



***Management Board's report on activities
of PGE Polska Grupa Energetyczna S.A.
and PGE Capital Group***

for year 2017

ended December 31, 2017

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INTERVIEW WITH THE CEO OF PGE POLSKA GRUPA ENERGETYCZNA S.A.



An exceptional year is over. A year of intensive investment work, work on district heating strategy and, most importantly, a year overshadowed by the impressive acquisition of EDF's Polish assets. In light of such important changes for PGE, could you briefly summarise the key challenges that the Group had to face?

This really was a special year, particularly a year of hard work on the acquisition of EDF's assets in Poland. This is a very important development not just for our company – this is a unique gateway to a stable and lasting development of district heating in Poland. The security of district heating supplies in our climate zone is no less important than the security of electricity supplies. Today we have the advantage of being the leader in both of these segments. This is also a huge challenge because the transaction itself has a considerable social dimension. We want Polish families not to run out of heating at home. In this context, the quality of the air that we breathe every day is also of importance to us. We want to tackle the problem of small-scale emissions in cities, where residents are increasingly suffering from smog. Our strategy for the district heating segment and the expanding anti-smog offering are well aligned with these efforts.

Since we are talking about environmental challenges – how does PGE see its involvement in environmental matters?

We are aware of our impact on the surroundings. This is why PGE is acting to reduce and compensate for our impact on the natural environment in a very concrete way. A significant part of our investments involves modernisations of existing generation units. This is intended to decrease the environmental footprint but also to raise efficiency and increase installed capacities. All of this so that our units can meet strict emission standards.

What are the effects of these activities?

Thanks to environmental investments at PGE's plants over the past two decades we have reduced sulphur emissions by 93%, nitrogen emissions by 59% and particulate matter emissions by 99%. I want our great efforts in this area to be noticed – not just from a cost perspective but also our socially responsible approach to doing business. The conditions in which we operate, our climate zone and the resources we can use, should also be taken into account. Our investments in Opole and Turów feature the best available technologies equipped with best-in-class systems for reducing harmful emissions into the atmosphere. At the same time, the new units at these plants will emit 25% less CO₂ than the existing ones. This shows our responsibility and our involvement in environmental issues.

What are the objectives for PGE and for the Polish power system?

In announcing PGE Group's Strategy in 2016 and the District Heating Strategy in 2017, we have made specific commitments. Responding to the challenges of today's energy industry, growing client expectations and an increasingly restrictive climate policy, we have taken the path of energy and thermal security both at the national level and at the local level in cities. We are a financially strong company that is implementing essential investments. Our involvement in modernisation of the Polish energy industry is a sign of our care for the quality of air and our responsible approach to using the natural resources available in our country. With the acquisition of EDF's assets in Poland, we are thus deliberately pursuing expansion and thanks to this we will be able to substantially increase revenue from the regulated activity segment.

So, can we say that development in the regulated district heating segment is the main challenge for the coming years?

Our Business Strategy mandates constant analysis of our surroundings in search for growth opportunities. We are getting close to 2020, which is when our current Strategy ends. Analysis shows that from the available strategic options a low-emission scenario is the most likely. The changing surroundings, both regulatory and technological, justify implementation of an approx. 1 000 MW offshore wind farm project about half way through the next decade. In the context of low-emission technologies, a gas-based generation capacity project at Dolna Odra power plant should also be mentioned. Preliminary results of a feasibility study are optimistic enough for us to consider a project with double the capacity we had initially planned, which would mean the construction of two new 500 MW gas-fired units. We should have detailed results of the feasibility study by mid-2018. Moreover, we are analysing the construction of another 500 MW gas-fired unit at one of our existing locations.

And how would you summarise the company's social mission?

In the fight for clean air, we are in constant contact with local communities. As the largest energy group in Poland, we want to be a good neighbour and we want to support local authorities in reaching objectives that they cannot achieve on their own. By supporting economic growth in regions, through taxes paid locally but also by supporting local initiatives and getting involved in specific business projects, we want to make a positive contribution to improving the competitiveness of economy and raising the level of social wellbeing. PGE is one of the largest employers in the country. We currently employ nearly 42 thousand people. This is a very big enterprise. But at the same time one that is undertaking a number of initiatives targeting dynamic growth, especially in the area of new technologies and innovations.

How would you sum up efforts in the area of strategic analysis and PGE's social mission?

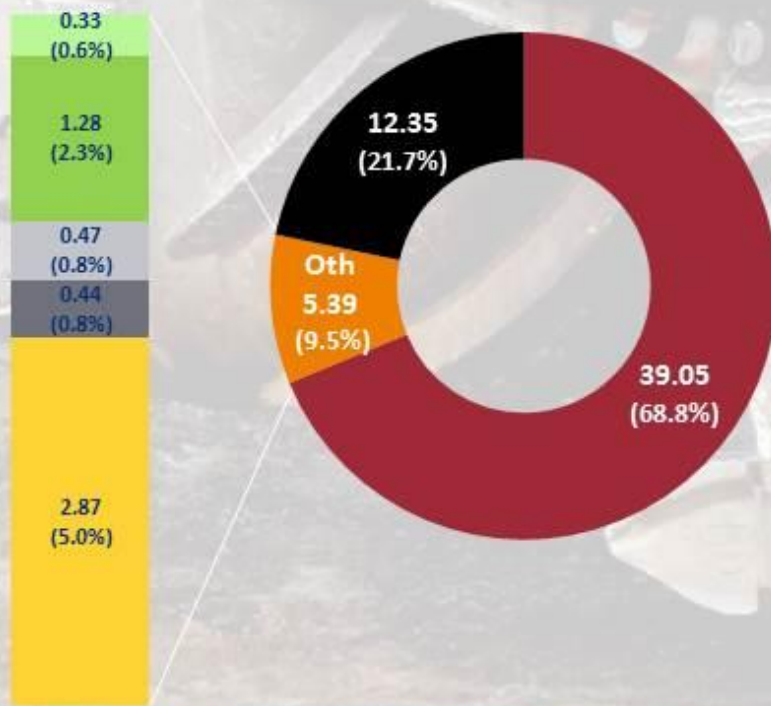
We are working on solidifying PGE's positive image. A company that is aware of the on-going changes and the challenges ahead. We want to be a company that is modern, innovative and highly responsive to changes in our surroundings, while respecting the natural environment. Our activities in the coming years will be directed at this. We want to shape a responsible energy industry of tomorrow in our country.



EBITDA [PLN BN] 12 MONTHS



ELECTRICITY GENERATION STRUCTURE [TWh]



NET ELECTRICITY PRODUCTION [TWh] 12 MONTHS



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

	CONVENTIONAL GENERATION	RENEWABLE ENERGY	SUPPLY	DISTRIBUTION
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	Wholesale trading of electricity on domestic and international market and trading of related products, fuels and CO ₂ emission allowances	Supply of electricity to final off-takers through the grid and HV, MV and LV power infrastructure
Key assets of the segment	4 conventional power plants 8 CHPs 2 lignite mines Acquired assets: 1 conventional power plant 8 CHPs	14 wind power plants 1 photovoltaic plant 29 run-of-river hydro power plants 4 pumped-storage power plants, including 2 with natural flow	-	287 864 kms. of distribution lines
Energy volumes	Generation 54.60 TWh	Generation 2.19 TWh	Sales to end-users 40.01 TWh	Electricity distributed 35.34 TWh
Market position	PGE is a leader in lignite mining in Poland (81%) and domestic leader in electricity generation	PGE is the leading producer of energy from renewable sources with market share of approx. 10% (incl. biomass)	One of the leaders in wholesale trading and retail supply in Poland	Second energy distributor with regard to number of customers with approx. 25% share in Polish electricity distribution market
Revenues [PLNm]	13 075	724	15 662	6 392
EBITDA [PLNm]	4 099	364	811	2 333
Share of Group EBITDA	54%	5%	11%	30%
CAPEX [PLNm]	4 899	81	14	1 716
Assets [PLNm]	44 555	3 339	4 138	17 943

2017

JANUARY

Commencement of negotiations regarding the acquisition EDF's assets in Poland with partners

FEBRUARY

Commissioning of cogeneration unit in Gorzów CHP

MARCH

Changes in negotiations for acquisition of EDF's assets - increase of PGE's share in the transaction

Recapitalisation of PGG (Polish Mining Group)

MAY

Conditional agreement for acquisition of EDF's assets in Poland - PGE as the sole bidder

Management Board's recommendation regarding suspension of dividend payment from profits for 2016, 2017 and 2018

AUGUST

Decision of the ERO President on the final adjustment of LTC compensations

SEPTEMBER

PGE Ventures launched a scouting program for start-ups

NOVEMBER

Closing of acquisition of EDF's assets in Poland

DECEMBER

Approval of the District Heating Strategy

1. Description of activity of the Capital Group

Capital Group of PGE Polska Grupa Energetyczna S.A. ("PGE Capital Group", the "Capital Group", "PGE Group", the "Group") is the largest vertically integrated producer of electricity and heat in Poland. With a mix of own fuel sources, generation assets and distribution network, PGE Group provides a safe and reliable supply of electricity to more than five million households, businesses and institutions.

The parent company of PGE Capital Group is PGE Polska Grupa Energetyczna S.A. (also "PGE S.A.", "PGE", the "Company", the "Issuer").

PGE Group currently organizes its activities in five business segments:

- Conventional Generation

Core business of the segment includes extraction of lignite, production of electricity and heat from conventional sources as well as transmission and distribution of heat. The Conventional Generation segment includes PGE Energia Ciepła S.A., which also trades in electricity, while the volume of electricity sold to final customers for the period under consolidation amounts to less than 1% of the volume sold to final customers by Supply segment.

- Renewables

Core business of the segment includes electricity generation from renewable sources and in pumped-storage power plants.

- Supply

Core business of the segment includes trading of electricity across the country, wholesale trading of electricity on domestic and international market, provision of services to companies from the PGE Group related to commercial management of generation capacities of the Group and electricity produced, as well as trading of CO₂ allowances and energy certificates and fuels.

- Distribution

Core business of the segment includes supply of electricity to final off-takers through the grid and HV, MV and LV infrastructure.

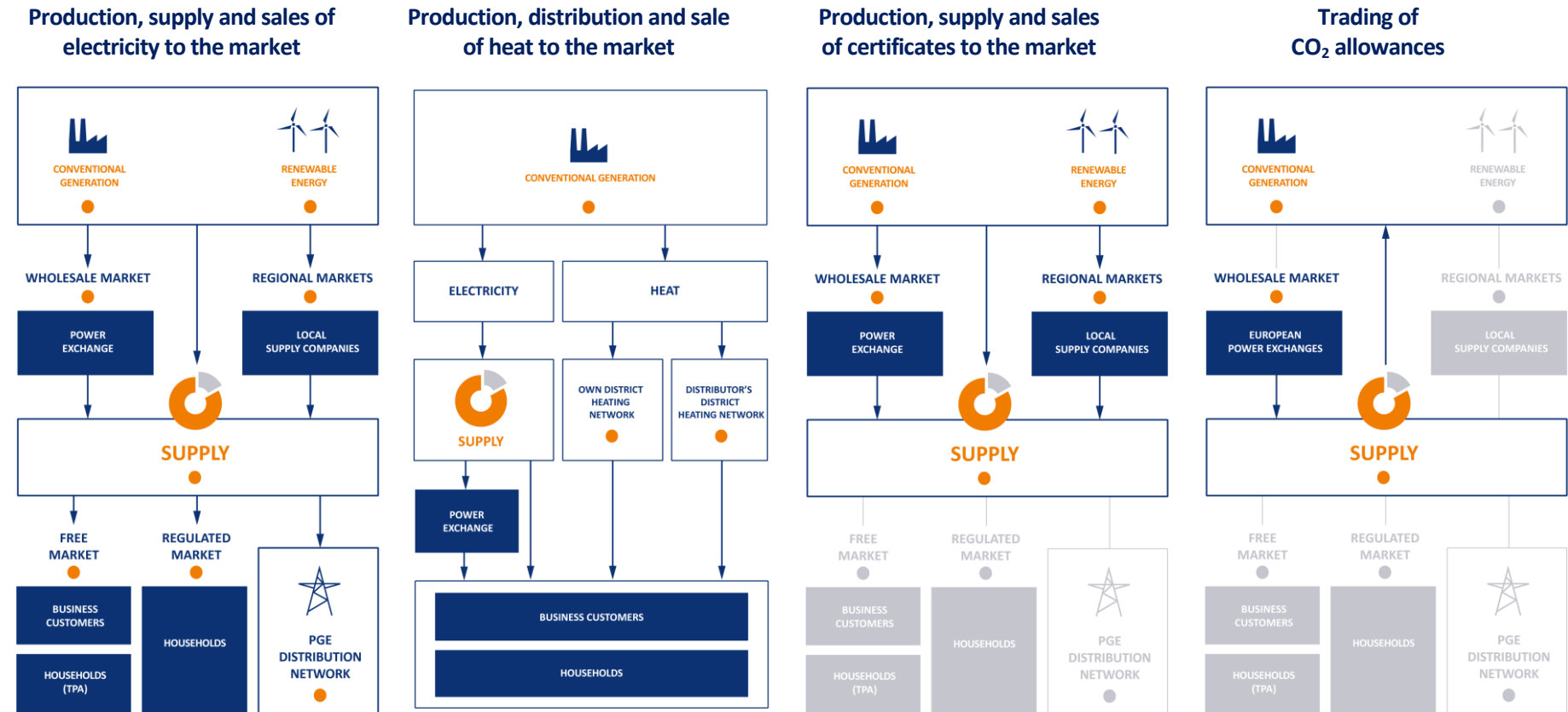
- Other Operations

Other operations include services, through the subsidiaries, to PGE Group, which includes organisation of capital raising projects and provision of IT, telecommunications, payroll and HR services. Its activities also include subsidiaries formed to prepare and implement a project to build a nuclear power plant, invest in start-ups and build an electromobility system.

Since December 16, 2016 due to the lowering of the so called "power exchange obligation" (obligation to publicly sell electricity) most of the trading is executed bilaterally within the Capital Group. That change significantly attributed to the decrease of the electricity sale and purchase volumes (see p. 4.2.1 of this report) and consequently consolidated revenues (see p. 4.1.4 of this report) and costs. It had limited impact on the actual profitability of PGE Group.

1.1. Business model

Thanks to the combination of its own lignite deposits, generation assets and distribution network, PGE guarantees safe and reliable supply of electricity to over 5 million customers.



1.1.1. Production, trading and sale of electricity to the market

Electricity is produced by the assets owned by the PGE Group, concentrated in segments: Conventional Generation and Renewables. Most of electricity generated by PGE Group is traded bilaterally between Group companies. A 15% minimum obligation to sell electricity on a market managed by Towarowa Gielda Energii (TGE) was in effect in 2017. From January 18, 2018, this exchange obligation for all energy groups in Poland has been raised to 30%. Moreover, according to a condition imposed by the Office of Competition and Consumer Protection (UOKiK) concerning completion of the acquisition of EDF's assets, PGE Group will sell the equivalent of 100% of electricity produced at the Rybnik plant on the power exchange in 2018-2021.

Electricity produced from renewable sources is purchased by Supply segment if located at area of operation of PGE Dystrybucja or purchased by the seller acting at particular area of operation.

Supply segment is responsible for wholesale trading of electricity, trading of related products and fuels on domestic and international market as well as sale and supply of electricity and fuels to end-users:

- Business customers – enterprises and institutions, on free market rules (market not regulated)
 - Tariff A – large industry (high voltage) such as steelworks, mines, large factories
 - Tariff B – Large and medium enterprises (medium voltage) such as shopping malls, hospitals and industrial customers
 - Tariff C – Small and medium enterprises and institutions (low voltage) such as shops, service outlets, farms
- Households (TPA) Third-party access rule allows sale to households on a competitive market outside of distribution area of a given group
- Households and housing cooperatives (G tariff group) within regulated market.

In addition, Supply segment sells electricity to PGE Dystrybucja S.A. to cover network losses connected with the distribution of electricity.

Distribution segment managed by PGE Dystrybucja S.A. is responsible for supply of electricity to final off-takers on its operation area through the HV, MV and LV grid.

1.1.2. Production, distribution and sale of heat to the market

Combined heat and power (CHP) plant produces in a single technological process, combined electricity and heat for heating purposes and for the needs of hot utility water. Heat is transmitted to the final customer through the heating grid, belonging to the distribution companies dealing with its supplies to off-takers or through own heating networks.

Trading of electricity produced in CHP plants takes place bilaterally between Group companies and on the market run by TGE.

1.1.3. Production, supply and sales of certificates to the market

Cogeneration energy certificates of origin (red and yellow in PGE Group's case) are issued to entities generating electricity in CHP plants. Green certificates confirm that energy was generated in renewable units but also in conventional units from combustion and co-combustion of biomass in power plants and CHP plants.

Trading of certificates pass mainly through TGE. Some trading agreements with local suppliers include sale of green certificates together with the electricity sold.

Supply segment purchases certificates of origin in order to redeem them respectively to the obligation regarding sales of electricity to end-user (currently Green, Red, Yellow, Blue, Purple and White certificates).

1.1.4. Trading of CO₂ allowances

Internationally traded CO₂ allowances are purchased on European power exchanges and in bilateral transactions.

Supply segment purchase CO₂ allowances to cover emissions of Conventional Generation segment. It also manages trading of CO₂ allowances.

Conventional Generation segment redeems the allowances respectively to the actual CO₂ emission.

1.2. Ethical culture of the organisation

PGE Group is consciously shaping an ethics-based culture. The Management Board of PGE S.A. and the Management Board of the other Group companies have adopted a common PGE Group Code of Ethics.

The ethics code sets out the values and rules that guide our daily work across all jobs. It contains practical tips and guidelines on completing tasks. Intensive educational and communication activities regarding the Code of Ethics were conducted in 2017 inside and outside the organisation - nearly 97% of the Group's employees underwent training (prior to the acquisition of EDF's assets). All training participants signed a commitment to respect the values and rules contained in the Code of Ethics.

At the end of 2017, PGE Group adopted a Code of Procedure for PGE Group's Business Partners and an Anti-Corruption Policy.

According to the Code of Procedure for PGE Group's Business Partners, we work only with those suppliers and other business partners that conduct business in a fair manner. Relations with our subcontractors, business partners and suppliers are based on mutual trust, respect and professionalism.

The Group's Anti-Corruption Policy makes it possible to introduce appropriate mechanisms to prevent corruption or bribery and create clear and transparent cooperation standards for employees, management as well as clients and external partners. Having a set of clear rules regarding ethical conduct and combating corruption gives us greater certainty as to the directions of our activities and will help to increase our employees' involvement.

1.3 Employment in the Capital Group

Employees are PGE Group's most valuable asset. Thanks to their experience and involvement, we can build an organisation that is based on values, where social responsibility is combined with business objectives. PGE Group is a place for people with passion and the motivation to act. The Group strives to reach an ambitious goal of being the most effective energy group in Poland. This means implementing best corporate governance practices as regards human capital management, business decision support and effectiveness management as well as standardisation of support processes.

1.3.1 Employment structure in PGE Capital Group

PGE Group is among of the five largest employers in Poland, providing stable employment to more than 41 thousand people at over 200 locations throughout the country. PGE Group employees extract lignite in open-pit mines, operate power and power-and-heat plants, produce wind and water energy as well as apply economic knowledge to analyse investment feasibility and develop long-term operating strategies for PGE Group and each of its business lines.

Table: Employment level.

In FTEs			%		%	
	Dec. 31, 2016	Dec. 31, 2016	change	Dec. 31, 2015	change	
Total employment in PGE	41 231.8	38 471.0	7%	38 876.8	-1%	
Conventional Generation	25 381.9	22 787.6	11%	23 197.8	-2%	
including Acquired assets*	2 577.7					
Renewable Energy	510.2	509.1	0%	518.9	-2%	
Supply	2 219.1	2 066.1	7%	2 001.9	3%	
including Acquired assets**	73.9					
Distribution	10 200.3	10 238.9	0%	10 298.4	-1%	
Other operations	2 920.3	2 869.3	2%	2 859.8	0%	
including Acquired assets ***	503.0					

* PGE Energia Ciepła S.A., PGE Toruń S.A., PGE Gaz Toruń sp. z o.o., EC Zielona Góra S.A., Zespół Elektrociepłowni Wrocławskich Kogeneracja S.A. („Kogeneracja”), ** PGE Paliwa sp. z o.o., *** PGE Ekoserwis sp. z o.o.

The employment growth in Conventional Generation and Supply segments is connected with acquisition of EDF assets (the Acquired assets) in November 2017.

1.4. The most significant changes in organisation of the Capital Group

Changes which occurred in the PGE Capital Group's structure in the period from January 1, 2017 until the publication date of this report, are presented in note 1.3 to consolidated financial statements and described below.

Setting up of new companies

Entity/entities	Date of registration in National Court Register	Share capital	Comment
PGE Towarzystwo Funduszy Inwestycyjnych S.A.	January 27, 2017	PLN 750 000	On December 29, 2016, PGE S.A. formed a single-member company based in Warsaw in the form of a public limited company.
PGE Inwest 19 sp. z o.o.	February 24, 2017	PLN 10 000	On February 1, 2017, PGE S.A. formed a single-member company based in Warsaw in the form of a limited company.
PGE KLASTER sp. z o.o.	6 grudnia 2017	1 000 000 PLN	The company was formed as a result of a spin-off of PGE Energia Natury PEW sp. z o.o. as a company spun off through a transfer of its assets to a newly-formed company under the name PGE KLASTER sp. z o.o. w organizacji in exchange for shares in the newly-formed company, which were given to PGE Energia Odnawialna S.A. as the sole shareholder of PGE Energia Natury PEW sp. z o.o.

