage due to negative free cash flows arising from a significant capital expenditure programme. On November 2, 2016 Moody's published update of the rating in connection with the updated PGE Group's strategy. The rating remained unchanged.

According to Fitch's opinion, affirmation of the rating results from PGE's strong market position in the Polish electricity sector and conservative financial profile. This rating is constrained by the fairly low portion of the regulated business (distribution of electricity) in EBITDA and significant investment plans. Fitch also expects a decline in margins of PGE's core business of conventional generation. In Fitch's opinion, the large capital expenditure plans

will increase funds from operations adjusted net leverage to approximately 2x by 2017 and close to 3x by 2020 from 0.3x net leverage at the end of December 2015.

On August 3, 2016 Fitch Ratings upgraded National Long-Term rating and National senior unsecured rating of PGE from "AA-(pol)" to "AA(pol)". The change of national rating follow the recalibration of the Polish National rating scale driven by the downgrade of Poland's long-term local currency Issuer Default Rating.

6.16 Comprehensive agreement with PGNiG S.A. for natural gas supply

On September 1, 2016, PGE GiEK S.A. and Polskie Górnictwo Naftowe i Gazownictwo S.A. signed individual contracts for the sale of gas fuel, which will supply the heat-and-power plants in Rzeszów and Lublin.

The estimated value of the contracts may reach PLN 2 billion, and the supply volume may reach a total of approx. 2.2 billion m³. The contracts are in effect until October 1, 2019 and contain an extension option to January 1, 2023.

The individual contracts were signed under a framework agreement of October 8, 2015, which provides for additional contracts to be executed for additional volumes.

6.17 Increase of the share capital from the Company's own funds

On September 5, 2016, the Extraordinary General Meeting of PGE („EGN”), on request of the State Treasury – majority shareholder of PGE, adopted resolution on the increase of the share capital from the Company's own funds. EGM adopted a resolution on the increase of the share capital by PLN 467,440,207.25, from the reserve capital by increasing the nominal value of shares in series A, B, C, D from PLN 10 to PLN 10.25.

EGM also adopted a resolution on the allocation of the supplementary capital for the financing of the flat-rate income tax related to the increase in the share capital to be financed from the Company's own funds, that was brought about by the above mentioned resolution.

According to the tax interpretation of the Director of Tax Chamber in Warsaw acting on behalf of the Minister of Finance, the tax due which Company is supposed to pay to the Tax Office due to the increase of share capital amounts to PLN 110 million.

As at the preparation date of this report there's been no information about the registration of the increase of the share capital by the register court.

6.18 Submission of an initial offer with partners for EDF assets in Poland

On September 16, 2016 PGE together with Enea S.A., ENERGA S.A. and PGNiG TERMIKA S.A. (the “Business Partners”) jointly submitted to EDF International SAS (“EDF”) an initial, non-binding offer for purchase of shares and stakes in EDF subsidiaries in Poland, possessing conventional generation assets and operating a service business. These assets encompass in particular:

- Rybnik power plant;
- CHP in Kraków, CHP in Gdańsk, CHP in Gdynia, CHP and district heating network in Toruń;
- CHPs and district heating network in Wrocław metropolitan area; CHP and district heating network in Zielona Góra (belonging to the company Zespół Elektrociepłowni Wrocławskich Kogeneracja S.A. and its subsidiary Elektrociepłownia Zielona Góra S.A.);
- Investment in gas-fired unit in Toruń (as a part of EDF Gaz Toruń sp. z o.o.).

6.19 Overburden slide at an internal heap in the Turów lignite mine

In the night from September 26 to 27 2016, an landslide process began at an internal heap in the Turów lignite mine.

The landslip caused some limitations in the operations of the mine and the Turów power plant, which uses lignite from the mine as fuel for its power units. The mine temporarily limited coal mining activities what resulted in reduction of generation capacity of the Turów power plant, although fully meeting demand requested by the Operator of the National Power System while part of production was moved to other generating unit of PGE Group.

A rescue operation intended to secure equipment and infrastructure was completed on October 5, 2016, and the situation around the landslide stabilised. Coal supply to the power plant was continuous, drawing from a coal reserve, which stores fuel inventories, and thanks to the launch of additional mining walls. From October 7, 2016, an overburden removal operation is taking place, removing overburden that is covering lignite deposits. As a consequence of the slide a stacker and part of transportation system and associated infrastructure were destroyed. Currently, there is no threat of destruction of the remaining equipment and mining infrastructure. The slide does not have significant impact on the lignite deposits.