Increase of the share capital of subsidiaries

Entity	Date of registration National Court Register	(1) Share capital (2) Increase (3) Share capital after increase	Comment
PGE Inwest 13 sp. z o.o. (currently a joint stock company, under name PGE Inwest 13 S.A.)	January 27, 2017	(1) PLN 20 000 (2) PLN 730 000 (3) PLN 750 000	On December 7, 2016, the Extraordinary Assembly of Partners of the company adopted a resolution on an increase of the company's share capital. The increased capital was acquired by PGE S.A. in exchange for a cash contribution. PGE S.A. holds 100% of share capital.
PGE Nowa Energia sp. z o.o. (previously: PGE Inwest 15 sp. z o.o.)	March 22, 2017	(1) PLN 20 000 (2) PLN 50 000 (3) PLN 70 000	On December 20, 2016, the Extraordinary Assembly of Partners of the company adopted a resolution on an increase of the company's share capital. The increased capital was acquired by PGE S.A. in exchange for a cash contribution. PGE S.A. holds 100% of share capital.
PGE EJ 1 sp. z o.o. ("PGE EJ 1", "EJ 1")	February 15, 2017	(1) PLN 275 859 450 (2) PLN 34 999 020 (3) PLN 310 858 470	The Extraordinary Assembly of Partners of the company of December 21, 2016 adopted resolution on the increase of the share capital of company. The increase of the share capital was acquired by all partners, i.e. PGE S.A., KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and ENEA S.A. in exchange for a cash contribution, proportionally to their stakes. PGE S.A. holds 70% in the share capital.
PGE Nowa Energia sp. z o.o. (previously: PGE Inwest 15 sp. z o.o.)	April 18, 2017	(1) PLN 70 000 (2) PLN 5 150 000 (3) PLN 5 220 000	On March 28, 2017, the Extraordinary Assembly of Partners of the company adopted a resolution on an increase of the company's share capital. The increased capital was acquired by PGE S.A., in exchange for a cash contribution. PGE S.A. holds 100% of share capital.
PGE Centrum sp. z o.o. (previously: PGE Inwest 6 sp. z o.o.)	May 22, 2017	(1) PLN 20 000 (2) PLN 1 500 000 (3) PLN 1 520 000	On April 7, 2017, the Extraordinary Assembly of Partners of the company adopted a resolution on an increase of the company's share capital. The increased capital was acquired by PGE S.A., in exchange for a cash contribution. PGE S.A. holds 100% of share capital.
PGE Inwest 16 sp. z o.o.	April 27, 2017	(1) PLN 200 000 (2) PLN 900 000 (3) PLN 1 100 000	On April 7, 2017, the Extraordinary Assembly of Partners of the company adopted a resolution on an increase of the company's share capital. The increased capital was acquired by PGE S.A., in exchange for a cash contribution. PGE S.A. holds 100% of share capital.
PGE Towarzystwo Funduszy Inwestycyjnych S.A.	June 2, 2017	(1) PLN 750 000 (2) PLN 5 500 000 (3) PLN 6 250 000	On May 12, 2017 the Extraordinary General Meeting of the company adopted a resolution on an increase of the company's share capital. The increased capital was acquired and paid by PGE S.A., in exchange for a cash contribution. PGE S.A. holds 100% of share capital.

PGE Ventures sp. z o.o. (previously: PGE Inwest 7 sp. z o.o.)	September 22, 2017	(1) PLN 20 000 (2) PLN 420 000 (3) PLN 440 000	On May 29, 2017 the Extraordinary Assembly of Partners of the company adopted a resolution on an increase of the company's share capital. The increased capital was acquired by PGE S.A., in exchange for a cash contribution. PGE S.A. holds 100% of share capital.
PGE Nowa Energia sp. z o.o. (previously: PGE Inwest 15 sp. z o.o.)	August 7, 2017	(1) PLN 5 220 000 (2) PLN 2 000 000 (3) PLN 7 220 000	On May 30, 2017 the Extraordinary Assembly of Partners of the company adopted a resolution on an increase of the company's share capital. The increased capital was acquired by PGE S.A., in exchange for a cash contribution. PGE S.A. holds 100% of share capital.
PGE Synergia sp. z o.o. (formerly PGE Obsługa Księgowo – Kadrowa sp. z o.o. until January 31, 2018)	September 26, 2017	(1) PLN 2 050 000 (2) PLN 4 000 000 (3) PLN 6 050 000	On July 21, 2017 the Extraordinary Assembly of Partners of the company adopted a resolution on an increase of the company's share capital. The increased capital was acquired by PGE S.A., in exchange for a cash contribution. PGE S.A. holds 100% of share capital.
PGE Ventures sp. z o.o. (previously: PGE Inwest 7 sp. z o.o.)	November 23, 2017	(1) PLN 440 000 (2) PLN 20 960 000 (3) PLN 21 400 000	On September 28, 2017 the Extraordinary Assembly of Partners of the company adopted a resolution on an increase of the company's share capital. The increased capital was acquired by PGE S.A., in exchange for a cash contribution. PGE S.A. holds 100% of share capital.
PGE Nowa Energia sp. z o.o. (previously: PGE Inwest 15 sp. z o.o.)	November 16, 2017	(1) PLN 7 220 000 (2) PLN 8 000 000 (3) PLN 15 220 000	On September 28, 2017 the Extraordinary Assembly of Partners of the company adopted a resolution on an increase of the company's share capital. The increased capital was acquired by PGE S.A., in exchange for a cash contribution. PGE S.A. holds 100% of share capital.
PGE Centrum sp. z o.o. (previously: PGE Inwest 6 sp. z o.o.)	November 13, 2017	(1) PLN 1 520 000 (2) PLN 6 800 000 (3) PLN 8 320 000	On September 28, 2017 the Extraordinary Assembly of Partners of the company adopted a resolution on an increase of the company's share capital. The increased capital was acquired by PGE S.A., in exchange for a cash contribution. PGE S.A. holds 100% of share capital.
PGE Towarzystwo Funduszy Inwestycyjnych S.A.	Not yet registered in National Court Register	(1) PLN 6 250 000 (2) PLN 18 000 000 (3) PLN 24 250 000	On November 28, 2017 the Extraordinary General Meeting of the company adopted a resolution on an increase of the company's share capital. The increased capital was acquired by PGE S.A., in exchange for a cash contribution. PGE S.A. holds 100% of share capital.

Acquisition or disposal of shares by the companies

Shares of the entity	Date of transaction/ registration in the National Court Register	Number of acquired shares	Comment
Polska Grupa Górnictwa i Energetyki Konwencjonalna S.A. ("PGE GiEK S.A.", "PGE GiEK") – acquisition by PGE Górnictwo i Energetyka Konwencjonalna S.A. of shares in the increased share capital of PGG	November 3, 2016/ January 27, 2017 PGG's share capital increase registered	833 333 shares	The Extraordinary Assembly of Partners of PGG adopted resolution in the increase of the share capital by PLN 366 667 000 to PLN 2 672 274 200 through issue of new shares. PGE GiEK S.A. took up 833 333 shares with a nominal value of PLN 83 333 300, representing 3.1% in the increased share capital of PGG.
PGG – acquisition by PGE GiEK S.A. of shares in the increased share capital	February 1, 2017/ March 10, 2017 PGG's share capital increase registered	555 556 shares	The Extraordinary Assembly of Partners of PGG adopted resolution in the increase of the share capital by PLN 244 444 000 to PLN 2 916 718 200 through issue of new shares. PGE GiEK S.A. took up 555 556 shares with a nominal value of PLN 55 555 600, representing 1.9% in the increased share capital of PGG.
PGG – acquisition by PGE GiEK S.A. of shares in the increased share capital	April 3, 2017/ June 7, 2017 PGG's share capital increase registered	500 000 shares	On March 31, 2017 the investment agreement was signed between PGE GiEK, Enea S.A., ENERGA Kogeneracja sp. z o.o., PGNiG TERMIKA S.A., Węglokoks S.A., Towarzystwo Finansowe Silesia sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych and PGG sp. z o.o. The investment agreement determines the conditions of the financial investment in PGG. assumes recapitalisation of PGG in three stages by PGE GiEK, Enea S.A., ENERGA Kogeneracja sp. z o.o., PGNiG TERMIKA S.A. and Towarzystwo Finansowe Silesia sp. z o.o. with total amount of PLN 1 billion. Within the recapitalisation of PGG, PGE GiEK committed itself to acquire new shares of PGG with a total nominal value of PLN 100 million in exchange for the cash contribution in amount of PLN 100 million. On the base of that agreement, the Extraordinary Assembly of Partners of PGG adopted resolution on the increase of the share capital by PLN 500 000 000 to PLN 3 416 718 200, through issue of new shares. PGE GiEK S.A. took up 500 000 shares with a nominal value of PLN 50 000 000, representing 1.5% in the increased share capital of PGG.

**Management Board's report on activities of PGE Polska Grupa Energetyczna S.A.
and PGE Capital Group of for the year 2017**

PGG – acquisition by PGE GiEK S.A. of shares in the increased share capital	June 14, 2017/ July 7, 2017 PGG's share capital increase registered	200 000 shares	The Extraordinary Assembly of Partners of PGG adopted resolution in the increase of the share capital by PLN 200 000 000 to PLN 3 616 718 200 through issue of new shares. PGE GiEK S.A. took up 200 000 shares with a nominal value of PLN 20 000 000, representing 0.6% in the increased share capital of PGG. Currently PGE GiEK S.A. holds a total of 5 700 000 shares with a nominal value of PLN 570 000 000 representing 15.76% in the share capital of PGG.
PGG – objęcie przez PGE GiEK S.A. akcji w podwyższonym kapitale zakładowym PGG	January 31, 2018 Not yet registered in National Court Register	300 000 inscribed shares	The Extraordinary Assembly of Partners of PGG adopted resolution in the increase of the share capital by PLN 300 000 000 to PLN 3 916 718 200, through issue of new inscribed shares. PGE GiEK S.A. took up 300 000 shares with a nominal value of PLN 30 000 000, representing 0.8% in the increased share capital of PGG.
Polimex-Mostostal S.A. („Polimex”) – acquisition by PGE S.A. of shares in the increased share capital	January 20, 2017/ February 21, 2017 Polimex's share capital increase registered	37 500 000 ordinary bearer shares	On January 18, 2017 PGE S.A., ENEA S.A., ENERGA S.A, PGNiG Technologie S.A. (the „Investors”) signed Investment Agreement with Polimex, on the ground of which, subject to the conditions precedent specified in the agreement, the Investors have committed to make investment in Polimex. The investment involves acquisition by the Investors jointly of 150 000 000 ordinary bearer shares with a nominal value of PLN 2 each and the issue price amounting to PLN 2 PLN for one share (“New Issue Shares”), issued by Polimex for the increase of the share capital of Polimex by the amount of up to PLN 300 000 000 (the “Investment Agreement”). In accordance with the resolution of the Extraordinary General Meeting of December 28, 2016 on the increase of the share capital, the New Issue Shares will be introduced to the trading on the regulated market of the Warsaw Stock Exchange and will be dematerialised. On the ground of the Investment Agreement, in connection with the fulfilment of the conditions precedent, on January 20, 2017 PGE S.A. accepted the offer for acquisition in private placement of 37 500 000 New Issue Shares for the total price of PLN 75 000 000.
Polimex – acquisition of shares by PGE S.A. (agreement for sale of shares)	January 20, 2017	1 500 001 shares	On January 18, 2017 the Investors signed a agreement with SPV Operator, obliging the parties, provided the conditions precedent are fulfilled, to conclude transaction in which SPV Operator sells to the Investors total of 6 000 001 shares of Polimex. On January 20, 2017, in connection with the fulfilment of the conditions precedent, PGE S.A. acquired 1 500 001 shares of Polimex from SPV Operator.
Polimex – acquisition of shares by PGE S.A. (tender offer)	April 28, 2017	24 shares	Pursuant to the Polish regulations regarding capital market, as a consequence of the subscription tender for sale of shares. in number sufficient to reach by the Investors 66% threshold of voting rights on the general meeting of Polimex, on April 28, 2017 the Investors acquired total of 96 shares of Polimex, including PGE which purchased 24 shares of that company. As a result of the share capital increase of Polimex, acquisition of shares from SPV Operator and subscription offer, the Investors hold jointly 156 000 097 shares currently representing 65.93% of the share capital of Polimex, including PGE S.A. which holds 39 000 025 shares representing 16.48% of the share capital.
EXATEL S.A. – sale of shares by PGE S.A.	March 29, 2017	8 360 211 shares	PGE S.A. and the State Treasury of the Republic of Poland („State Treasury”) executed an agreement for the sale of 100% of shares in EXATEL S.A. to the State Treasury. As a result of the sale transaction, EXATEL S.A. and its subsidiary ENERGO-TEL S.A. are no longer part of PGE Group.
PGE GiEK S.A. – mandatory buyback of shares by PGE S.A.	April 10, 2017	67 052 shares	CDM Pekao S.A., which maintains PGE GiEK S.A.'s share register, made entries in the share register regarding transfer to PGE S.A. of the ownership of 67 052 shares of PGE GiEK S.A. covered by a mandatory squeeze-out procedure but not yet transferred to PGE S.A. In connection with the above, PGE S.A. currently holds a 100% stake in the share capital of PGE GiEK S.A.
PGE Energia Ciepła S.A. (formerl EDF Polska S.A.) and Investment III B.V. (former: EDF Investment III B.V.) – acquisition of shares by PGE S.A. (conditional share sale agreement)	19 maja 2017 shares of the companies transferred to PGE S.A. on November 13, 2017	70 433 034 shares of PGE Energia Ciepła S.A.	On May 19, 2017 PGE signed the Conditional Share Sale Agreement (the “CSSA”) regarding sale of EDF assets in Poland with EDF International SAS and EDF Investment II B.V. (jointly “EDF”). The CSSA includes in particular (the “Transaction”) acquisition of 99.52% of shares of PGE Energia Ciepła (former EDF Polska S.A.), indirect acquisition of 100% of shares of Investment III B.V. (former EDF Investment III B.V.), indirect acquisition of 50% of shares + 1 share of Kogeneracja S.A. (shares held by PGE Energia Ciepła S.A. and Investment III B.V.), and acquisition of shares in supporting subsidiaries of PGE Energia Ciepła S.A. Moreover, on November 1, 2017 PGE Energia Ciepła S.A. (the acquiring company) purchased 100% shares of Investment III B.V. from EDF International SAS (the seller).
Centralny System Wymiany Informacji sp.z o.o. („CSWI”) – acquisition of shares by PGE Dystrybucja S.A. (conditional share sale agreement)	June 30, 2017	4 shares	On December 9, 2015 ENEA Operator sp. z o.o. (the „Seller”) and PGE Dystrybucja S.A. and other buyers (the „Buyers”) signed the agreement for sale of shares (the „Agreement”), according to which the Seller sells to the Buyers 16 shares in company Centralny System Wymiany Informacji sp. z o.o. with its seat in Poznań („CSWI”), that represent 80% of the share capital. As a result of the Agreement PGE Dystrybucja S.A. purchased 4 shares representing 20% of the share capital of CSWI. After the conditions precedent had been met, the

transfer of shares to the Buyers, including PGE Dystrybucja S.A., took place on June 30, 2017 in accordance with the provisions of the Agreement.

ElectroMobility Poland S.A. („ElectroMobility”) – acquisition by PGE S.A. of the share capital increase shares of ElectroMobility	January 3, 2018	2 500 shares	On January 3, 2018 the Extraordinary General Meeting of adopted resolution on a share capital increase by PLN 20 000 000 to PLN 30 000 000 by increasing the nominal value of existing shares. In exchange for a cash contribution, PGE S.A. acquired the 2 500-share capital increase, the total nominal value of which increased from PLN 2 500 000 to PLN 7 500 000. As a result of the share capital increase, PGE S.A.'s stake in ElectroMobility did not change (currently 25%).
	Not yet registered in National Court Register		

Mergers

Acquiring company /acquired company	Date of transaction/ registration in the National Court Register	Comment
PGE Energia Odnawialna S.A. - acquiring company PGE Energia Natury sp. z o.o. - acquired company	October 19, 2017 and October 20, 2017 November 30, 2017 entry to National Court Register	The Extraordinary General Meeting of PGE Energia Odnawialna S.A. and the Extraordinary Assembly of Partners of PGE Energia Natury sp. z o.o. on October 20, 2017 adopted resolutions on merger of PGE Energia Odnawialna S.A. as an Acquiring company and PGE Energia Natury sp. z o.o. as an Acquired company, through transferring of all assets of the Acquired company to the Acquiring company without issue of new shares in exchange for the shares in the share capital of the Acquired Company, pursuant to art. 516 of the Commercial Companies Code and dissolution of the Acquired company without its liquidation. PGE Energia Odnawialna S.A. is the sole shareholder of PGE Energia Natury sp. z o.o.

Split of companies

Spun off company / newly-formed company	Date of transaction/ registration in the National Court Register	Number of shares of newly-formed company	Comment
PGE Energia Natury PEW sp. z o.o. („PGE EN PEW”) - Spun off company PGE KLAFTER sp. z o.o. - newly-formed company	November 17, 2017 November 30, 2017 (entry to National Court Register)	1 000 shares	Extraordinary Assembly of Partners of PGE Energia Natury PEW sp. z o.o. On November 17, 2017, a resolution was adopted to spin off PGE EN PEW through the transfer of its assets to a newly-formed company under the name PGE KLAFTER sp. z o.o. w organizacji in exchange for shares in the newly-formed company, which were given to PGE Energia Odnawialna S.A. as the sole shareholder of PGE Energia Natury PEW sp. z o.o..

Transformation of companies

Transformed company	Date of transaction/ registration in the National Court Register	Comment
PGE Inwest 13 sp. z o.o. after transformation: PGE Inwest 13 S.A.	April 25, 2017 May 16, 2017 PGE Inwest 13 S.A. was registered in the National Court Register	On April 25, 2017, the Extraordinary Assembly of Partners of the company adopted a resolution on the change of this company's legal form into a single-member public limited company under the name PGE Inwest 13 S.A. The share capital of the transformed company amount to PLN 750 000.00 and has not changed with regard to the company being transformed. PGE S.A. holds 100% shares in the share capital of PGE Inwest 13 sp. z o.o.

Polska Grupa Górnicza sp. z o.o. after transformation:	November 28, 2017	36 167 182 shares	On November 28, 2017, the company's Extraordinary General Meeting adopted a resolution on a change of legal form into a joint stock company under the name Polska Grupa Górnicza S.A. The newly-formed company's share capital amounts to PLN 3 616 718 200 and is the same as the old company's share capital. Currently, PGE GiEK S.A. holds a total of 5 700 000 shares with a nominal value of PLN 570 000 000, which constitutes 15.76% of PGG's share capital.
Polska Grupa Górnicza S.A.	December 29, 2017 (entry to National Court Register)		

2. PGE Group's strategy and its implementation

2.1. Updated strategy of the Capital Group

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 value for shareholders 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 generation, actively taking advantage of growth opportunities

Reliable and active utility and service supplier

Poland's most efficient and flexible energy group

Leader in developing new business models and lines of business

2.2. Implementation of key projects within the strategic objectives

2.2.1. 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. PGE Group has a flexible approach to plans for developing new generating capacities, opting to take the most economically and technically beneficial decisions on a case by case basis, taking into account the specific location of each asset. To this end, on August 30, 2017 the Investment Committee (an advisory body to the Management Board of PGE) recommended to launch preparations for a new unit at Dolna Odra power plant based on gas fuel.

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). The implementation of a capacity market, being a mechanism enhancing the national energy security, has a positive impact on the economic effectiveness of modernisation projects.

The purchase of EDF Polska's assets was finalised on November 13, 2017. With this agreement, PGE Group's installed electricity capacities increased by 25% to 16.27 GWe. PGE Group strengthened its top position in the power segment and became the largest supplier of eco-friendly district heating in the country, with a 15% share of the Polish district heating market. In connection with PGE Group's new role on this market and in reference to the intention previously announced in its strategy to form a new business line for district heating assets, PGE Group's District Heating Strategy was unveiled on December 14, 2017, which highlights our ambitions in this area. The District Heating Strategy is expected to generate approx. PLN 1 billion in additional EBITDA by 2030, which will be driven by:

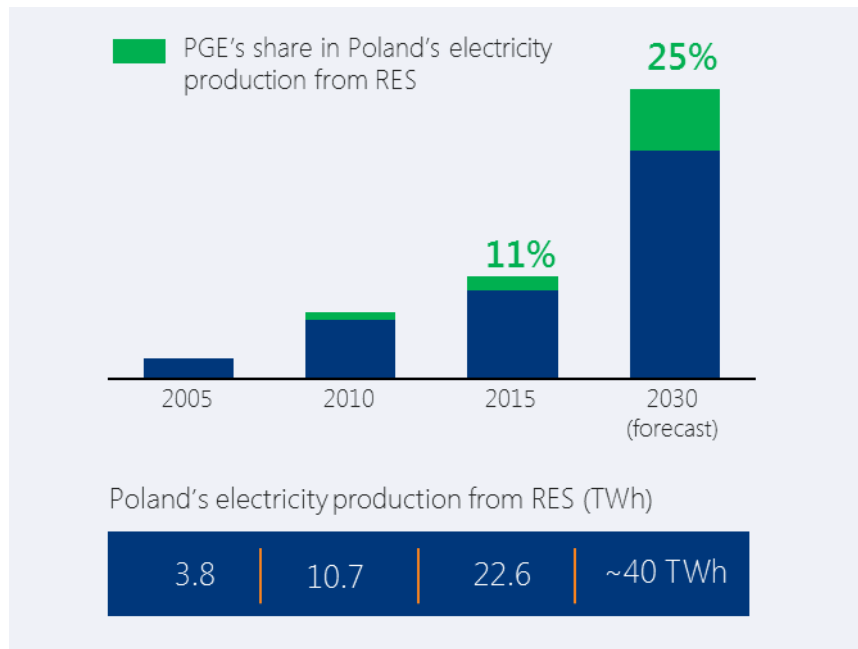
- reduction in overhaul expenses by 10% (by 2023, compared to 2017),
- increase of local market share to two-thirds for district heating networks managed by PGE Energia Ciepła,
- construction of 1 000 MWe of new cogeneration capacities,
- increase of low-emission fuel's share in fuel mix to 50%.

Eventually the Group wants to create a specialised business line that will integrate district heating activities and manage the assets acquired from EDF as well as most of PGE GiEK's CHP plants and district heating networks.

PGE Group is constantly on the lookout for innovative solutions, that will cement its competitive advantage and allow it to continually 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 plans to complete those onshore wind farm projects that are at the most advanced stages, build an approx. 1 000 MWe offshore wind farm and increase its presence in the distributed generation segment, including energy clusters. 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 as well as the results of cooperation with the local governments. In September 2017, an agreement was signed on the formation of the South-Western Energy Cluster with the participation of certain Group companies. Its aim is to improve the air quality, enhance local energy security and support development of this area.

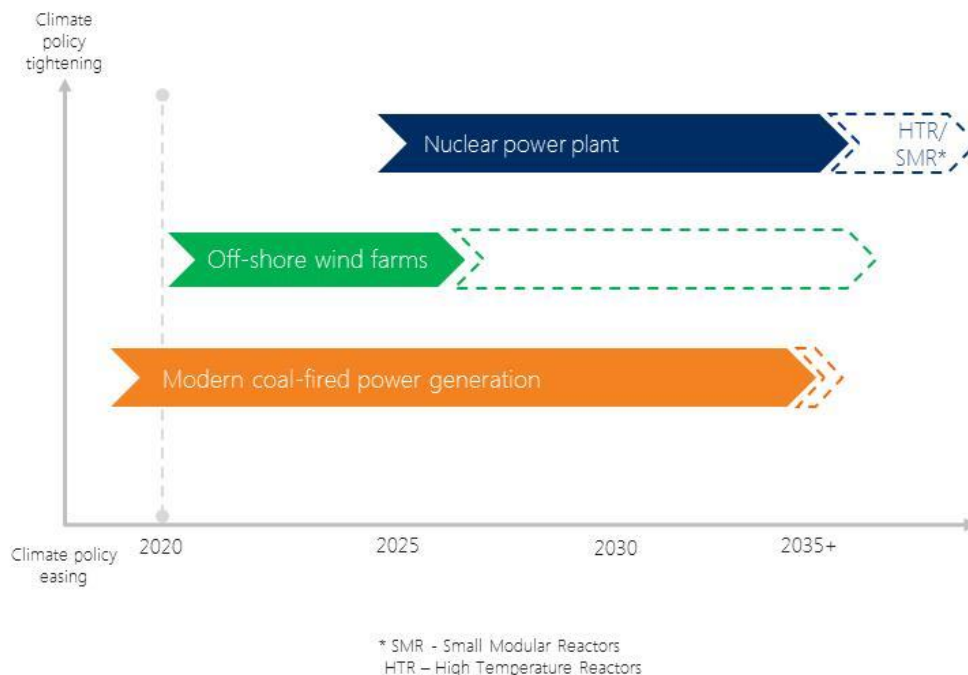
Diagram: PGE Group's aspirational share in Poland's electricity production from RES.



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. 1 000 MWe 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.



2.2.2. 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, what will have a positive impact on monitoring client satisfaction indicators. Attaining the status of a reliable, credible and modern supplier will allow PGE Group to maintain low client migration rates in the mass segment.

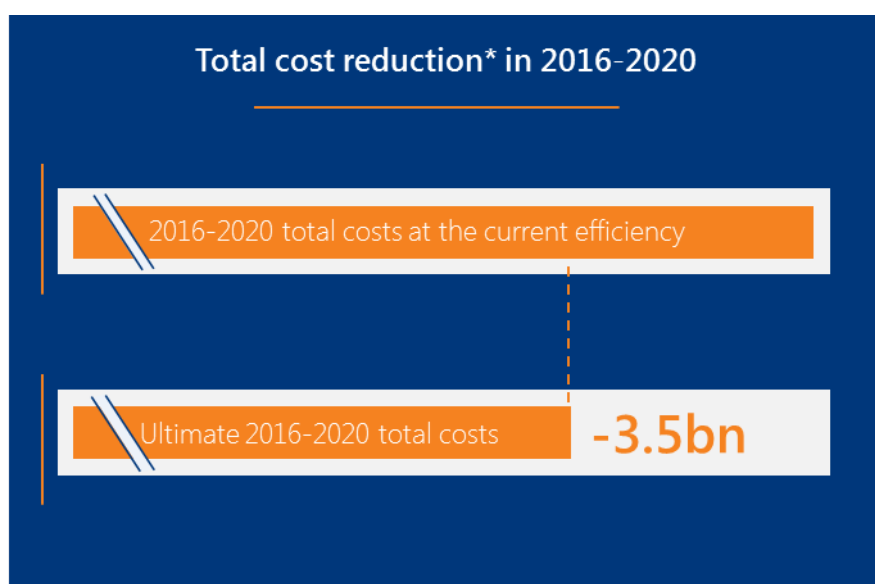
2.2.3. Poland's most efficient and flexible energy group

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 500 million versus year 2016. This will allow for the total cost reduction in 2016-2020 by approx. PLN 3.5 billion versus the current efficiency scenario.

The goal of the cost reduction is to strengthen PGE Group's competitiveness and maintain potential of financing of the Group's development. Objectives and initiatives in scope of improving the operational and cost efficiency are assigned to each business line of the Group.

Diagram: Total reduction of controllable costs in 2016-2020.



*Controllable costs

Reduction of controllable costs will concern both the modification of organisational structure and as well as optimisation of 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, effective formation of new business lines and spin-off of a new business line – "Co-generation". Process optimisation will focus on improving operational efficiency measured by ratios relating to cost, time and quality of particular processes, both basic and supporting. Within the framework of the human resources management strategy, it is planned to implement the rules of corporate employment, mobility and remuneration, as well as other initiatives connected with optimisation of labour costs. Moreover, within next years, planned expenditures on modernization and replacements will be reduced by approximately PLN 500 million in relation to forecasts. It will be possible thanks to introduction of integrated asset management system, among others. Unified approach to planning of expenditures, that takes into account inter alia the class of the assets will allow for reducing asset maintenance costs and modernisation and replacement expenditures, while maintaining the proper availability and security of power supply.

Higher flexibility at PGE Group will be achieved mainly through mechanisms for monitoring the surrounding and rapidly responding to changes, increased mobility of employees, cooperating with external partners, scientific and academic institutions, as well as streamlining decision-making, analytical and reporting processes.

2.2.4. 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 in order to diversify revenues structure and to increase EBITDA from new operations. 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 and form of its implementation. New technological solutions that are of interest to PGE Group include energy warehouses, electromobility, including car sharing, bike sharing, construction of charging stations, 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 (Smart Energy project), natural gas and demand management.

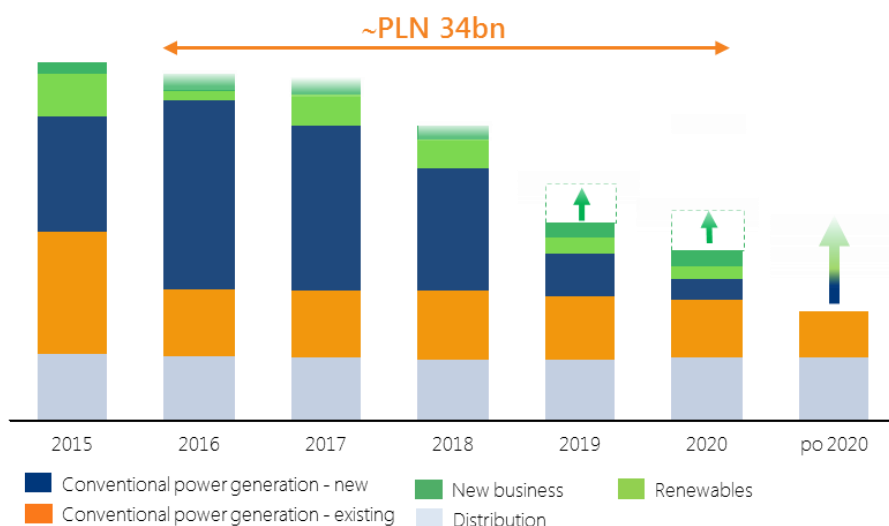
PGE Group intends to build up its brand of a leader on the energy efficiency market. New ESCO (Energy Saving Company) activities will provide clients with benefits such as reduced energy consumption costs, supply continuity and improved image. This will enable PGE Group to develop long-term beneficial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

The PGE Group will allocate at least PLN 25 million per year to capital investments in innovative start-ups and incubation, and acceleration of projects at the earliest stage of development. Activities within those areas will be implemented by PGE Ventures sp. z o.o. ("PGE Ventures"), a specialized CVC (corporate venture capital) fund, and by the company PGE Nowa Energia sp. z o.o. ("PGE Nowa Energia").

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 be gradually decreasing. 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 focuses on reducing impact on natural environment, operating based on ethical principles and involvement in activities for the benefit of local communities.

Key projects in 2017

Development
investments

Construction of new units in Opole power plant

- **aim of the project:** construction of two power units of 900 MW each
- budget: approx. PLN 11 billion (net, without costs of financing)
- capital expenditures incurred so far: approx. PLN 8.3 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 according to the binding agreement with the General Contractor: unit 5 – July 31, 2018; unit 6 – March 31, 2019 wherein commissioning dates declared by the General Contractor are: May 31, 2019 for unit 5 and September 30, 2019 for unit 6. The Project team have analysed the working schedule presented by the General Contractor with regard to methodic accuracy of assumptions taken, reasons for delay and planned methods of further management of the contract execution. In the opinion of the Project team, the execution of the investment in above mentioned dates is possible provided that the General Contractor will act with the highest commitment, introducing necessary conditions which will guarantee timely execution of works (see <https://www.gkpgge.pl/Investor-Relations/Current-reports/5-2018>).
- January 31, 2014 – issue of Notice to Proceed
- status: as regards unit 5 and ancillary infrastructure, work has begun on a cold start-up; as regards the key equipment at unit 6, installation work is on-going with regard to the boiler and assembly of low- and medium-pressure pipelines at the machine facility; work is also under way on the assembly of flue gas desulphurisation systems and a slag removal system; overall project progress at the end of December 2017 was approx. 89%

Construction of new unit in Turów power plant

- **aim of the project:** construction of power unit with a capacity of 490 MW
- budget: approx. PLN 4 billion (net, without costs of financing)
- capital expenditures incurred so far: approx. PLN 1.6 billion
- **fuel:** lignite
- **net efficiency:** 43.1%
- **contractor:** syndicate of companies: MHPSE, Budimex and Tecnicas Reunidas
- commissioning: H1 2020
- December 1, 2014 - issue of Notice to Proceed
- status: as regards the unit's main equipment, assembly of the boiler's pressure part and elements of a turboset is on-going, as is assembly of auxiliary systems, including a flue gas desulphurisation system and carburisation system and work on the unit's main electricity building;

Construction of a Thermal Processing Installation with Energy Recovery at Rzeszów CHP

- **aim of the project:** 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 so far: approx. PLN 118 million
- **fuel:** municipal waste
- **boiler's efficiency:** 86%
- **contractor:** syndicate of TM.E. S.p.A. Termomeccanica Ecologia and Astaldi S.p.A
- commissioning: June 2018
- Agreement with the Contractor signed on December 22, 2015, Notice to Proceed issued on April 8, 2016
- status: a leak test was conducted on the boiler's pressure elements, which turned out to be successful; work at the construction site is under-way on the assembly of a flue gas desulphurisation system and a system for slag revalorisation; assembly of equipment and installations in the electricity area and control and measurement apparatus system and automatics is also on-going

Modernisation and
replacement
projects

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 SO₂, NO_x and particulate, increase of availability and efficiency, as well as expansion of each turboset's nominal capacity by approx. 15 MWe
-

- status: water tests for the combustion chamber and steam reheater were successfully conducted; work on foundations for a funnel at the combustion chamber and in the cyclones is on-going. Modernisation of turboset and condenser and modernisation of generator with stator replacement, modernisation of electrostatic precipitator and modernisation of cooling tower have been completed. Work on the launch of control and measurement apparatus system and automatics is under-way. Unit 2 is expected to re-launch in the first quarter of 2018, following modernisations
- budget: PLN 0.8 billion (net, without costs of financing)
- fuel: lignite
- completion: 2020

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

- **aim of the project:** 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
- ● status: works related to filling in and securing the “Zwałowisko” and “Lubień” storage sites continue, as do works related to installations for unit 14 – construction of a suspension production and pumping system and construction of electrical switching stations 0.4 kV. The sealing of layers at the Lubień landfill is complete.
- budget for units 1-12: ca. PLN 450 million (net, without costs of financing)
- budget for unit 14: ca. PLN 85 million (net, without costs of financing)
- completion: 2018

Modernisation of the Pomorzany power plant

- **aim of the project:** Reduction of NO_x and SO₂ 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
- status: as regards deNO_x: assembly of catalytic inserts in unit A's reactor is complete, as well as assembly of equipment in the re-agent loading, warehousing and distribution area. Unit A's installation was commissioned for start-up and assembly of a support structure for unit B's SCR reactor was completed. Trial start-up is under-way for unit A's installation.
As regards the flue gas desulphurisation system: assembly of three-way separators at unit A's precipitator building is complete. At the flue gas desulphurisation system building: a foundation slab, mounting bases, foundation walls and foundations for equipment have been set. Foundation work is complete, as well as the ash distribution station, foundations for absorbers and bag filters, together with assembly of entry hall.
- budget: ca. PLN 213 million (net, without costs of financing)
- fuel: hard coal
- completion: SCR – 2018 (unit A/B), FGD – 2019.

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 SO₂ emissions from boilers no. 3 and 4 to a level allowing for further use after 2017
 - status: as regards the flue gas desulphurisation system: On November 21, 2017, the Mayor of Bydgoszcz issued a binding decision approving the construction design and granting permission for construction. The construction site was handed over to the General Contractor by protocol and the basic installation design was approved. Construction work began - laying the foundations for a semi-dry desulphurisation system (NID) and a lime silo.
As regards SCR: preparatory work is being performed by the General Contractor.
 - budget: for deNO_x project according to Investment Plan (PI 2017): PLN 53 million (net, without costs of financing) – value of main contract for deNO_x - PLN 47 million; for FGD project according to PI 2017: PLN 52 million (net, without costs of financing) - value of main contract for FGD – PLN 43 million.
 - fuel: hard coal
 - completion: 2018
-

Construction of flue gas denitrogenation system for six OP-650 boilers at Elektrownia Rybnik

- **project objective:** construction of flue gas denitrogenation unit to ensure compliance with IED Directive requirements
 - budget: PLN 259 million (net, without financing costs)
 - expenditures so far: PLN 205 million (net, without financing costs)
 - contractors: SCR – Consortium Strabag sp. z o.o. and Strabag Energy Technologies GmbH, SNCR – Energotechnika – Energorozruch S.A., PM – Energotechnika – Energorozruch S.A.
 - deadline: December 2018
 - status: progress at approx. 80%. Still left to do is SNCR at boiler 5 as well as optimisation and some warranty-related measurements
-

Construction of flue gas desulphurisation unit at Rybnik power plant

- **project objective:** construction of wet flue gas desulphurisation unit (IMOS II) for units 1, 5, 6, 7 and 8 together with flue gas channels and waste-water treatment plan for IMOS I and II
 - budget: PLN 383 million (net, without financing costs)
 - expenditures so far: PLN 363 million (net, without financing costs)
 - contractors: IMOS II – consortium GE Power sp. z o.o. and Alstom Power Italia S.p.A, waste-water treatment plant – Veolia Industry Polska sp. z o.o., flue gas channels – consortium Energomontaż Północ Bełchatów sp. z o.o. and Erbud Industry sp. z o.o.
 - deadline: December 2017
 - status: project completed
-

Construction of flue gas denitrogenation units at CHP plants in: Kraków, Wrocław, Gdańsk, Gdynia

- **project objective:** construct flue gas denitrogenation unit to ensure compliance with IED Directive requirements
 - budget: PLN 545 million (net, without financing costs)
 - expenditures so far: PLN 479 million (net, without financing costs)
 - contractors: General Electric; Fortum-ZRE; Fortum Mehldau; SBB Energy; Fortum-Instal
 - deadline: December 2018
 - status: progress at approx. 90%. Still left to complete and optimise are SNCR installations in Gdańsk, Kraków and Gdynia
-

Project of network losses reduction

- **aim of the project:** reduction of electricity procurement costs for balancing differences
 - **activities undertaken (multi-year project):** replacement of HV/MV, MV/LV transformers with low-loss units, adaptation of transformers' output to power consumption 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 2017 to 5.37% (in 2016 it amounted to 5.77%); volume of balancing difference in 2017 was by 4.6% lower than in 2016 with the simultaneous increase of volumes of energy delivered to off-takers by 2.8% in that period.
 - **activities initiated in 2017:** project assumptions for 2017-2021 were updated in March 2017; activities aimed at reducing balancing differences at PGE Dystrybucja S.A. are to be continued, the tasks assumed in the project are being carried out on an ongoing basis.
-

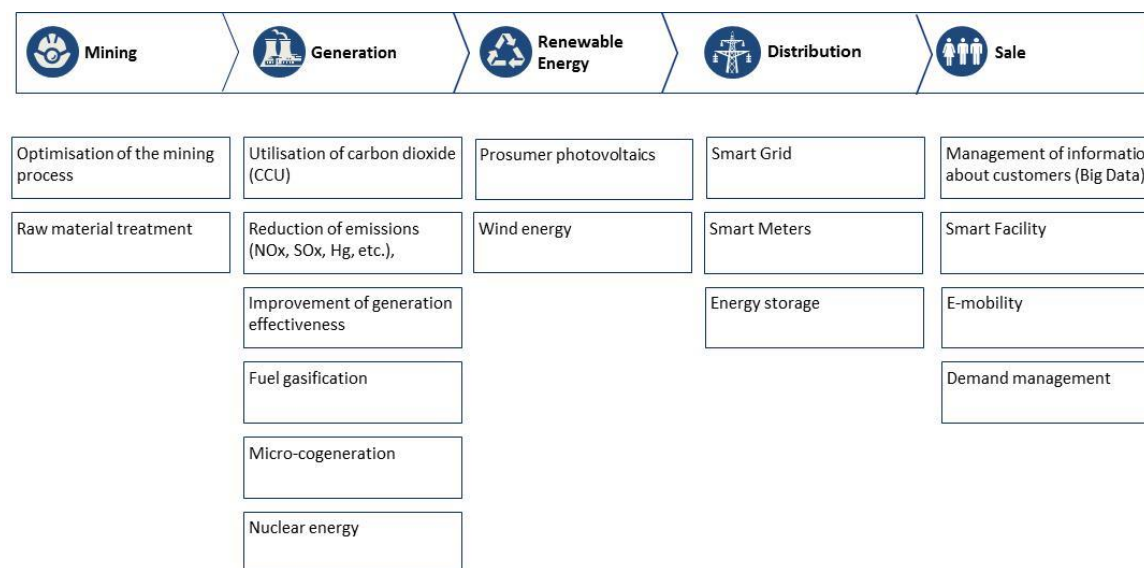
Trading strategy update

- **aim of the project:** achieving maximum margin on sale of electricity simultaneously minimising risk associated with trading activities
 - **activities initiated in 2017:** Sale of electricity was realised pursuant to conditions resulting from optimisation of use of particular generating units in connection with the level of variable costs, level of market prices, market liquidity, regulations and laws, with the simultaneous assessment of risk associated with so called "open position". In 2017 PGE Group was subject to 15% "power exchange obligation". Electricity sales directions were conditioned by the above mentioned power exchange obligation, sales hedging the contractual position within the Capital Group on forward market and spot market, where balancing of contractual position was made. Available capacities that were not sold, were offered on the balancing market and as Operational Capacity Reserve. Sales channel directed to transmission and distribution grid operators was also in use. Moreover, the trading segment was adapted to the changes in environment of MIFID II. Currently, the works are ongoing on development and implementation of target solutions in trading organization after the acquisition of EDF assets.
-

Human Capital
Management
Strategy ("HCM
Strategy")

- **aim of the project:** supporting the business strategy goals through securing strategic and effective human resources management and optimization and standardisation of HR processes.
 - **activities initiated in 2017:** works were underway to clarify the definitions of specialisations in Workplace Architecture and, during meetings with PGE Group management, specialist competences were selected to be included in the Competence Model next to firm-wide and management competences. The Competence Model will eventually be used in the process of evaluating skills of PGE Group's employees. The 3rd Conference of PGE Group Employers took place at the end of March 2017, during which the management team discussed on changes in the work style of managers with regard to issues surrounding human capital management and adaptation of the organisation in order to meet PGE Group's ambitious goals. Work has been commenced by a team which is responsible for implementation of Employee Assessment at PGE Capital Group. The team has specified the details of the procedure's rules and commenced planning of its implementation in individual Business Lines. Moreover, during the first six months of 2017, work was being performed on the update of the Human Resources Management Strategy. A review was conducted of the status of implementation of strategic initiatives in view of an update of the PGE Group's Strategy. The update of the HRM Strategy indicates the main initiatives which, in consecutive years, will be implemented by all PGE Group companies. In the third quarter of 2017, work on the Competence Model was completed and work began on communicating the Competence Evaluation and on a pilot start-up at PGE S.A. In the fourth quarter of 2017 the works on implementation of competences assessment continued, for this purpose trainings of internal trainers took place in the PGE Capital Group.
-

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 connection with an Update of the Group's Strategy until 2020 being introduced in the third quarter of 2016, works have progressed on updating the Development and Innovation Strategy. The updated Development and Innovation Strategy will place emphasis on challenges that most affect the Group, where R&D and innovation are essential to the achievement of business objectives. In connection with this, particular attention will be paid to both dynamically developing segments such as electromobility or energy warehousing as well as ways of acquiring and developing initiatives such as new models of management and implementation of innovations like acceleration and investing in an equity fund model in small businesses that develop technologies and products. A strategic option for PGE will be the design and development of specific technologies – which constitutes a large quality change in contrast to the previous model – an operator of technologies from other businesses, providers. An SPV named PGE Nowa Energia was formed to work with small businesses (start-ups) in the acceleration and project commercialisation (implementation of innovation solutions) formula. By working with start-up market stakeholders (small businesses, accelerators, other investors, government agencies, etc.), the company is intended to be a competence centre, allowing PGE to effectively identify and develop technologies and products being part of and related to the power value chain. In order to facilitate the continued development of companies and obtainment of new solutions from the market (at the maturity stage later than acceleration), the PGE Ventures company was established, which serves the role of the corporate investment fund of PGE Capital Group. The purpose of the company is to invest PGE's own funds and funds obtained via support tools – the public budget available through the Polish Development Fund (PFR) and the National Research and Development Centre (NCBiR).