Therefore, as of September 30, 2016 an impairment loss of assets was recognised in amount PLN 15.5 million. Additionally, Turów lignite mine will bear the costs associated with removal of effects of overburden slide and reconstruction of part of the property. At the date of preparation of the financial statements, the final amount of these expenses is not yet known. Turów lignite mine has an insurance policy concluded with a syndicate of insurance companies, which is conducting the valuation of damages and the claim adjustment process.

On October 25, 2016, full generation capacity was restored in the Turów power plant therefore it returned to work levels from before the landslide.

6.20 Setting up of ElectroMobility Poland

On October 19, 2016 PGE Polska Grupa Energetyczna S.A., ENERGA S.A., ENEA S.A. and Tauron Polska Energia S.A. set up a company named ElectroMobility Poland. Operations of the new company are intended to develop electromobility system in Poland.

The share capital of the company amounts to PLN 10 million as at the set up date. Each of the above companies will take up 25% of the share capital, obtaining 25% of votes on the general meeting of the company.

6.21 Termination of long-term contracts for purchase of certificates by Enea S.A.

On October 28, 2016 and October 31, 2016 PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Odnawialna S.A. and PGE Energia Natury PEW sp. z o.o. received from Enea S.A. terminations of long-term contracts for purchase of green certificates by Enea S.A.

After initial analysis of the documents sent by Enea S.A., in the opinion of the management boards of the above mentioned companies from PGE Capital Group, notices of termination of contracts presented by Enea S.A. were submitted in violation of the terms of the agreements and companies will take appropriate steps to enforce their rights. In particular, in the opinion of the Management Board of PGE GiEK S.A. termination of the contract by Enea S.A. is unfounded and against the earlier agreement between the parties (a letter of intent) and on that ground PGE GiEK S.A. will demand compensation for termination of the long-term contract.

Estimated volume of the green certificate, covered by contracts with Enea S.A., amounts to approximately 3,115 ths. MWh. Above value was calculated for the period from December 2016 (i.e. the month from which Enea S.A. plans to stop purchases of green certificates - after taking into account the notice period) until the initial maturity dates of the contracts.

7 Statements of the Management Board

7.1 Statement on the reliable preparation of the financial statements

To the best knowledge of the Management Board of PGE S.A., the periodic 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.

8 Approval of the Management Board's Report

The foregoing Management Board's Report on activities of the Capital Group of PGE Polska Grupa Energetyczna S.A. was approved for publication by the Management Board of the parent company on November 8, 2016

Warsaw, November 8, 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.

**MANAGEMENT BOARD'S REPORT ON ACTIVITIES OF THE CAPITAL GROUP
OF PGE POLSKA GRUPA ENERGETYCZNA S.A. FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016**

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.

**MANAGEMENT BOARD'S REPORT ON ACTIVITIES OF THE CAPITAL GROUP
OF PGE POLSKA GRUPA ENERGETYCZNA S.A. FOR THE 3-MONTH AND 9-MONTH PERIOD ENDED SEPTEMBER 30, 2016**

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.
SAIDI	System Average Interruption Duration Index - index of average system interruption time (long, very long and disastrous), expressed in minutes per customer per year, which is the sum of the interruption duration multiplied by the number of consumers exposed to the effects of this interruption during the year, divided by the total number of off-takers. SAIDI does not include interruptions lasting less than three minutes and is determined separately for planned and unplanned interruptions. It applies only to breakdowns in the medium (MV) and high voltage (HV).
SAIFI	System Average Interruption Frequency Index - index of average system amount of interruptions (long, very long and disastrous), determined as number of off-takers exposed to the effects of all such interruptions during the year divided by the total number of off-takers. SAIFI does not include interruptions lasting less than three minutes and is determined separately for planned and unplanned interruptions. It applies only to breakdowns in the medium (MV) and high voltage (HV).
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 Gielda 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), $1 V = 1J/1C = (1 kg \times m^2) / (A \times s^3)$.
W (watt)	a unit of power in the International Systems of Units (SI), $1 W = 1J/1s = 1 kg \times m^2 \times s^{-3}$.
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.