Innovation

PGE focuses on initiating and executing R&D projects that fall within the SOBiR+NB areas. In 2017, several dozen projects were continued within these areas.

Key projects in 2017

Involvement in equity structures that support the development of new technologies and solutions as well as small businesses

- **aim of the project:** Introduction of a new model for developing and implementing new solutions, allowing to manage higher-risk undertakings whilst reducing time-to-market for new solutions (for own purposes or to sell to other entities).
- **main activities:**
 - PGE Ventures company was established to conduct an investment activity on the basis of its own funds and funds obtained from the public budget (PFR Ventures, NCBiR). The process of recruitment was completed. Preparation to conclude the first investment agreements is ongoing,
 - a scouting programme was launched in order to select equity investments. The first two were conducted in January 2018,
 - the acceleration activities conducted by the PGE Nowa Energia company have been commenced and rules of co-operation between the companies (PGE Nowa Energia and PGE

Ventures) have been determined, providing for optimization and maintenance of continuity at the next stages of development of small. Project acceleration applications are being accepted.

Electromobility	<ul style="list-style-type: none"> ● aim of the project: promoting and developing electric transport in Poland and gaining by PGE Capital Group of experience and the competence necessary to serve the role of the operator of electrical cars charging infrastructure and of the supplier of electrical cars charging services. ● main activities: <ul style="list-style-type: none"> ▪ concern individual transport – cars used for private and business purposes, <p>PGE has been continuing a project launched in December 2016 in which a pilot run is being implemented that consists of the construction of infrastructure for an electromobility system in Łódź. In the fourth quarter of 2017, the first rapid charging station in Łódź was launched, with the next stations expected to follow in the coming months. Talks regarding cooperation in other locations are on-going (Rzeszów and Kraków).</p>
Recycling	<ul style="list-style-type: none"> ● Aim of the project: PGE Group is preparing to execute a project allowing to develop and implement a new technology for the recycling of lithium batteries, particularly those used in energy warehouse systems and to charge electric cars. This technology is intended to obtain strategic materials from used lithium batteries – cobalt, nickel and copper. The project directly supports the assumptions of the Ministry of Development concerning the transformation of the economy in the direction of closed-circuit economy, as well as the requirements of the Polish legislation specifying the needs of collection and utilization of used batteries. The project has a business potential due to the anticipated growth in the world's market of lithium batteries and the increase in the quantity of battery wastes connected with that, as well as increased demand of markets for products recycled from used batteries. ● main activities: PGE S.A. has set up a consortium with RDLS sp. z o.o. ("RDLS"), a spin-off company of the Warsaw University operating in the area of environmental research and biotechnology. The goal of the consortium is to produce a pilot recycling installation for lithium batteries and implement this technology in Poland. The project was recommended by NCBiR for co-financing from public funds of the Research Programme of the Power Sector ("PBSE"). The consortium led by RDLS, received a consent for financing of the project from NCBiR funds. In December 2017 the Management Board of PGE S.A. issued approval for commencement of the project implementation phase and signing of an agreement on project funding between NCBiR and RDLS. The project implementation has commenced on December 29, 2017 – on that day the consortium leader signed the agreement for financing of the project.

3. Risks and opportunities

3.1. Risk management

PGE S.A., as the Corporate Centre managing the Group, creates and implements integrated risk management architecture at PGE Group. In particular, it shapes PGE Group's risk management policies, standards and practices, designs and develops internal IT tools to support these processes, specifies global risk appetite and adequate limits as well as monitors these.

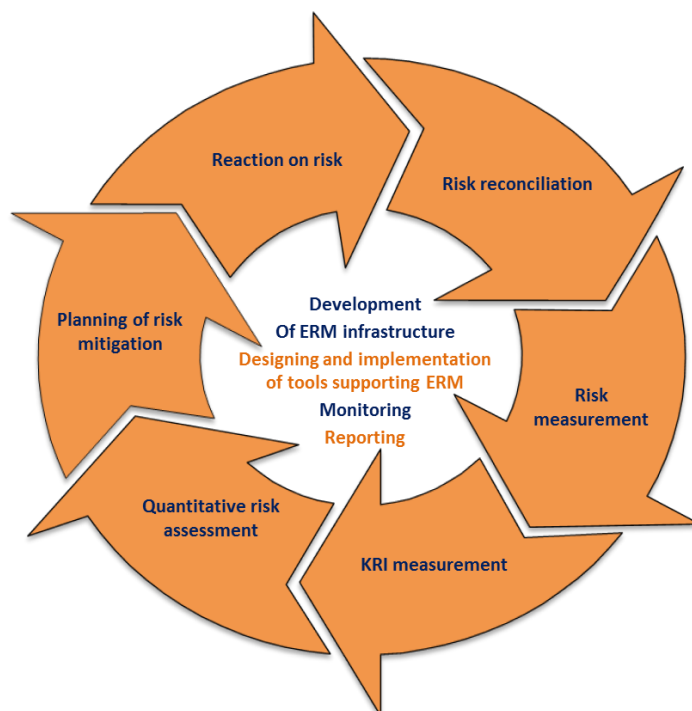
PGE Capital Group companies, as well as other entities from the electrical and power sector, are exposed to a number of risks and threats resulting from the specific operating activities and operating in specific market and regulatory environment.

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



Source: own work

































The PGE Capital Group has consequently developed a comprehensive risk management system. During 2017, a process of assessment and analysis of strategic risks was launched in the key companies of the Group. Mechanism allowing identification of areas exposed to risk and risk level measurement methods are constantly verified and developed. Thanks to that, the significant risks concerning various areas of operations are identified and kept within the assumed limits by reducing negative effects of such risks and by taking preventive or corrective measures, in accordance with the below cycle.



3.1.1. Risk factors and mitigating actions

The main risks and threats of PGE S.A. and the PGE Group are presented below along with their assessment and outlook in the horizon of the next year.

Risk level		Risk outlook		
	low medium high		decrease growth stable	
low level				
medium level				
high level				
Market and product risks				
Related to prices and volumes of offered products and services	<p>Prices of electricity and related products – resulting from a lack of certainty with regard to the future levels and volatility of commodity prices relative to open contract positions - this particularly concerns electricity and associated products (property rights, CO2 emission allowances).</p> <p>Electricity sales volumes – this risk derives from a lack of certainty with regard to the conditions determining the demand and supply of electricity, directly affecting the volume of market sales by PGE Group.</p> <p>Tariffs (regulated prices) – resulting from the requirement to approve rates for distribution services and electricity and heat prices for particular groups of entities.</p>	<p>High level</p> <p>Medium level</p> <p>Medium level</p>	<p>Decrease</p> <p>Stable</p> <p>Increase</p>	
Property risks				
Related to development and maintenance of	<p>Failures – connected with the operation and degradation over time of energy equipment and facilities (maintenance and repair work, diagnostics)</p> <p>Damage to property – connected with the physical protection of energy equipment and facilities against destructive external factors (including fire, weather phenomena and intentional damage).</p>	<p>Medium level</p> <p>Medium level</p>	<p>Stable</p> <p>Increase</p>	

the assets	Investment and development – connected with strategic plans for expanding the generation, distribution and sales potential as well as on-going investments.		
Operational risks	Electricity and heat production – connected with production planning and impact of the factors that determine production capacities.		
Related to pursuing of ongoing economic processes	Fuel management – connected with uncertainty regarding the costs, quality, timeliness and volumes of fuel supply (mainly coal) and production raw material as well as the effectiveness of inventory management processes.		
	Human Resources – pertaining to provision of employees with the relevant experience and competences, who are capable of performing specific tasks.		
	Social dialogue – connected with a failure in achieving agreement between the Group's management and employees, what could lead to strikes/collective labour disputes.		
Regulatory and legal risks	Legal changes in support systems – connected with uncertainty as to the future shape of the support system for production of certified energy.		
Related to compliance with external and internal legal provisions	Purchase of certificates and CO₂ allowances - resulting from the possible changes to the statutory requirement for electricity sellers to purchase a specified quantity of property rights and to uncertainty with regard to volume of CO ₂ emission rights granted free of charge in future.		
	Compensation for the termination of long-term contracts (LTCs) – there is a possibility that the level of adjustments to advances collected for stranded costs will be questioned by the President of the Energy Regulatory Office (URE), as a result of which the Group will be obligated to return advances received for terminating LTCs. The number of installations affected by this is steadily decreasing and this risk will be diminish over time (see note 33.1 to the consolidated financial statements).		
	Environmental protection – resulting from industry regulations specifying which "environmental" requirements energy installations should meet and what the principles for using the natural environment are. The future environmental regulations and uncertainty concerning their final shape (in particular with regard to the revision of BAT / BREF) may translate into a change in the level of capital expenditures of the PGE Group.		
	Unresolved legal status – connected with difficulties in respect of land acquisition or access to land in the course of new investments (particularly in the Distribution segment).		
	Concessions – resulting from the statutory requirement to hold concessions with regard to conducted operations.		
	Discriminatory activities – connected with application by the Group of practices that limit or eliminate competition and infringe on legal regulations or consumer interests.		
Financial risks	Credit risk – connected with the counterparty default, partial and/or late payment of receivables or a different type of breach of contractual conditions (for example failure to deliver/collect goods or failure to pay for any associated damages or contractual penalties).		
Related to finance management	Liquidity risk – connected with the possibility of losing the ability to meet current liabilities and obtaining financing sources for business operations.		
	Interest rate risk – resulting in particular from the negative impact of changes in market interest rates on PGE Group's cash flows generated by floating-rate financial assets and liabilities.		
	Foreign exchange risk – understood in particular as risk that PGE Group's cash flows denominated in currencies other than the functional currency are exposed to due to negative exchange rate movements.		

The main risk mitigation actions for the PGE Group are presented below along with the description of the main tools used for the management of the given risk.

Market and product risks

Impact: revenues and product and service offerings

Measures: PGE Group has rules for managing market risk (price- and volume-related), which include a global risk appetite measure, VaR-based position limits and management of consolidated exposure to commodity pricing risk through mechanisms for protection against risk exceeding acceptable levels. Those rules provide consistent guidance in respect of process organisation in the context of commercial strategy and mid-term planning. PGE Group follows rules pertaining to a strategy for hedging key exposures in the area of electricity and related product trading that correspond to the adopted risk appetite in the mid-term. Position hedging levels are established with consideration given to the results of analysing pricing risk in respect of electricity and related products. Target hedging levels are specified taking into consideration the Group's financial standing, including in particular its strategic objectives.

PGE Group researches, monitors and analyses the electricity and related products markets in order to optimally use its generation and selling capacities.

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

Operational risks

Impact: costs

Measures: PGE Group's results are to a large extent dependent on the costs incurred in the course of operations. The Group optimises costs inter alia through monitoring of fuel prices and reserves and securing supply through long-term contracts with suppliers and through price fixing formulas. Inspections, repairs and modernisation of the existing assets optimise equipment lifecycles and required availability of key components of those assets. Level of costs is affected by securing CO₂ emission allowances partly free of charge and purchase of lacking allowance with the assumption of securing the margin on sales.

An intensive and effective dialogue is also carried out in order to avoid escalation of potential disputes with the social partners and to work out the most favourable solutions with regard to employment and employment costs within PGE Capital Group connected therewith.

Property risks

Impact: assets

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

Regulatory and legal risks

Impact: compliance area

Measures: PGE Group's operations are subject to a host of national and international laws and regulations. Monitoring of the changes being introduced or proposed provides that our operations in key business segments are carried in compliance with the law and that PGE Capital Group has solutions which take into account potential changes in the legal environment. PGE S.A. is one of the members of the Polish Electricity Committee that opened its office in Brussels. Through the Committee's operations, PGE S.A. actively influences proceeding and shaping of EU law and engages a

dialogue with the EU institutions.

The Group adapts its internal regulations and practices to make sure that the activities are in compliance with the power sector regulations and binding law.

The extraction of fossil fuels as well as the production and distribution of electricity and heat have impact on the environment therefore the Group continuously improves its activities aimed at protecting and improving the state of the environment by implementing technological and organisational solutions ensuring efficient and effective management in this area.

Financial risks

Impact: Finance management **Measures:** PGE Group manages credit risk stemming from commercial transactions. Prior to executing a transaction, a counterparty assessment is carried out and forms a base for applying credit limits, that are regularly updated and monitored. Exposures that exceed established limits are hedged in accordance with the Group's credit risk management policy.

PGE Group applies a central financing model, which is generally used by PGE S.A. when raising external capital. PGE Group subsidiaries use a variety of intra-group financing sources and liquidity risk is monitored using periodic planning for operating, investing and financing activities. As regards currency risk and interest rate risk, PGE Group has implemented internal management procedures. PGE Group companies execute derivative transactions involving interest rate- and/or currency-based instruments (IRS, CCIRS) only in order to hedge identified risk exposures.

3.1.2. Strategic risk

PGE Group does not focus exclusively on risks concerning on-going activities. Risks that may have an impact on the Group's functioning in a longer timeframe are also subject to identification, assessment and analysis. Assessment of impact on the Group's objectives, image and business continuity is performed at the top management level. This allows us to prepare for arising challenges and ensure the Group's development in the long term. Unlike threats to PGE's day-to-day business and results, strategic risks might have an impact on strategy implementation and the future of the entire organisation.

Presented below are the key identified strategic risks along with their assessment.

Impact



very low

low

medium

high

very high

Cybersecurity

Risk associated with intentional disruption of information processing and exchange IT systems used at PGE Group and intentional interference in the IT infrastructure responsible for controlling and supervising the proper operation of production and distribution assets.

Energy policy - a growth vision for the sector

Risk associated with changes of development directions and redefining power sector's role and rules for the functioning of the electricity market.

Forces of nature

Risk associated with more frequent extreme weather events having impact on electricity and heat generation and distribution.

Environmental restrictions

Risk connected with stricter environmental restrictions applicable to PGE Group's electricity and heat production and mining activities.

Human resources

Risk associated with restricted availability of employees who are of key importance to PGE Group's processes.

 **Legal**

Risk of changes in laws that outline rules for the Group's operations.

 **Macroeconomic**

Risk of negative change in economic situation and fluctuations of macroeconomic indicators having impact on PGE Group's activities.

 **Technological revolution**

Risk of technological change causing a limited competitiveness of electricity and heat production in generation assets owned by the Group and their distribution using grid assets owned by PGE Group.

 **Competition**

Risk associated with the development by competition of a product offering that would decrease PGE Group's share of the energy market.

4. PGE Capital Group in 2017

4.1. Key financial results of the PGE Capital Group

Key financial data	Unit	Year ended December 31, 2017	Year ended December 31, 2016	% change	Year ended December 31, 2015	% change
Sales revenues	PLN million	23 100	28 092	-18%	28 542	-2%
EBIT	PLN million	3 620	3 512	3%	-3 589	-
EBITDA	PLN million	7 650	7 376	4%	8 228	-10%
Adjusted net profit attributable to equity holders of the parent company*	PLN million	3 393	3 363	1%	4 290	-22%
LTC compensations	PLN million	1 284	668	92%	546	22%
<i>LTC revenues</i>	<i>PLN million</i>	<i>1 215</i>	<i>520</i>	<i>134%</i>	<i>546</i>	<i>-5%</i>
<i>Reversal of the LTC write-offs (other operating revenues)</i>	<i>PLN million</i>	<i>69</i>	<i>148</i>	<i>-53%</i>	<i>0</i>	<i>-</i>
Capital expenditures	PLN million	6 751	8 152	-17%	9 450	-14%
Net cash from operating activities	PLN million	7 934	6 391	24%	6 777	-6%
Net cash from investing activities	PLN million	-7 775	-10 656	-27%	-8 594	24%
Net cash from financial activities	PLN million	-274	3 830	-	-1 265	-
Adjusted net earnings per share*	PLN	1.81	1,80	1%	2,29	-21%
EBITDA margin	%	33%	26%		29%	
Working capital	PLN million	528	4 533	-88%	2 788	63%
Net debt/LTM EBITDA **	x	0.99	0.69		0.32	

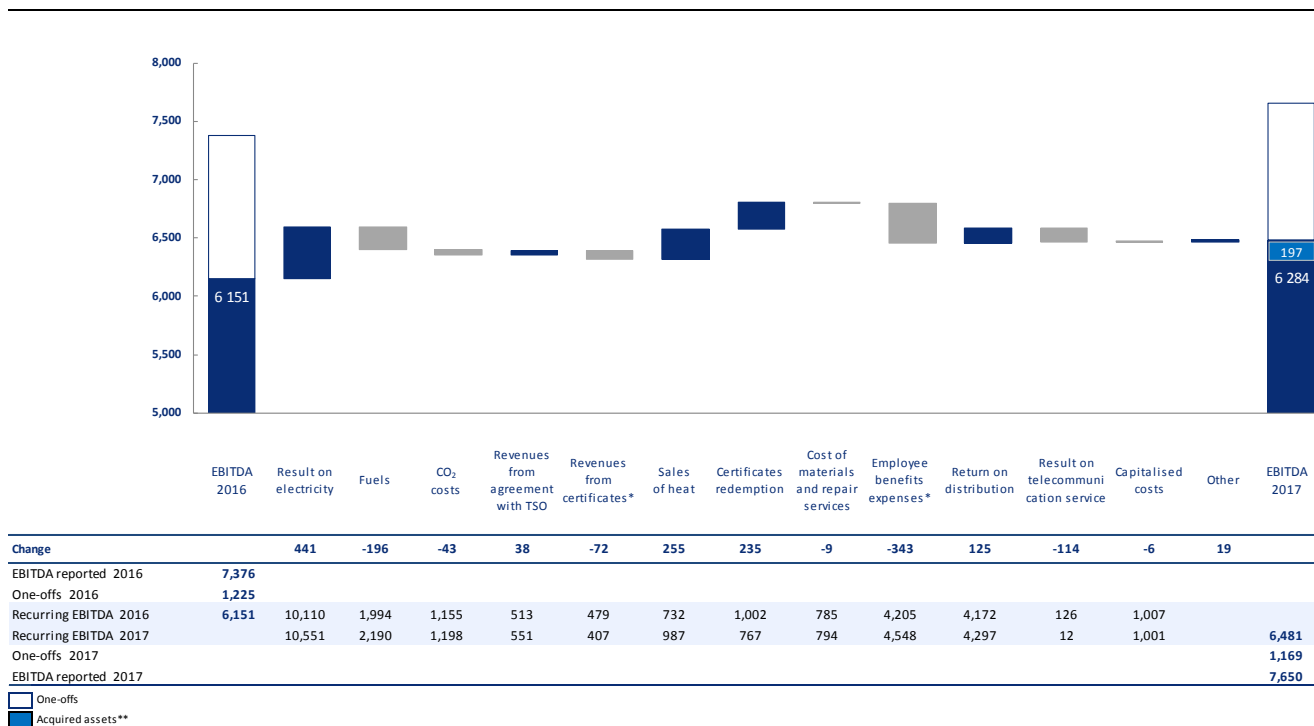
* Net profit/loss adjusted by impairment loss

** LTM EBITDA - Last Twelve Months EBITDA

One-offs affecting EBITDA	Unit	Year ended December 31, 2017	Year ended December 31, 2016	% change	Year ended December 31, 2015	% change
LTC compensations	PLN million	1 284	668	92%	546	22%
Change in reclamation provision	PLN million	-42	643	-	93	591%
Change in actuarial provision	PLN million	-71	48	-	58	-17%
Adjustment of certificates	PLN million	0	-118	-	0	-
Voluntary Leave Program	PLN million	-2	-16	-88%	20	-
Total	PLN million	1 169	1 225	-5%	717	71%

4.1.1. Consolidated statement of comprehensive income

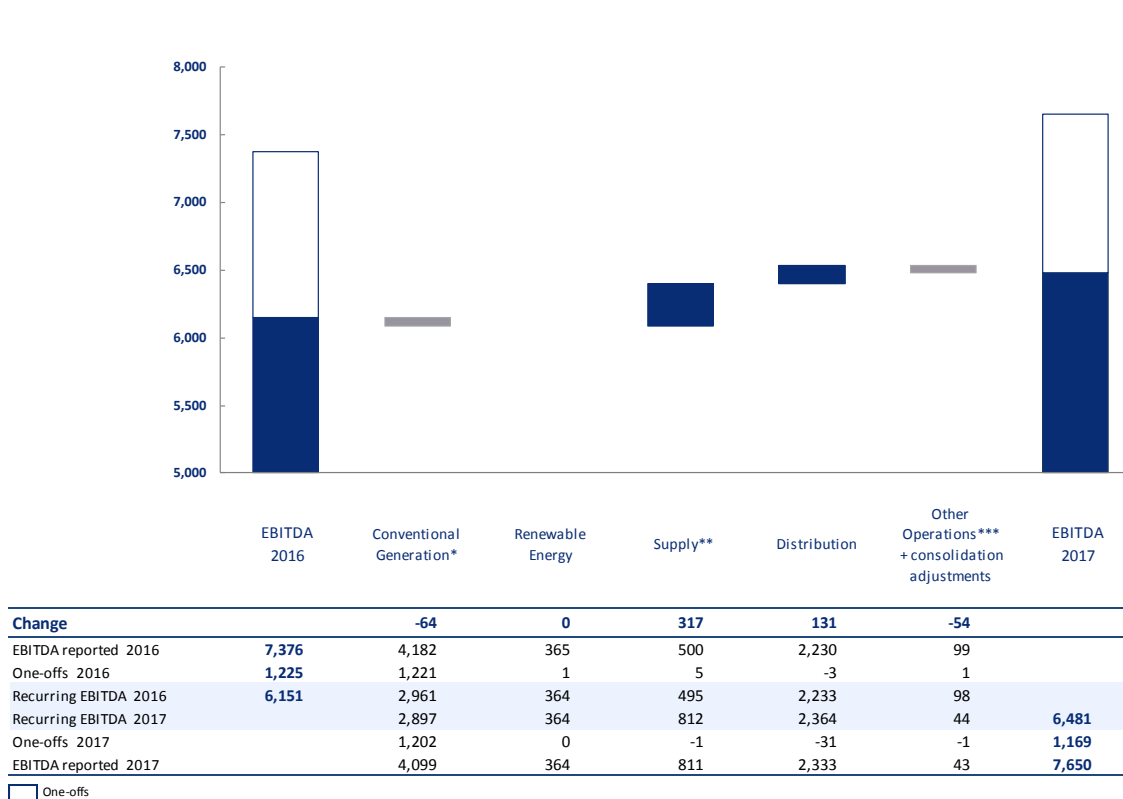
Chart: Key changes of recurring EBITDA in PGE Capital Group (in PLN million).



* Adjusted for one-offs

** EBITDA of companies: PGE Energia Ciepła S.A., PGE Toruń S.A., PGE Gaz Toruń sp. z o.o., EC Zielona Góra S.A., Kogeneracja S.A., PGE Paliwa sp. z o.o., PGE Ekoserwis sp. z o.o.

Chart: Key changes of recurring EBITDA by segments (in PLN million).



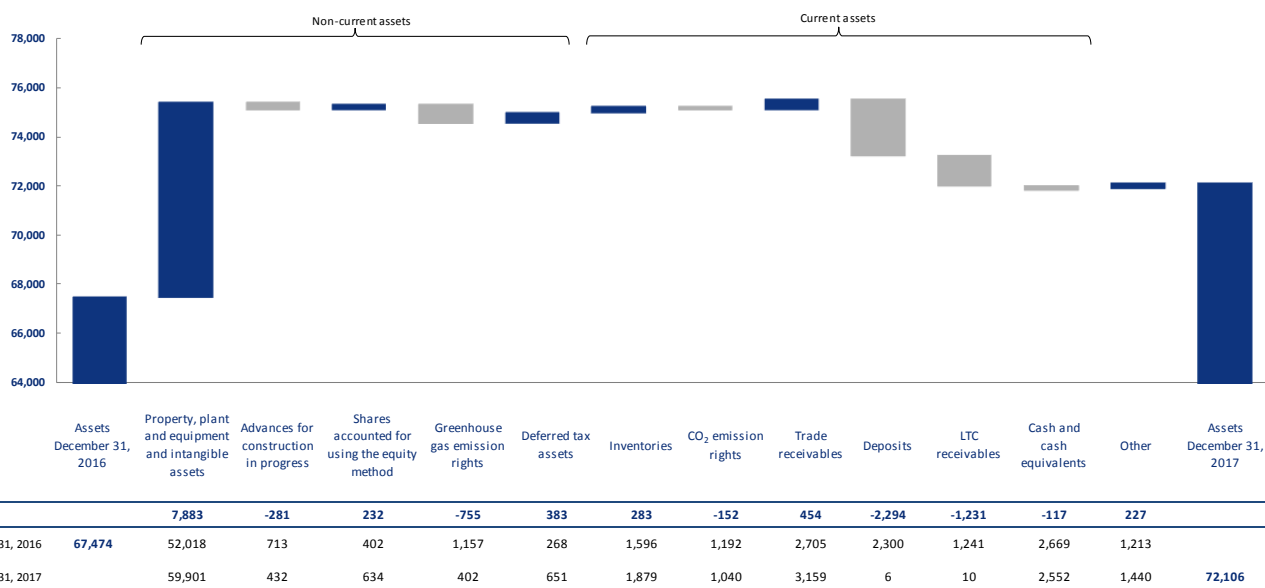
* Result of the segment includes EBITDA of companies: PGE Energia Ciepła S.A., PGE Toruń S.A., PGE Gaz Toruń sp. z o.o., EC Zielona Góra S.A., Kogeneracja S.A.

** Result of the segment includes EBITDA of PGE Paliwa sp. z o.o.

*** Result of the segment includes EBITDA of PGE Ekoserwis sp. z o.o.

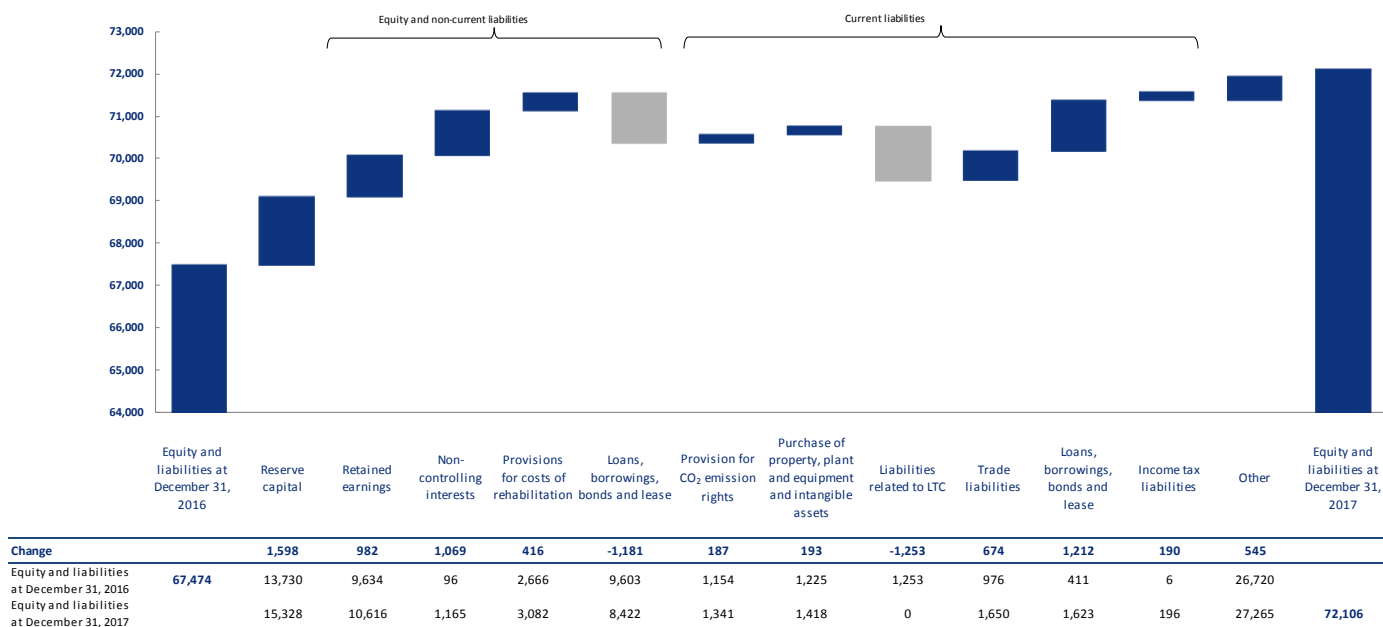
4.1.2. Consolidated statement of financial position

Chart: Key changes in Assets (in PLN million).



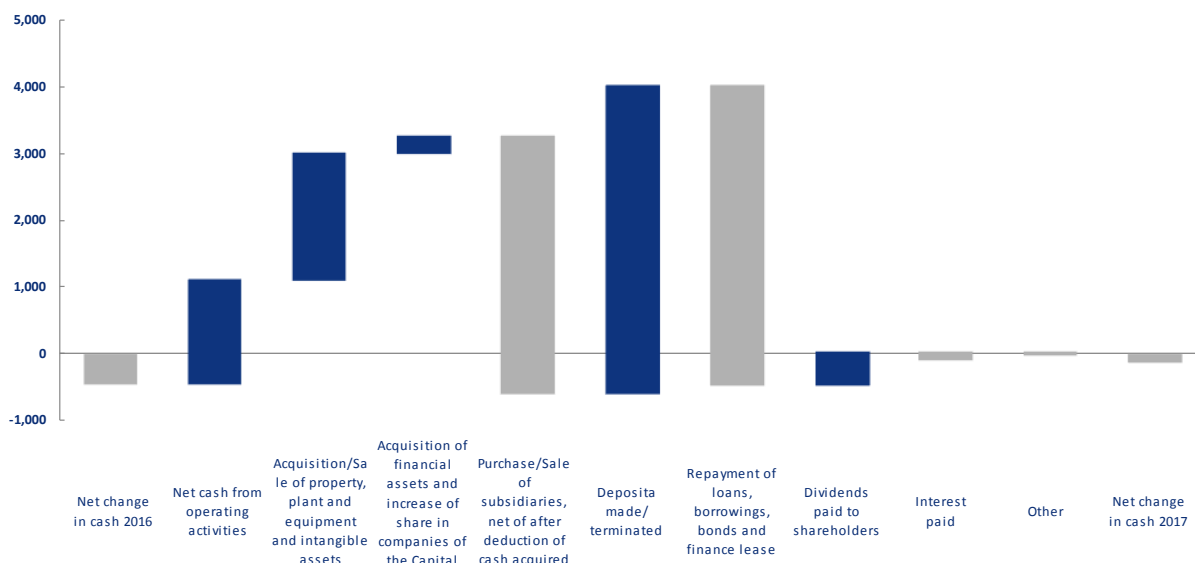
Decrease in level of CO₂ emission rights results from significance of the forward contracting in the strategy of allowances trading. Currently majority of purchase transactions takes place on the forward market with delivery in future. Change of the contracting method has positive impact on the Group's liquidity.

Chart: Key changes in Equity and Liabilities (in PLN million).



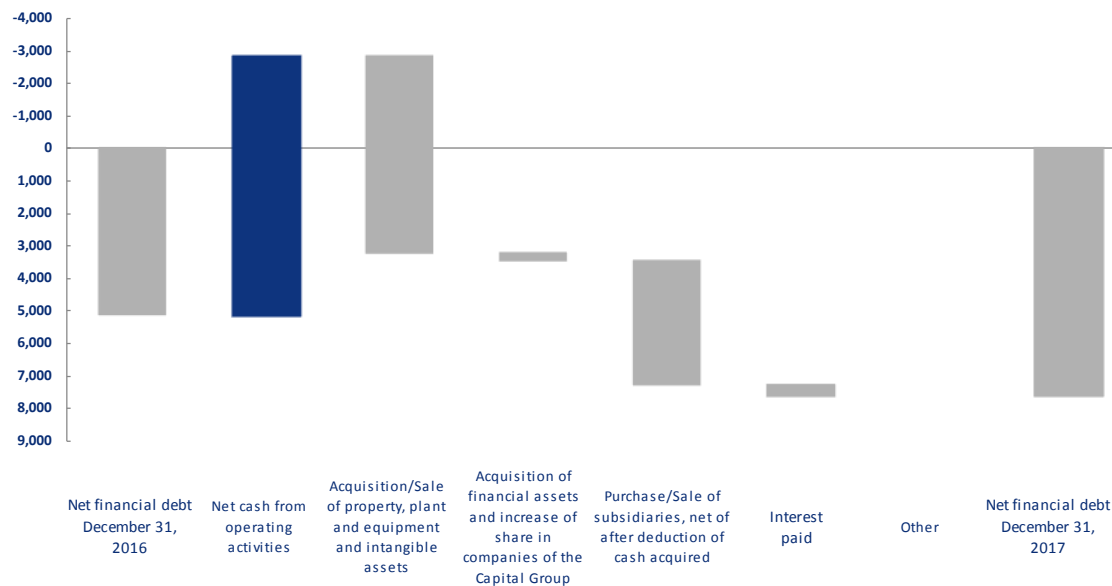
4.1.3. Consolidated statement of cash flows

Chart: Net change in cash (in PLN million).



	Net change in cash 2016	Net cash from operating activities	Acquisition/Sale of property, plant and equipment and intangible assets	Acquisition of financial assets and increase of share in companies of the Capital Group	Purchase/Sale of subsidiaries, net of after deduction of cash acquired	Deposita made/terminated	Repayment of loans, borrowings, bonds and finance lease	Dividends paid to shareholders	Interest paid	Other	Net change in cash 2017
Change		1,543	1,873	254	-3,819	4,584	-4,450	470	-104	-31	
Net change in cash 2016	-435	6,391	-7,917	-467	0	-2,301	4,449	-471	-196	77	
Net change in cash 2017		7,934	-6,044	-213	-3,819	2,283	-1	-1	-300	46	-115

Chart: Net debt in 2017 (in PLN million).



	Net financial debt December 31, 2016	Net cash from operating activities	Acquisition/Sale of property, plant and equipment and intangible assets	Acquisition of financial assets and increase of share in companies of the Capital Group	Purchase/Sale of subsidiaries, net of after deduction of cash acquired	Interest paid	Other	Net financial debt December 31, 2017
Change in 2017		-7,934	6,044	213	3,819	300	20	
Net financial debt	5,117							7,579

4.1.4. Geographical areas

Table: Breakdown of the Group's income from continuing operations, by geographic area, in 2017, 2016 and 2015.

PLN million	Total revenues							
	2017	% share	2016	% share	% change	2015	% share	% change
Domestic market	22 722	98%	27 975	100%	-19%	28 421	100%	-2%
EU member states	334	2%	106	0%	215%	110	0%	-4%
Other countries	44	0%	11	0%	300%	11	0%	0%
TOTAL	23 100	100%	28 092	100%	-18%	28 542	100%	-2%

In the years 2017, 2016 and 2015, the Group earned income mainly in the domestic market.

The lower revenues on the domestic market results mainly from lower electricity sales on the power exchange due to reduction of the so called "power exchange obligation".

The increase of revenues from sales to foreign customers is connected with intensified activity in neighbouring markets, as a result of favourable electricity price relation between foreign and Polish market.

4.1.5. Key financial results in the business segments

Table: Breakdown of the Group's revenues by business segments for years 2017, 2016 and 2015.

PLN million	Total revenues				
	2017	2016	% change	2015	% change
Conventional Generation	13 075	11 738	11%	12 715	-8%
Renewables	724	717	1%	761	-6%
Supply	15 662	16 014	-2%	15 783	1%
Distribution	6 392	5 918	8%	6 083	-3%
Other Operations	449	688	-35%	682	1%
TOTAL	36 302	35 075	3%	36 024	-3%
Consolidation adjustments	-13 202	-6 983	89%	-7 482	-7%
TOTAL AFTER ADJUSTMENTS	23 100	28 092	-18%	28 542	-2%

Table: Key financial figures for each business segment for 2017 (after intrasegmental eliminations).

PLN million	EBITDA	EBIT	Capital expenditures	Purchase of property, plant and equipment and intangible assets within purchase of new companies	Assets of the segment*
Conventional Generation	4 099	1 754	4 899	5 426	44 555
Renewables	364	-36	81	0	3 339
Supply	811	784	14	2	4 138
Distribution	2 333	1 166	1 716	0	17 943
Other Operations	43	-88	126	24	621
TOTAL	7 650	3 580	6 836	5 452	70 596
Consolidation adjustments	0	40	-85	0	-3 253
TOTAL AFTER ADJUSTMENTS	7 650	3 620	6 751	5 452	67 343

* see note 6.1 to the consolidated financial statements

Table: Key financial figures for each business segment for 2016 (after intrasegmental eliminations).

PLN million	EBITDA	EBIT	Capital expenditures	Assets of the segment*
		2016		
Conventional Generation	4 182	2 691	6 179	36 343
Renewables	365	-770	144	3 671
Supply	500	473	23	3 469
Distribution	2 230	1 104	1 721	17 382
Other Operations	67	-64	170	1 067
TOTAL	7 344	3 434	8 237	61 932
Consolidation adjustments	32	78	-85	-2 091
TOTAL AFTER ADJUSTMENTS	7 376	3 512	8 152	59 841

* see note 6.1 to the consolidated financial statements

Table: Key financial figures for each business segment for 2015 (after intrasegmental eliminations).

PLN million	EBITDA	EBIT	Capital expenditures	Assets of the segment
		2015		
Conventional Generation	4 698	-5 732	6 495	32 419
Renewables	391	107	931	4 767
Supply	610	585	31	3 762
Distribution	2 461	1 387	1 841	16 710
Other operations	66	-51	216	1 033
TOTAL	8 226	-3 704	9 514	58 691
Consolidation adjustments	2	115	-64	-2 348
TOTAL AFTER ADJUSTMENTS	8 228	-3 589	9 450	56 343

4.2. Key operational figures of PGE Capital Group

Table: Key operational figures.

Key figures	Unit	2017	2016	% change	2015	% change
Lignite extraction	Tons m	49.51	47.68	4%	49.40	-3%
Net electricity production	TWh	56.79	53.67	6%	55.58	-3%
Heat sales	GJ m	24.85	18.06	38%	18.19	-1%
Sales to final customers*	TWh	40.43	42.96	-6%	39.05	10%
Distribution of electricity**	TWh	35.34	34.32	3%	33.38	3%

* after elimination of sales within PGE Group

** with additional estimation

Key figures	Unit	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q4 2016
Lignite extraction	Tons m	13.34	11.68	12.40	12.09	12.93
Net electricity production	TWh	15.00	12.88	13.58	15.33	14.63
Heat sales	GJ m	7.88	2.73	1.33	12.91	6.76
Sales to final customers*	TWh	10.06	9.74	9.93	10.70	11.02
Distribution of electricity**	TWh	8.96	8.54	8.70	9.14	8.89

* after elimination of 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	2017	2016	% change	2015	% change
SALES IN TWh, including:	65.78	104.35	-37%	101.70	3%
Sales to end-users*	40.43	42.96	-6%	39.05	10%
Sales on the wholesale market, including:	22.67	59.13	-62%	60.89	-3%
<i>Sales on the domestic wholesale market - power exchange</i>	14.66	53.15	-72%	57.71	-8%
<i>Other sales on the domestic wholesale market</i>	7.55	5.83	30%	3.07	90%
<i>Sales to foreign customers</i>	0.46	0.15	207%	0.11	36%
Sales on the Balancing Market	2.68	2.26	19%	1.76	28%

* after elimination of internal sales within PGE Group

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

Sales volume	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q4 2016
SALES IN TWh, including:	17.07	14.96	15.28	18.47	27.43
Sales to end-users*	10.06	9.74	9.93	10.70	11.02
Sales on the wholesale market, including:	6.29	4.51	4.72	7.15	15.74
<i>Sales on the domestic wholesale market - power exchange</i>	4.16	2.68	2.87	4.95	14.11
<i>Other sales on the domestic wholesale market</i>	2.03	1.75	1.76	2.01	1.55
<i>Sales to foreign customers</i>	0.10	0.08	0.09	0.19	0.08
Sales on the Balancing Market	0.72	0.71	0.63	0.62	0.67

* after elimination of internal sales within PGE Group

The decline in sales volume to end customers compared to 2016 mainly results from lower contracted volume in the corporate client segment in tariff group A (Large companies), B and C2x (Small and Medium Enterprises). The lower sales volume on the power exchange results from a reduction of the so called "power exchange obligation". The increase in sales volume on the other wholesale market results from optimising the sales of produced electricity through executing larger bilateral contracts. The growth in sales to foreign clients results from intensified activity in neighbouring markets, as a result of favourable price relation between foreign and Polish market. The growth in sales volume on the balancing market in 2017 is related largely to the start-up run of a new unit at Gorzów CHP. Additional sales volume related to the acquisition of EDF assets from November 14, 2017 amounted to 2.33 TWh.

Purchases of electricity

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

Purchases volume	2017	2016	% change	2015	% change
PURCHASES IN TWh, including:	13.76	55.43	-75%	50.92	9%
Purchases on the domestic wholesale market – power exchange	2.55	42.84	-94%	40.54	6%
Purchases on the domestic wholesale market, other	4.43	5.23	-15%	3.99	31%
Purchases from abroad	0.21	0.06	250%	0.03	100%
Purchases from Balancing Market	6.57	7.30	-10%	6.36	15%

Purchases volume	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q4 2016
PURCHASES IN TWh, including:	3.36	3.01	2.67	4.72	14.03
Purchases on the domestic wholesale market – power exchange	0.75	0.30	0.43	1.07	10.83
Purchases on the domestic wholesale market, other	1.02	1.24	0.61	1.56	1.60
Purchases from abroad	0.01	0.03	0.08	0.09	0.01
Purchases from Balancing Market	1.58	1.44	1.55	2.00	1.59

In connection with the reduction of the "power exchange obligation" a large part of PGE Group's sales in the three quarters of 2017 was directly hedged by the Group's own production assets, which translated into a decrease in buying volumes both on the domestic market – exchange, as well as in the other markets. The buying volume decline on the balancing market is the result of a lower volume of reductions at the generation units that are part of the Conventional Generation segment. Purchase volume related to the acquisition of EDF assets amounted to 0.5 TWh.

Production of electricity

Table: Production of electricity (in TWh).

Generation volume	2017	2016	% change	2015	% change
ENERGY GENERATION IN TWh, including:	56.79	53.67	6%	55.58	-3%
Lignite-fired power plants	38.95	37.26	5%	38.98	-4%
<i>including co-combustion of biomass</i>	0.00	0.00	-	0.34	-
Coal-fired power plants	11.11	10.71	4%	11.04	-3%
<i>including co-combustion of biomass</i>	0.13	0.30	-57%	0.43	-30%
Coal-fired CHP plants	1.47	0.98	50%	1.30	-25%
Gas-fired CHP plants	2.87	2.33	23%	2.05	14%
Biomass-fired CHP plants	0.20	0.43	-53%	0.46	-7%
Pumped-storage power plants	0.44	0.45	-2%	0.57	-21%
Hydroelectric plants	0.47	0.43	9%	0.36	19%
Wind power plants	1.28	1.08	19%	0.82	32%
<i>Including Acquired assets*:</i>	1.58	-	-	-	-

* Rybnik power plant, EC Gdańsk, EC Gdynia, EC Kraków, EC Wrocław, EC Czechnica, EC Zawidawie, EC Zielona Góra, EC Toruń

Generation volume	Q1	Q2	Q3	Q4	Q4
	2017	2017	2017	2017	2016
ENERGY GENERATION IN TWh, including:	15.00	12.88	13.58	15.33	14.63
Lignite-fired power plants	10.57	9.36	9.83	9.19	10.11
<i>including co-combustion of biomass</i>	0.00	0.00	0.00	0.00	0.00
Coal-fired power plants	2.51	2.30	3.02	3.28	2.64
<i>including co-combustion of biomass</i>	0.04	0.02	0.04	0.03	0.02
Coal-fired CHP plants	0.38	0.14	0.08	0.87	0.36
Gas-fired CHP plants	0.95	0.51	0.23	1.18	0.83
Biomass-fired CHP plants	0.05	0.05	0.04	0.06	0.06
Pumped-storage power plants	0.10	0.08	0.08	0.18	0.13
Hydroelectric plants	0.12	0.14	0.07	0.14	0.12
Wind power plants	0.32	0.30	0.23	0.43	0.38
<i>Including Acquired assets*:</i>	-	-	-	1.58	-

* Rybnik power plant, EC Gdańsk, EC Gdynia, EC Kraków, EC Wrocław, EC Czechnica, EC Zawidawie, EC Zielona Góra, EC Toruń

The main impact on the level of electricity production in 2017, as compared to 2016, was higher production in lignite-based power plants. Lower production in 2016 was the result of repairs and modernisation program in Bełchatów power plant. During 2016, units no. 2, 3 and 6 in Bełchatów power plant were in medium overhaul and unit no. 10 was being modernised, what resulted in longer by 8 568 h (comparing to 2017) downtime of units in Bełchatów power plant in repairs and modernisations. In 2017 Bełchatów power plant worked in normally without such significant, like in 2016, power decreases due to repairs and modernisations. Lower electricity production at Turów power plant is a result of modernisation of unit no 2, that began on March 1, 2017.

The growth in production at hard coal-based plants results from recognition of Rybnik power plant production as from November 14, 2017 (0.71 TWh). Production at hard coal-based plants in PGE GiEK S.A. was lower as compared to 2016 what is a consequence of lower production at Dolna Odra power due to longer by 2 700 h downtime of this power plant's units in repairs. Dolna Odra unit no. 7 was in medium overhaul from April 3, 2017 till September 12, 2017. Decreased generation at Dolna Odra power plant was partly compensated by higher production at Opole power plant due to higher utilisation of the power plant's units by PSE S.A.

The higher production at hard coal-based CHP plants results from recognition of production of Gdańsk CHP, Gdynia CHP, Wrocław CHP, Czechnica CHP and Kraków CHP as from November 14, 2017 (0.62 TWh). Production at hard coal-based CHP plants in PGE GiEK S.A. was lower than in 2016, which results from downtime at unit 1 at the CHP plant Pomorzany in a major overhaul from April 15 to December 5, 2017. In addition, the lower output is the effect of a different fuel mix at Gorzów CHP (lower hard coal-fired production, higher gas-fired production).

The growth in production at gas-fired combined heat-and-power plants in 2017 compared to 2016 results from higher generation at Gorzów CHP, what is the result of a new gas-and-steam unit being commissioned from January 31, 2017. In addition, the growth is associated with recognition of production of Toruń CHP, Zielona Góra CHP and Zawidawie CHP as from November 14, 2017 (0.25 TWh).

A drop of production in biomass CHP plants results from limitation of production in the Szczecin CHP, which is a consequence of termination by ENEA S.A. of an agreement for purchase of certificates. In addition, lower volume of biomass co-combustion in power plants fuelled by hard coal results from discontinuation of production with co-combustion at the Opole Power Plant, as a result of decrease in profitability of production in this technology.

Higher production in 2017 at wind power plants results mainly from better meteorological conditions mainly in the fourth quarter of 2017.

Production at hydro power plants is higher than in 2016, resulting mainly from better hydrological conditions.

Slightly lower production in pumped storage power plants results from the nature of these generation units, which in 2017, were used to a lower extent by PSE S.A.

4.2.2. Sales of heat

In 2017 the heat sales in PGE Capital Group totaled 24.85 GJ million and were higher by 6.79 GJ million than in 2016. The above growth includes the sales of heat by assets acquired from EDF, which were not recognised in 2016 (6.75 GJ million) and slightly higher sales by branches of PGE GiEK S.A. (0.04 GJ million), what resulted largely from increased demand for heat caused by the lower outside temperatures.

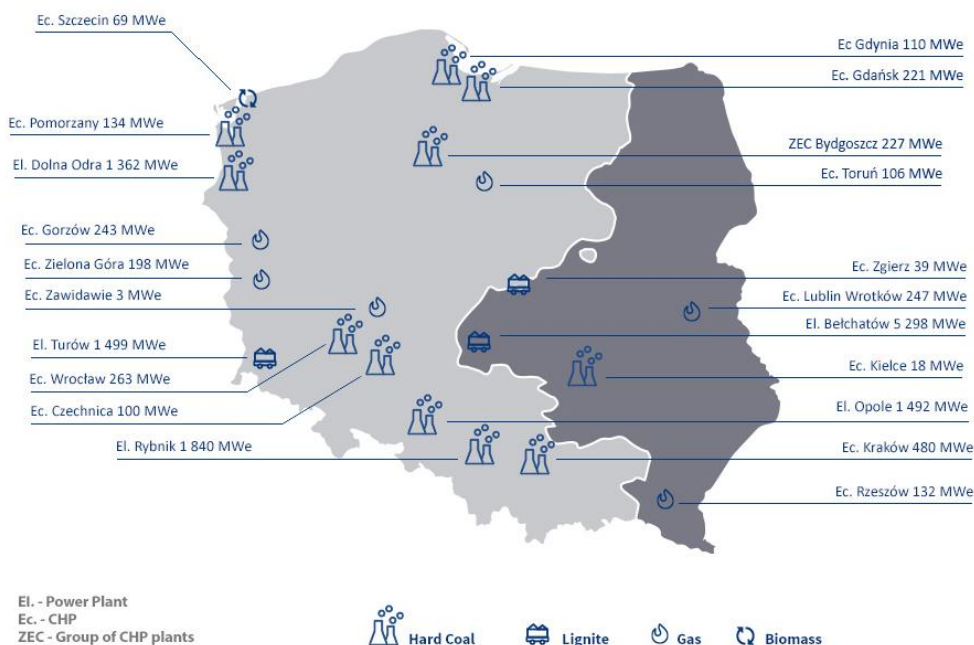
4.3. Conventional Generation segment

4.3.1. Assets

Conventional Generation in PGE Capital Group includes PGE GiEK S.A. based in Bełchatów. The company comprises 12 branches which are located in nine voivodships of our country. Branches include 2 lignite mines, 4 conventional power plants and 8 CHP plants. From November 14, 2017 Conventional Generation segment includes also part of assets acquired from EDF i.e. 5 companies, including 1 conventional power plant and 8 CHP plants.

The Group is the leader of lignite mining (its share in the extraction market of this raw material accounting for 81%¹ of domestic extraction), it is also the largest generator of electricity as it generates approx. 34%² of domestic gross electricity production (including approx. 33% by Conventional Generation) and largest heat producer. The generation is based on lignite extracted from mines owned by the company as well as hard coal, gas and biomass.

Diagram: Main assets of the Conventional Generation segment.



¹ Own calculations based on data from Central Statistical Office for 2017.

² Own calculations based on data from PSE for 2017.

Table: Installed capacity and production in branches of Conventional Generation segment.

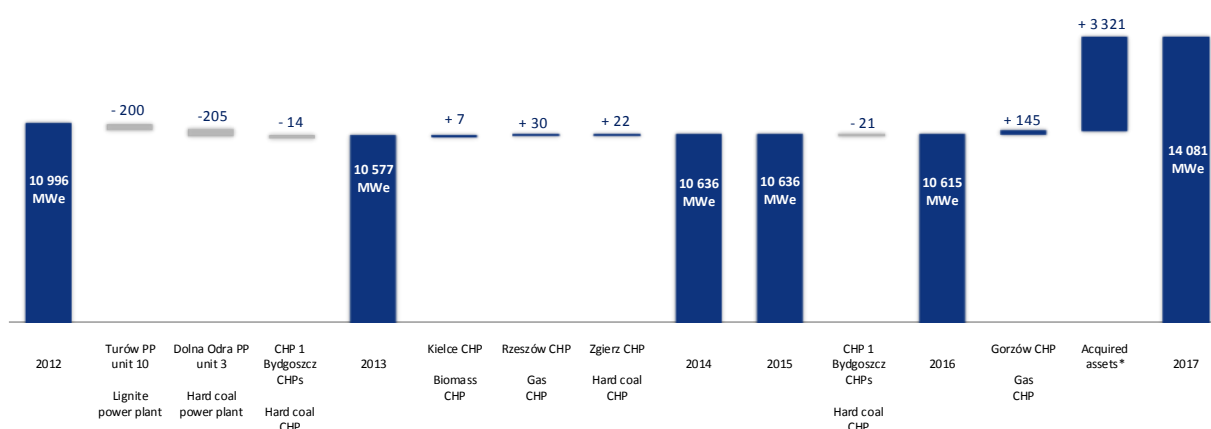
Branches	Main fuel types	Annual energy generation [GWh]			Annual energy generation [GWh]			Installed capacity [MWe]	Installed capacity [MWt]
		2017	2016	2015	2017	2016	2015	2017	2017
Bełchatów power plant	lignite	32 320	29 983	31 698	2 080	2 004	1 924	5 298	396
Turów power plant	lignite, biomass	6 628	7 271	7 278	682	675	666	1 499	219
Opole power plant	hard coal, biomass	6 458	6 324	6 240	188	121	116	1 492	103
Dolna Odra power plant	hard coal, biomass	3 940	4 385	4 802	355	347	314	1 362	101
Lublin Wrotków CHP	methane-rich gas, hard coal	1 069	1 167	972	2 913	3 049	2 861	247	592
Rzeszów CHP	methane-rich gas, hard coal	641	652	611	1 852	1 784	1 728	132	500
Pomorzany CHP	hard coal	272	338	597	1 809	2 204	2 766	134	324
Gorzów CHP	gas, hard coal	951	617	580	1 556	1 516	1 389	243	368
Bydgoszcz CHP	hard coal, heavy oil	408	410	455	4 365	4 285	4 343	227	593
Szczecin CHP	biomass	160	394	423	761	562	680	69	162
Zgierz CHP	lignite, hard coal, gas	95	85	102	441	429	387	39	110
Kielce CHP	hard coal, biomass	79	74	75	1 637	1 596	1 509	18	315
PGE GIEK S.A. TOTAL		53 021	51 700	53 833	18 639	18 572	18 683	10 760	3 783
Rybnik power plant*	hard coal	6 598	7 256	6 962	96	91	87	1 840	57
Gdańsk CHP*	hard coal	769	751	711	7 926	7 531	6 834	221	930
Gdynia CHP*	hard coal	366	416	427	4 007	3 899	3 701	110	577
Kraków CHP*	hard coal	1 407	1 638	1 503	7 739	7 327	6 957	480	1 644
Wrocław CHP*	hard coal	778	800	746	7 141	6 887	6 136	263	812
Czechnica CHP*	hard coal	223	228	214	2 350	2 471	2 078	100	247
Zawidawie CHP*	gas	15	14	12	126	120	103	3	21
Zielona Góra CHP*	gas	1 336	1 266	1 200	1 281	1 272	1 155	198	304
Toruń CHP*	gas	261	1	2	2 177	2 081	1 967	106	362

TOTAL Acquired assets *	11 753	12 370	11 777	32 843	31 679	29 018	3 321	4 954
Including Acquired assets from November 14, 2017	1 577	-	-	7 001	-	-	3 321	4 954

TOTAL Conventional Generation	54 598	51 700	53 833	25 640	18 572	18 683	14 081	8 737
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* The units' volumes are on a pro-forma basis and are presented for illustration purposes in order to adequately show the scale of the acquired assets in comparison with PGE GiEK S.A.'s generating units (without the distortion related to proportional recognition in annual results). Acquired assets: Rybnik power plant, Gdańsk CHP, Gdynia CHP, Kraków CHP, Wrocław CHP, Czechnica CHP, Zawidawie CHP, Zielona Góra CHP, Toruń CHP.

Diagram: Change of installed capacity in Conventional Generation.



* Acquired assets: Rybnik power plant, Gdańsk CHP, Gdynia CHP, Kraków CHP, Wrocław CHP, Czechnica CHP, Zawidawie CHP, Zielona Góra CHP, Toruń CHP.

4.3.2. Lignite mining

Lignite resources

Lignite deposit reserves are determined based on a reserves inventory maintained in the reserves register for a given year up to February 28 as at December 31 of a preceding year (art. 101 p. 3 of the Geological and Mining Act). The following table presents lignite reserves as of the end of 2017, together with volumes extracted in 2017.

Table: Lignite resources data as at the end of 2017 and lignite output in 2017.

Deposit	Resources - as at the end of 2017		Output in 2017
		(Mg million)	(Mg million)
Bełchatów – Field Bełchatów	Industrial	29.7	15.8
Bełchatów – Field Szczerców	Industrial	588.2	26.8
Turów	industrial	302.5	6.9

Long-term projects

In order to ensure business continuity and protect PGE Group's value based on modern and efficient lignite-based production units, work is underway to obtain a concession for lignite mining at the Złoczew and Gubin 2 deposits.

Project „Złoczew”

Execution of the project in 2017 mainly consisted of a procedure to obtain a decision on environmental conditions for the investment and changes in planning documentation for municipalities where the planned investment is to be implemented. By the end of 2017, all municipalities in the region of the Złoczew deposit (Ostrówek, Burzenin, Lututów, Złoczew) adopted resolutions on adoption of a Study for Spatial Development Conditions and Directions. As a result of an appeal being submitted against resolution XXII/155/2017 for the Ostrówek municipality, the Voivodship Administrative Court in Łódź on November 30, 2017, ruled that the appealed resolution was invalid.

According to the current schedule, obtaining a concession for the mining of lignite at the Złoczew deposit is expected to take place in the third quarter of 2018.

Project „Gubin”

Project work in 2017 mainly consisted of a procedure to obtain a decision on environmental conditions for the investment and changes in planning documentation for municipalities where the planned investment is to be implemented. According to the current schedule, a concession for coal mining at the Gubin 2 deposit is expected to be obtained in the third quarter of 2020.

Other concession projects

Aside from prospective projects, PGE GiEK S.A. is undertaking concession-related activities for deposits currently being mined. This work concerns: the Bełchatów - Pole Bełchatów deposit, which is mined by PGE GiEK S.A. Branch KWB Bełchatów ("KWB Bełchatów") and the Turów deposit, which is mined by PGE GiEK S.A. Branch KWB Turów ("KWB Turów").

KWB Bełchatów – Bełchatów field

On December 19, 2017, PGE GiEK S.A. submitted an application to the concession authority to amend concession 120/94 of August 8, 1994, for the mining of lignite and associated minerals from the Bełchatów - Pole Bełchatów deposit. This change is dictated by the possibility of mining additional lignite volumes from non-industrial resources currently located in the Pole Bełchatów I mining area.

KWB Turów

Intensive activities intended to extend concession 65/94 for mining lignite and associated minerals at the Turów deposit are on-going. The concession validity period ends on April 30, 2020. Changes must be introduced to the local spatial development plan for the city and municipality of Bogatynia, a report on the undertaking's environmental impact must be prepared as well as other annexed required for the concession application in accordance with the Geological and Mining Law. The date on which the concession application will be filed depends on the introduction of appropriate changes in the local spatial development plan for the city and municipality of Bogatynia and the receipt of a decision on environmental conditions. In the case of prolonging the process of obtaining an environmental decision, among others due to the need to assess the impact of a cross-border project, there is a risk of untimely obtaining this license.

Current rehabilitation operations

The law in force (Act on Protection of Agricultural and Forest Land, the Geological and Mining Act) provides for the obligation to rehabilitate post-mining land. Therefore, mines conduct rehabilitation work on post-mining land, where mining activities are discontinued.

Rehabilitation works are carried out successively with the developing mining operations, based on the technical and conceptual documentation regarding the rehabilitation. Reclamation targets assume that after mining has been finished, Bełchatów field, Szczerców field and Turów internal heaps will involve forests, while mining excavations will involve water reservoirs (with shores intended for forests). Additionally, rehabilitation of external heap in Field Szczerców will involve forested area, sporting and leisure area, farming and commercial.

Analysis concerning the development of post-industrial land at all branches of PGE GiEK S.A. will be included in studies.

Mine Liquidation Fund and provision for rehabilitation of land

Pursuant to the provisions the Geological and Mining Act, business operators extracting minerals in open-pit mines must contribute to the Mine Liquidation Fund an amount equivalent to 10% of the charged exploitation fee; raised funds must be deposited on a separate bank account. The Fund is charged to the costs of open-pit mining operations. The transfer of funds takes place on a monthly basis and the amount contributed depends on the extraction output achieved in the reporting period. Interest earned on the Mine Liquidation Funds increase the value of the Fund. Mines belonging to the Group estimate future expenses to be incurred for the rehabilitation of land where mining operations ended. The amount of the costs is determined based on projected costs of rehabilitation operations and the final pit improvement.

The reclamation provision is also created in power plants and CHP plants of the Group and is related to ash storages.

4.3.3. Key financial figures

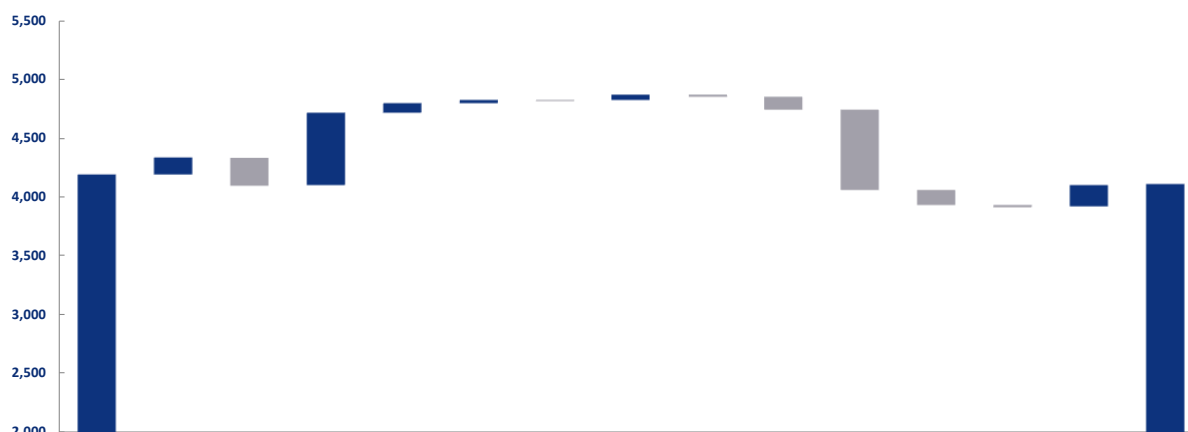
Table: Key figures for Conventional Generation.

PLN million	2017	2016	% change	2015	% change
Sales revenues	13 075	11 738	11%	12 715	-8%
EBIT	1 754	2 691	-35%	-5 732	-
EBITDA	4 099	4 182	-2%	4 698	-11%
Capital expenditures	4 899	6 179	-21%	6 495	-5%
Purchase of property, plant and equipment and intangible assets within purchase of new companies	5 426	0	-	0	-

PLN million	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q4 2016
Sales revenues	3 164	2 486	3 748	3 677	3 207
EBIT	630	225	1 378	-479	1 276
EBITDA	992	620	1 789	698	1 736
Capital expenditures	788	1 118	1 135	1 858	1 870
Purchase of property, plant and equipment and intangible assets within purchase of new companies	0	0	0	5 426	0

4.3.4. Key factors for the results of the segment

Chart: Key changes of EBITDA in Conventional Generation (in PLN million).



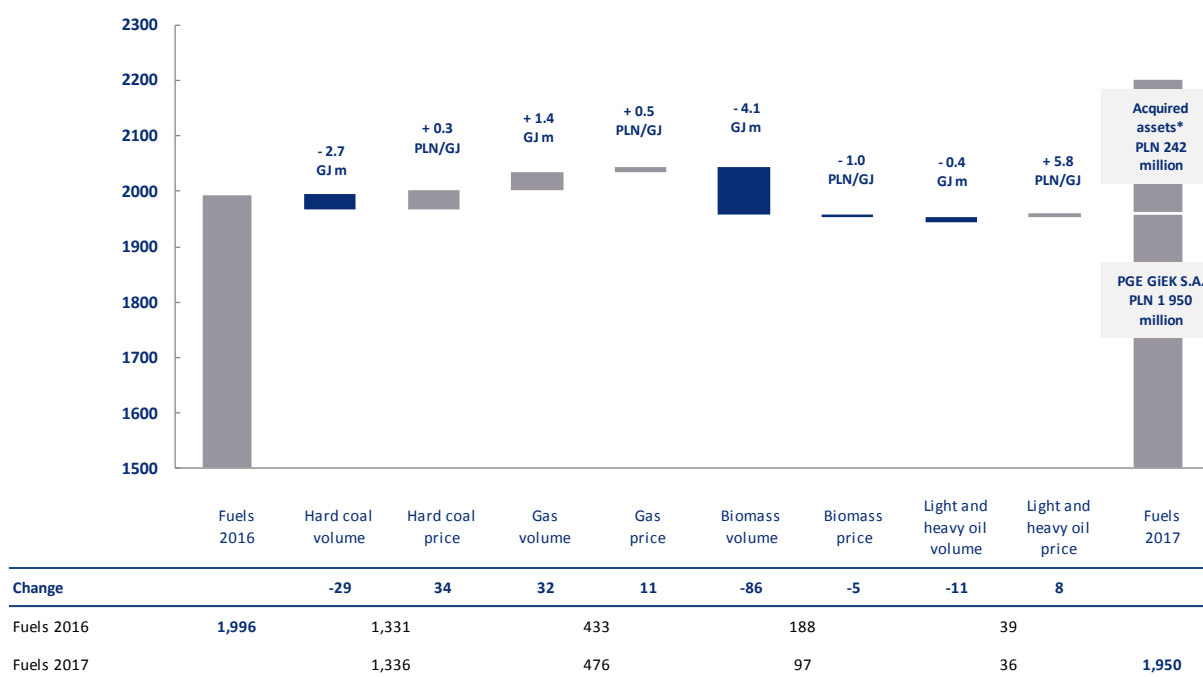
	EBITDA 2016	Sale of electricity difference in volume	Sale of electricity difference in price	Revenues from LTC	Sale of property rights	Revenues from agreement with TSO	Sale of heat	Costs of fuel	CO ₂ costs	Personnel costs	Change in provision for reclam. of land	Other	Capitalized costs	Acquired assets*	EBITDA 2017
Change		147	-237	611	89	24	-1	46	-16	-106	-685	-126	-14	185	
EBITDA 2016	4,182	8,847		669	227	265	720	1,996	1,155	2,608	643		910	0	
EBITDA 2017		8,757		1,280	316	289	719	1,950	1,171	2,714	-42		896	185	4,099

*PGE Energia Ciepła S.A., PGE Toruń S.A., PGE Gaz Toruń sp. z o.o., EC Zielona Góra S.A., Kogeneracja S.A.

Key factors affecting the results of Conventional Generation segment in 2017 compared to the results of the previous year included:

- **Higher electricity sales volume** mainly as a result of higher production at Bełchatów power plant, thanks to standard operation times, without restrictions caused by shorter time of units in overhauls and modernization, what occurred in the previous year (see p. 4.3.1 of this report).
- **Decline in electricity sales prices**, which caused a decrease in revenue from sales. The average realised sales price for electricity at the Conventional Generation segment excluding the sales to final off-takers in 2017 was PLN 164/MWh, compared to PLN 167/MWh in 2016.
- **Higher proceeds from long-term contracts (LTCs)**, mainly due to recognition in revenues of final adjustment in amount of PLN 1 211 million in accordance with the decision of the ERO President of August 2017 (see p. 33.1 of the consolidated financial statements).
- **Higher revenues from certificates** mainly due to recognition of revaluation of certificates in Szczecin CHP in 2016 to lower market prices (PLN 118 million). In addition, in 2017 higher revenues were realized from sale of yellow certificates as a result of electricity generation from new gas-steam unit in Gorzów CHP and revenues from white certificates that did not occur in the comparable period.
- **Higher revenues from ancillary control services**, mainly higher revenues from Operational Capacity Reserve (“ORM”) due to higher rates and higher volume of ORM due to lower trading factor of Opole power plant, Dolna Odra power plant and unit no. 1 in Bełchatów power plant.
- **Lower fuel consumption costs**, mainly biomass. This mainly related to lower production of electricity in biomass CHP plants and in co-combustion (see p. 4.2.1 of this report). Main changes on different types of fuel are presented on the chart below. The additional bar presents fuel costs that were incurred by the Acquired assets.
- **Higher CO₂ costs** as a result of higher deficit of CO₂ emission rights what was partly compensated by lower unit cost of CO₂ emission rights.
- **Higher personnel expenses** mainly as a result of change in actuarial provisions in PGE GiEK S.A. in connection with assumptions update and as a result of realization of wage agreements in supporting companies of PGE GiEK S.A.
- **Change of reclamation provision** as a result of change in technical assumptions with regard to the reclamation and excavation pit management and due to the change of the discount rate.
- **Lower capitalised costs**, among other, as a result of lower volume of overburden removal in mines and recognition of lower removal costs as asset. The above was partly offset by greater involvement of own services into investment execution.
- EBITDA generated by the Acquired assets, from the transaction date.

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



4.3.5. Capital expenditures

Table: Capital expenditures incurred in Conventional Generation segment in 2017, 2016 and 2015.

PLN million	Capital expenditures				
	2017	2016	% change	2015	% change
Investments in generating capacities, including:					
▪ Development	2 963	4 248	-30%	3 049	39%
▪ Modernisation and replacement	1 275	1 337	-5%	2 455	-46%
Purchase of finished capital goods	74	85	-13%	64	33%
Vehicles	5	6	-17%	27	-78%
Other	48	56	-14%	122	-54%
Acquired assets*	168	-	-	-	-
TOTAL	4 533	5 732	-21%	5 717	0%
Capitalized costs of overburden removal in mines	366	447	-18%	778	-43%
TOTAL with capitalized costs of overburden removal	4 899	6 179	-21%	6 495	-5%

*PGE Energia Ciepła S.A., PGE Toruń S.A., PGE Gaz Toruń sp. z o.o., EC Zielona Góra S.A., Kogeneracja S.A.

PLN million	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q4 2016
Investments in generating capacities, including:	684	976	1 030	1 548	1 740
▪ Development	538	683	731	1 011	1 409
▪ Modernisation and replacement	146	293	299	537	331
Purchase of finished capital goods	2	28	7	37	44
Vehicles	-	1	1	3	2
Other	3	8	8	29	31
Acquired assets*	-	-	-	168	-
TOTAL	689	1 013	1 046	1 785	1 817
Capitalized costs of overburden removal in mines	99	105	89	73	53
TOTAL with capitalized costs of overburden removal	788	1 118	1 135	1 858	1 870

*PGE Energia Ciepła S.A., PGE Toruń S.A., PGE Gaz Toruń sp. z o.o., EC Zielona Góra S.A., Kogeneracja S.A.

Highest capital expenditures in 2017 were incurred for the following projects:

- construction of units 5 and 6 in Opole power plant PLN 1 808 million;
- construction of unit no. 11 in Turów power plant PLN 967 million;
- modernisation of units 1-3 in Turów power plant PLN 222 million;
- construction of a Thermal Processing Installation with Energy Recovery at Rzeszów CHP PLN 104 million;
- change in technology of furnace waste storage in Bełchatów power plant PLN 96 million;
- construction of CCGT unit in Gorzów CHP PLN 60 million;
- investment program of Pomorzany power plant PLN 52 million;
- construction of installation to transport ash and suspension from unit 14 in Bełchatów power plant PLN 47 million;
- comprehensive modernization of units 7-12 - Bełchatów power plant PLN 34 million;
- adaptation to BAT conclusions in Bełchatów power plant PLN 20 million;
- adaptation to BAT conclusions in Opole power plant PLN 11 million.

Acquired assets:

- expenditures for major renovation of boiler and turbine of unit 1 in Rybnik power plant PLN 25 million;
- construction of gas CHP in Toruń PLN 20 million;
- expenditures for major renovation of turbo-set and boiler of unit 1 in Gdynia CHP PLN 10 million.

Key developments in 2017 in Conventional Generation:

- On January 24, 2017, the Minister of the Environment issued a decision that upheld a decision of the Marshal of the Opole Voivodship of October 10, 2016, which had granted an integrated permit for units 1-6 at Opole power plant.
- On January 31, 2017, a 138 MWe gas-and-steam unit was put into service at the CHP plant in Gorzów. The new low-emission unit operating in high-efficiency cogeneration will secure district heating supplies for the residents of Gorzów in the coming years.
- On June 1, 2017, an agreement was signed to construct an SNCR installation at unit 2 of Elektrownia Bełchatów in order to adapt the plant to BAT requirements.
- On June 9, 2017, the Voivodship Administrative Court in Warsaw, having examined a complaint by the ecological foundation Society for Earth, cancelled a decision by the Environment Minister regarding an integrated permit for Elektrownia Opole that included a new water treatment station and units 5 and 6. After the receipt of a justification for the ruling, on July 25, 2017, a cassation appeal was submitted to the Supreme Administrative Court in Warsaw.
- On June 30, 2017, an application was submitted to the Podkarpackie Marshal's Office to issue an integrated permit for a thermal processing installation with energy recovery at the CHP plant in Rzeszów.
- On August 30, 2017, PGE Group's Investment Committee recommended the launch of a preparatory stage for the construction of a new approx. 500 MWe gas-fired unit at Dolna Odra power plant, including a feasibility study, as well as the instigation of administrative proceedings intended to obtain a decision on environmental conditions for this project.
- On September 26, 2017, a proposal was received to change the completion date for the construction of power units 5 and 6 at Opole power plant, being implemented by a consortium of Polimex-Mostostal S.A., Mostostal Warszawa S.A. and Rafako S.A. ("Consortium"), as well as GE Power, which is the general designer and consortium leader in charge of managing contract performance. The proposal presented by the Consortium includes a change of the investment

schedule that would result in unit 5 being commissioned on December 20, 2018, rather than July 31, 2018, and unit 6 on July 31, 2019, instead of March 31, 2019. On February 22, 2018 PGE published current report with information on change of declared commissioning dates of new units in Opole power plant (see p. 2.2.4 of this report).

- On November 18, 2017, a pressure test was successfully conducted on a modernised boiler at unit 2 of Turów power plant, a task being implemented as part of a comprehensive modernisation programme for units 1-3.
- On November 29, 2017, the Environment Minister issued a ruling that upheld the Opole Voivodship Marshal's ruling on immediate enforcement of a decision granting an integrated permit for units 1-6 at Opole power plant.
- On December 4, 2017, the Environment Minister issued a decision cancelling a decision by the Dolnośląskie Voivodship Marshal on an integrated permit for a fuel combustion installation at Turów power plant and referred the case to be re-examined by the first instance court.
- On December 18, 2017, an administrative decision was issued that amended the integrated permit for Elektrownia Pomorzany in connection with the construction of an NOx emission reduction installation for units A and B and boiler KW-2. The decision is binding.

4.3.6. Responsible approach to natural environment

Just as any other human activity, the extraction of fossil fuels and the production of electricity and heat naturally interfere with the environment. Companies in the Conventional Generation segment responsibly use natural resources while conducting operations in accordance with the existing legal regulations and requirements, including environmental protection standards. The conventional energy area is constantly improving its environmental performance and is more effective every year.

The environmental management system

PGE GiEK S.A. has applied Integrated Management System Model, which covers among other things an Environment Management System in accordance with PN-EN ISO 14001. This is an internationally recognised standard that sets out the methods for implementing effective environment management systems. The main objective of the ISO 14001 standard is contributing to protecting the environment and preventing pollution in a manner that takes into consideration both social and economic needs in line with the idea of sustainable development.

The concept of a unified Environment Management System is intended to harmonise documentation and improve effectiveness of managing the environmental protection area. This includes, among other things, central management of environmental aspects across all of the branches of PGE GiEK. This documentation is subject to updating during cyclical reviews.

Additionally at the company's branches: Zespół Elektrowni Dolna Odra and Opole power plant, an eco-management and audit system (EMAS PI:2999) is in place, which together with an environmental declaration is subject to annual reviews by an accredited independent reviewer. Registration in the EMAS system means compliance with the highest standards in environmental management and audit.

In production branches of PGE Energia Ciepła S.A. operational environmental management is conducted in accordance to PN-EN ISO 14001:2005 under Integrated Management System and additionally in branch Wybrzeże in Gdańsk based on the EMAS - Eco-Management and Audit Scheme.

Assessment of compliance is incorporated into the following:

- annual management review,
- internal audits (every audit),
- external audits,
- assessments conducted by the Quality and Environment Divisions.

In 2017, external audits did not identify any irregularities.

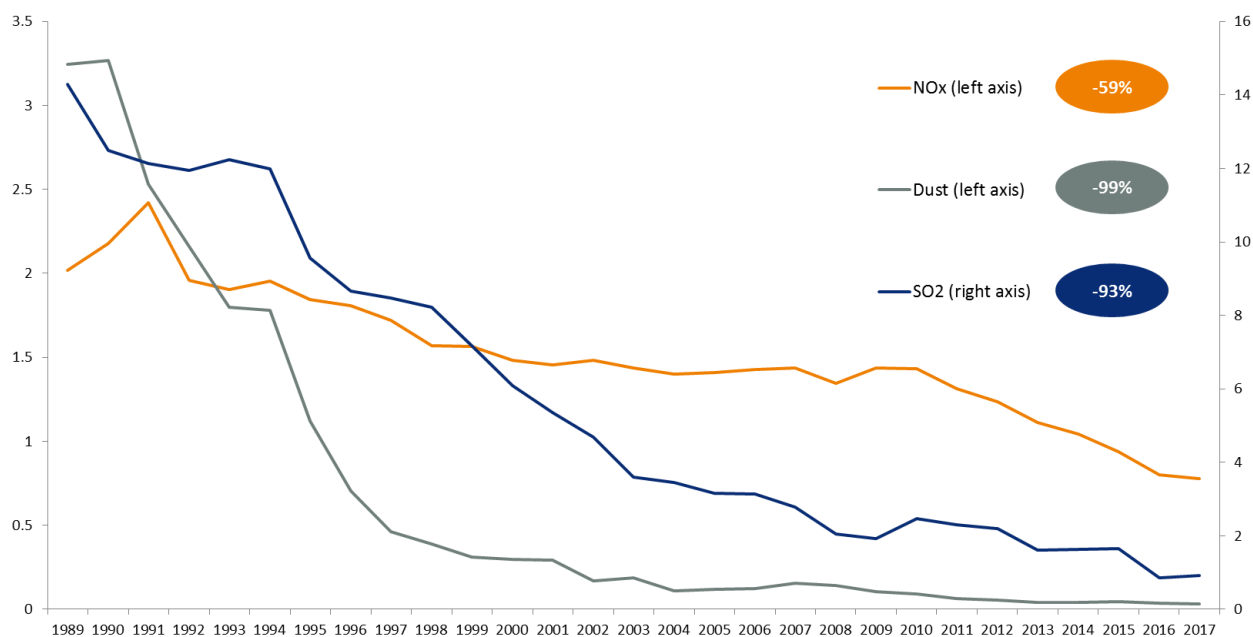
Periodic Assessment Sheets for Compliance with legal regulations and other significant aspects (particulate matter emissions, SO₂ emissions, NOx emissions, CO₂ emissions, noise, combustion waste) confirm a lack of violations.

The monitoring of legal requirements concerning environmental protection is carried out on an on-going basis and has been assessed as good and effective, which was confirmed by audits to renew the Integrated Management System certificate.

Air protection

From January 1, 2016, PGE GiEK S.A. installations operate in line with emission standards set out in the IED Directive or use the derogation mechanisms provided therein. Derogation is intended to give existing installations additional time to technically adapt to the more rigorous emission requirements specified in the IED or exempt them from the requirement to observe these if modernising such a facility would be unjustified due to a limited expected lifecycle.

Diagram: NO_x, SO_x and particulates emissions into the air (in kg/MWh) in key units of PGE GiEK



Emissions relate to power plants: Bełchatów, Opole, Turów and Dolna Odra.

In 2016, PGE GiEK S.A. recorded declines in the emissions of SO₂, NO_x and particulate matter, comparing to 2015. This mainly resulted from large units (Bełchatów power plant, Turów power plant, Opole power plant, Zespół Elektrowni Dolna Odra, Bydgoszcz CHP) being adapted to stricter emission requirements under the IED Directive.

In 2017, the down-trend in SO₂, NO_x and particulate matter emissions continued, especially at Turów power plant (participating in the National Transition Plan - a derogation mechanism under the IED Directive) and at Opole power plant and Dolna Odra power plant. Moreover, the CHP plant in Gorzów significantly reduces its emissions in 2017, having put into service a new gas unit that largely replaced production from coal.

In the case of Bełchatów power plant, 2017 saw an increase in SO₂ emissions due to operating at maximum capacity.

There was one instance in 2017 in which the permissible daily value of SO₂ emissions was exceeded at the CHP plant Bydgoszcz II. This incident resulted from the need to operate two boilers (3 and 4) connected to a single flue gas desulphurisation system, the maximum capacity of which does not ensure effective desulphurisation for two boilers working at full capacity.

All installations at PGE Energia Ciepła operated on the basis of an integrated permit. They contain requirements from the IED, transposed into the Environmental Protection Law. In 2017, an investment to build the second wet flue gas desulphurisation unit at Rybnik power plant was finalised as well as the construction of a gas-fired unit at PGE Toruń S.A., which replaced coal boilers. Flue gas denitrogenation units were also built for several boilers that had used derogation under the Accession Treaty until the end of 2017. These investments contributed to a further reduction in pollution emissions.

In connection with the Act of May 15, 2015, on substances that deplete the ozone layer and on certain fluorinated greenhouse gases entering into force, production facilities registered their Air Conditioning Sheets for units containing over 3kg of refrigerant.

A breakdown of the total weight of significant compounds emitted into the air that are created at the installations of PGE Group's Conventional Generation segment (PGE GiEK S.A. i PGE Energia Ciepła S.A.) is presented in PGE Group's report on non-financial data for 2017 in chapter 6.3 Selected indicators in environmental issues in PGE Capital Group.

CO₂ emissions

The third settlement period, covering years 2013-2020, began in 2013. During this period, rules for allocating free allowances for CO₂ emissions to all EU ETS participants changed, in particular for producers of electricity and heat. As a rule, starting from 2013, each subsequent year of the third settlement period is a line decline of the number of free CO₂ emission allowances allocated to installations.

It is estimated that PGE GiEK S.A. installations will receive a total of 145 296 727 allowances during the 2013-2020 period, including:

- 7 301 373 allowances for heat production;
- 137 995 354 allowances for electricity production (without allowances for new capacities).

For installations of PGE Energia Ciepła S.A. for 2013-2020 estimated allocation of allowances amount 28 204 813, including:

- 10 680 745 allowances for heat production,
- 17 524 068 allowances for electricity production.

The volume of free allowances will constitute approx. 29% of PGE EC's needs, which are estimated at approx. 99 million tons of CO₂.

The volume of CO₂ emissions for 2017 in installations of PGE GiEK (not verified yet) amounts to 59 452 692 tons. Based on the balance of allowances and actual CO₂ emissions, a shortage of 44 024 532 allowances exists. This shortage will be compensated through the purchase of allowances on the external market with the intermediation of PGE S.A.

PGE Group is taking action intended to reduce CO₂ emissions through:

- increase the energy efficiency of its production assets,
- decrease own consumption,
- modernise certain production assets,
- decrease losses at district heating network managed by subsidiaries.

Modernisation tasks listed in the National Investment Plan under the ETS system were continued in 2017.

A breakdown of CO₂ emissions in main installations of Conventional Generation (PGE GiEK S.A. i PGE Energia Ciepła S.A.) is presented in p. 5.3.4 Emission rights granted free of charge for years 2013-2020 of this report and in PGE Group's report on non-financial data for 2017 in chapter 6.3 Selected indicators in environmental issues in PGE Capital Group.

Management of waste and by-products

The generation of waste is an unavoidable consequence of producing electricity and heat in conventional plants using fossil fuels and biomass. Waste is mainly produced directly in combustion processes or in support processes.

In 2017 Branches of PGE GiEK produced approx. 5 million tons of waste, out of which 98% were waste from gas combustion and purification process. Several types of waste are produced: ash and slag mixtures from the wet discharge of combustion waste, fly ash and solid waste from lime desulphurisation methods, fly ash from coal, slag, ash from biomass firing and co-firing, sand from fluidised beds, microspheres.

Waste from lignite combustion account for more than 88% of all combustion waste produced in Branches of PGE GiEK. The specific properties of ashes from lignite combustion and the high variability of their parameters limit the potential for the commercial use of these substances. In Bełchatów power plant this results in the necessity to deposit them at storage sites. Other method of management of ashes from lignite combustion is filling unused transformed land therewith. Such recovery process is being applied at Turów power plant, where waste is deposited together with overburden at the landfill of the mine KWB Turów (lignite mine).

84% of the 600 million tonnes of combustion waste from burning hard coal has been subject to recovery processes. Some of this waste is deposited at combustion waste landfills or temporarily at waste warehouses. Given their attractive properties, these substances have a range of applications in the cement industry, construction (as additives to concrete) and road building.

PGE Group companies are consistently improving and expanding the scale of application for their combustion waste and are conducting research on finding new applications that are aligned with sustainable development. This approach is in line with the concept of the "Road map for transition towards circular economy," which is a proposal to implement the circular economy model countrywide. Implementing the rules of circular economy, in which the value of products, materials and commodities is retained for as long as possible, while at the same time minimising waste output, is an important element of a low-emission, resource-efficient and innovative economy. For the company, this creates an opportunity to reduce operating costs and minimise risks related to changes in the regulatory framework as regards waste management.

For example, Rybnik power plant is working on projects that aim to optimise the quality of ash. On-going monitoring of the efficiency of combustion processes in boilers is also conducted, which is aimed at limiting the combustible fractions in ash and slag.

A breakdown of the total weight of waste generated by companies of PGE Group's Conventional Generation segment(PGE GiEK S.A. i PGE Energia Ciepła S.A.) is presented in PGE Group's report on non-financial data for 2017 in chapter 6.3 Selected indicators in environmental issues in PGE Capital Group.

Management of waste water

Conditions for managing waste water are specified in relevant permits, including in particular integrated permits and water-law permits. Monitoring is conducted on an on-going basis as regards the quantity and quality of water collected and waste discharged.

For technological purposes, water is collected from groundwater outlets, which is subsequently subject to purification processes. In order to limit the quantity of raw water consumption, closed-circuits are used, and old technological water and waste water are used in other processes. Waste water created as a result of power plant and heat-and-power plant production activities is subject to a purification process, including multi-stage cleansing, and subsequently discharged to groundwater or transferred to municipal companies.

Mining of lignite in an open-pit mine, which takes place at two PGE GiEK S.A. lignite mines – Bełchatów and Turów, requires the rockmass to be initially dewatered, which has substantial impact on hydrogeological conditions and results in changed hydrodynamic relations. Water management at lignite plants is related to dewatering both inside the rockmass and at the surface of the pit. Water from the pit is taken out to field reservoirs, the task of which is final purification of water through natural sedimentation of suspensions, assisted by plant filters. Once the water is purified, it is at least class II in purity terms.

In 2016-2017, water abstraction and consumption for technological purposes increased in assets acquired from EDF. It was connected with commissioning of new wet desulfurization installation at Gdańsk CHP, Gdynia CHP in Rybnik power plant and in Kogeneracja S.A. A "Water management" project was launched at the same time in PGE EC, with the objective of optimising water consumption and waste discharge. In the period May-June 2017, a review of water management practices was carried out at each of the locations. A total of 27 recommendations were provided, which could potentially bring savings of 500 000 m³ in water abstraction and 400 000 m³ in waste discharge into the environment. This is of particular importance in light of a new Water Law entering into force in 2017, which changes the fee system and level of rates for water services.

A breakdown of the overall volume of waste generated by companies of PGE Group's Conventional Generation segment (PGE GiEK S.A. i PGE Energia Ciepła S.A.) is presented in PGE Group's report on non-financial data for 2017 in chapter 6.3 Selected indicators in environmental issues in PGE Capital Group.

Reclamation of adversely transformed land

Post-mining areas that are no longer necessary for deposit mining and storing overburden are subject to on-going reclamation during the entire period of mining activity in accordance with conditions specified by the proper environment protection authorities. Reclamation performed at the PGE Group consists of returning useful and natural values of land (as close to natural as possible). Land reclamation is performed through technical reclamation (land shaping and construction of essential technical infrastructure) and biological reclamation (ground preparations, introduction and maintenance of plants). Rehabilitation of sites significantly reduces fugitive emissions and improves the quality of water being discharged into surface water reservoirs. Within Conventional Generation segment large-scale reclamations are mainly being conducted within the following open-pit lignite mines: KWB Turów and KWB Bełchatów.

Large-scale production entails substantial obligations towards the natural environment. Years of experience and the implementation of innovative and effective eco-friendly technological solutions allows to significantly mitigate the effects of lignite mining. Reclamations conducted thus far have given rise to vast forest and water complexes where many animal and plant species are present.

Mitigation of noise emissions

PGE GiEK's and PGE EC's facilities are in continuous operation. The level of noise emissions depends on the number of fuel combustion installations and associated equipment operating at a given time.

Noise emission measurements are performed every two years or ad hoc upon request or complaint by external entities. Noise emission measurements taken in 2017 at PGE GiEK branches (Gorzów CHP, Lublin-Wrotków CHP, Kielce CHP, Turów power plant) and in Toruń CHP (PGE Toruń – subsidiary of PGE Energia Ciepła S.A.) did not show breaches of permissible noise emission levels. PGE Energia Ciepła S.A. measured noise emission in all its locations in 2016 – no emission level were breached. Breaches of noise emission limits were recorded from the area of Bełchatów lignite mine. In order to further reduce noise emissions at KWB Bełchatów and KWB Turów sites, steel idlers will be replaced with silent idlers.

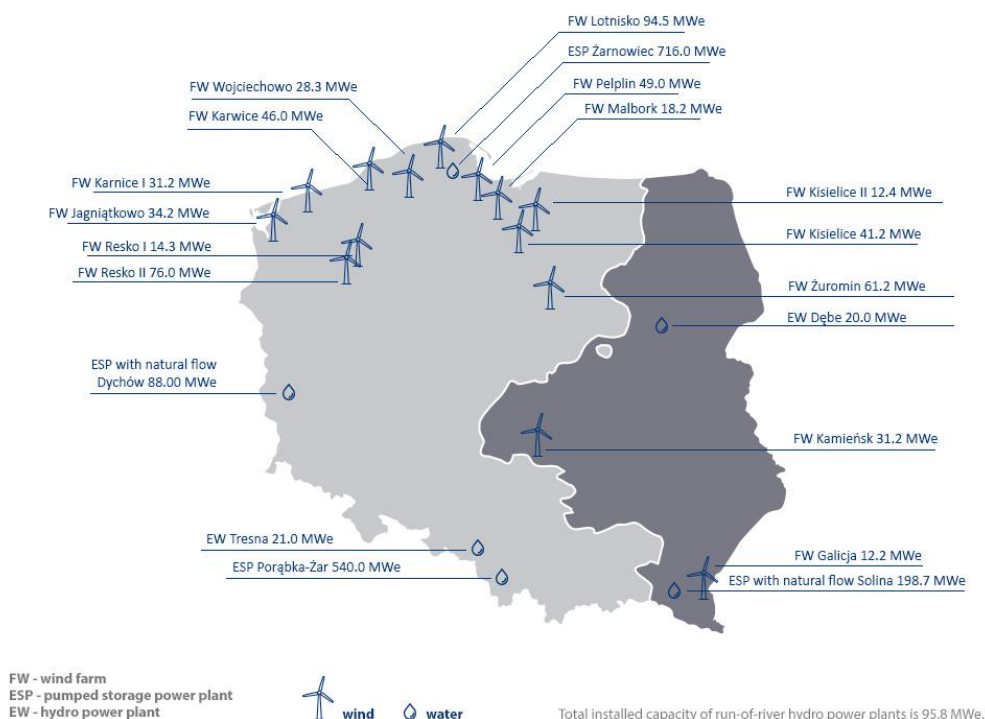
4.4. Renewables segment

4.4.1. Assets

The PGE Capital Group's operations in renewable energy are managed by the PGE Energia Odnawialna S.A. Assets in the segment include:

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

Diagram: Main assets of the Renewables segment.



Changes in electricity generation concessions during the reporting period:

In the second half of 2017, the President of the Energy Regulatory Office issued three decisions amending concessions for electricity generation granted to PGE Energia Odnawialna S.A. and PGE Energia Natury PEW sp. z o.o. As a result of these decisions, installed capacities of the Renewables segment's generating assets increased by approx. 55 MWe. The change involved adapting the content of the concessions to the Act of February 20, 2015, on renewable energy sources as regards the definition of renewable energy source installation and on adjusting the installed capacity of certain sources by taking into account the values specified in the generators' statutory plates.

Table: Installed capacity and production in power plants of Renewables segment.

Power plant	Annual energy generation [GWh]			Installed capacity [MWe]*
	2017	2016	2015	2017
Run-of-river hydro power plant	330.4	303.1	243.7	95.8
Elektrownia Wodna Dębe	118.0	91.0	76.2	20.0
Elektrownia Wodna Tresna	31.2	31.7	20.2	21.0
Elektrownia Wodna Myczkowce	30.6	29.4	25.5	8.3
Elektrownia Wodna Porąbka	24.2	27.2	19.0	12.5
Elektrownia Wodna Smardzewice	17.3	12.7	13.7	3.6
Elektrownia Wodna Radoszyc Stary	12.0	11.0	8.1	2.6
Elektrownia Wodna Oława	11.2	12.2	9.6	3.2
Elektrownia Wodna Gorzupia II	8.5	8.7	6.6	1.7
Elektrownia Wodna Grajówka	7.9	9.2	6.0	2.4
Elektrownia Wodna Dobrzeń	6.8	6.5	5.2	1.6
Elektrownia Wodna Przysieka	5.8	5.6	4.3	1.3
Elektrownia Wodna Rakowice	5.4	4.6	3.5	1.9
Elektrownia Wodna Januszkowice	5.3	5.3	5.0	1.4
Elektrownia Wodna Gubin	4.7	4.8	3.5	1.1
Elektrownia Wodna Krapkowice	4.7	6.2	5.3	1.3
Elektrownia Wodna Krępna	4.3	5.2	5.0	1.3
Elektrownia Wodna Zielisko	4.1	2.4	3.0	1.4
Elektrownia Wodna Zasięki	3.9	3.6	2.9	1.3
Elektrownia Wodna Żagań II	3.7	4.7	3.7	1.2
Elektrownia Wodna Żagań I	3.2	3.5	2.9	0.9
Elektrownia Wodna Bukówka	3.2	4.2	3.2	0.8
Elektrownia Wodna Sobolice	2.7	2.7	2.0	0.8
Elektrownia Wodna Żarki Wielkie	2.4	2.0	1.9	0.6
Elektrownia Wodna Kliczków	2.3	2.2	1.4	0.7
Elektrownia Wodna Szprotawa	2.0	1.6	1.5	0.8
Elektrownia Wodna Małomice	1.9	1.9	1.4	0.8
Elektrownia Wodna Nielisz	1.8	1.7	1.9	0.4
Elektrownia Wodna MEW Myczkowce	1.3	1.3	1.2	0.2
Elektrownia Wodna Gorzupia I	0.0	0.0	0.0	0.7
Pumped-storage power plants	438.8	446.9	561.2	1 256.0
Elektrownia Wodna Żarnowiec	255.2	266.4	343.0	716.0
Elektrownia Wodna Porąbka-Żar	183.6	180.5	218.2	540.0
Pumped-storage plants with natural flow **	141.7	130.3	120.8	286.7
Elektrownia Wodna Solina	95.9	91.2	82.0	198.7
Elektrownia Wodna Dychów	45.8	39.1	38.8	88.0

* data after changes in licence

* including generation from pump-storage cycle of 3.5 GWh and generation from natural flow of 138.2 GWh. Total generation from pump-storage cycle in 2017 amounted to 442.3 GWh and generation from water totalled 468.6 GWh

Table: Installed capacity and production in power plants of Renewables segment.

Power plant	Annual energy generation [GWh]			Installed capacity [MWe]* 2017
	2017	2016	2015	
Wind farms	1 284.2	1 083.3	822.1	549.9
Farma Wiatrowa Lotnisko**	212.5	174.6	0.0	94.5
Farma Wiatrowa Resko II***	209.5	171.9	19.9	76.0
Farma Wiatrowa Żuromin	154.5	133.8	157.2	61.2
Farma Wiatrowa Pelplin	108.5	97.4	112.4	49.0
Farma Wiatrowa Karwice****	99.8	85.4	47.3	46.0
Farma Wiatrowa Kisielice	83.5	70.0	82.8	41.2
Farma Wiatrowa Jagniątkowo	82.1	70.1	88.5	34.2
Farma Wiatrowa Wojciechowo	70.6	62.2	81.6	28.3
Farma Wiatrowa Karnice I	69.7	57.9	69.6	31.2
Farma Wiatrowa Kamieński	65.6	54.1	64.9	31.2
Farma Wiatrowa Malbork	39.6	36.8	41.5	18.2
Farma Wiatrowa Resko I	31.1	25.4	32.3	14.3
Farma Wiatrowa Kisielice II*****	29.2	19.9	0.0	12.4
Farma Wiatrowa Galicja	28.0	23.8	24.1	12.2
Photovoltaic power plant Żar*****	0.5	0.5	0.02	0.6
TOTAL:	2 195.6	1 964.1	1 747.8	2 189.0

* data after changes in licence

** data for 2016 relate to period March-December 2016

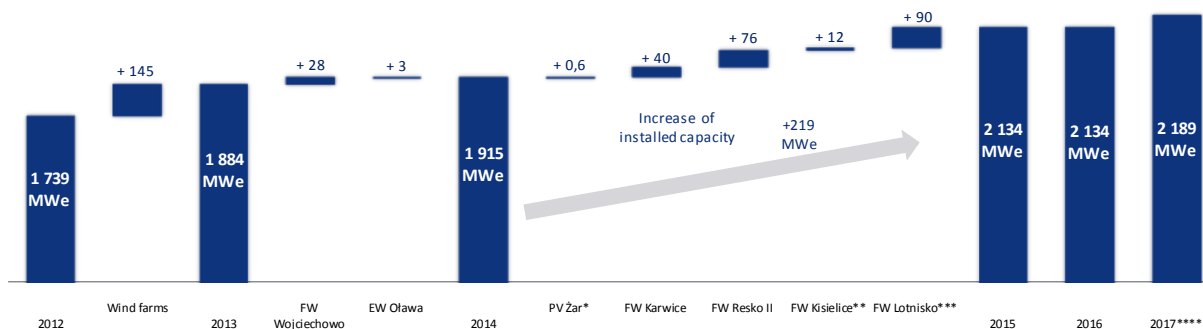
*** data for 2015 relate to December 2015

**** data for 2015 relate to period July – December 2015

***** data for 2016 relate to period February – December 2016

***** data for 2015 relate to period November – December 2015

Chart: Change of installed capacity in Renewables segment.



* Photovoltaic plant

** Wind farm operational in 2015. Concession for electricity generation granted in February 2016.

*** Wind farm operational in 2015. Concession for electricity generation granted in January 2016.

**** Increase of installed capacity in 2017 as a result of the ERO President decision amending concessions for electricity generation. The change corrected the installed capacity of the generating sources..

4.4.2. Key financial figures

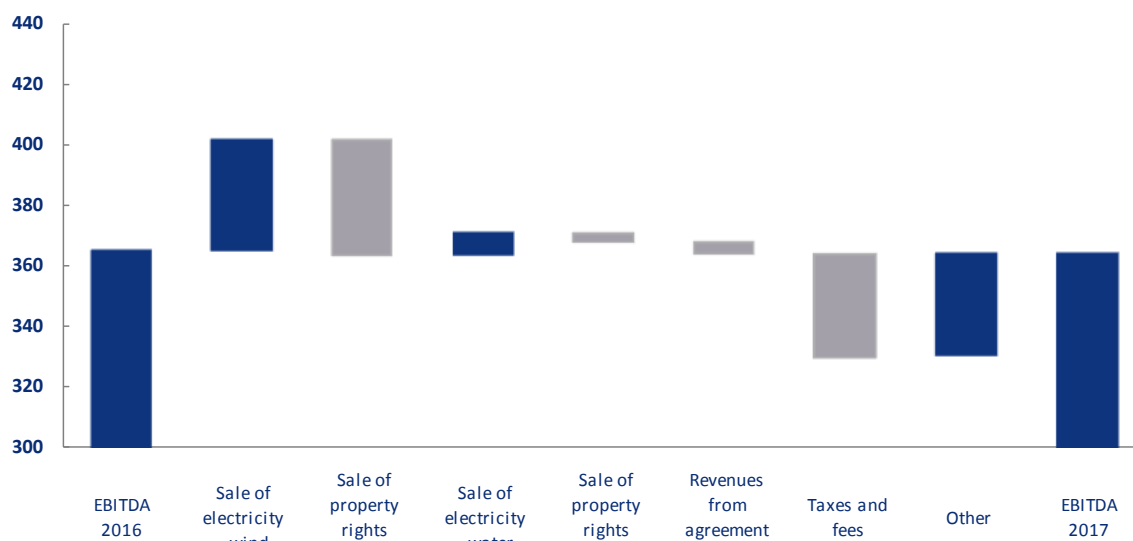
Table: Key figures for Renewables.

PLN million	2017	2016	% change	2015	% change
Sales revenues	724	717	1%	761	-6%
EBIT	-36	-770	-95%	107	-
EBITDA	364	365	0%	391	-7%
Capital expenditures	81	144	-44%	931	-85%

PLN million	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q4 2016
Sales revenues	192	177	161	194	221
EBIT	25	12	4	-77	-37
EBITDA	91	78	70	125	109
Capital expenditures	12	16	21	32	31

4.4.3. Key factors for the results of the segment

Chart: Key changes of EBITDA in Renewables (in PLN million).



Change	37	-38	7	-3	-4	-34	34
EBITDA 2016	365	177	96	76	8	248	63
EBITDA 2017	214	58	83	5	244	97	364

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

Key factors affecting the results of Renewables in 2017 compared to the previous year included:

- **Growth in revenues from electricity sales from wind farms** resulting mainly from a higher electricity sales by 242 GWh, what is connected with very good meteorological conditions.
- **The decline of revenues from sales of certificates from wind farms** resulting from: (i) realised sales of certificates and revaluation of inventories what attributed to the decline of revenues by approx. PLN (-) 26 million; (ii) valuation of ongoing production of certificates at a price lower by approx. PLN 28/MWh in 2017 in comparison to 2016, what decreased the revenues by approx. PLN (-) 12 million as compared to the previous year.
- **The increase of sales revenues of electricity from hydro power plants** resulting mainly from increased volume of electricity sales by 25.5 GWh in comparison to the previous year.

- **The decline of revenues from sales of certificates from hydro power plants** resulting from: (i) valuation of ongoing production of certificates at a price lower by approx. PLN 40.1/MWh in 2017 in comparison to 2016, what decreased the revenues by approx. PLN (-) 5 million as compared to the previous year; (ii) realised sales of certificates and revaluation of inventories what attributed to the increase of revenues by approx. PLN (+) 2 million.
- **Lower sales revenues from ancillary control services** result mainly from adjustment of revenues for 2016 and estimated adjustment for 2017 due to failure to meet the contract parameters.
- **Increase in taxes and fees** mainly connected with the increased expenses for the real estate tax due to changes in law.
- **Favourable deviation in the "Other" item** results mainly from: (i) higher penalties by PLN 45 million mainly for failure to perform the contract for sale of certificates to ENEA S.A. and ENERGA S.A.; (ii) lower revenues from grants by approx. PLN 8 million.

Negative EBIT of Renewables segment in 2017 results mainly from recognition of impairment loss in amount of PLN 133 million.

4.4.4. Capital expenditures

Table: Capital expenditures incurred in Renewables segment in 2017, 2016 and 2015.

PLN million	Capital expenditures				
	2017	2016	% change	2015	% change
Investments in generating capacities, including:	75	140	-46%	918	-85%
▪ Development	22	79	-72%	867	-91%
▪ Modernisation and replacement	53	61	-13%	51	20%
Other	6	4	50%	13	-69%
TOTAL	81	144	-44%	931	-85%

PLN million	Q1	Q2	Q3	Q4	Q4
	2017	2017	2017	2017	2016
Investments in generating capacities, including:	11	14	19	31	28
▪ Development	5	5	5	7	6
▪ Modernisation and replacement	6	9	14	24	22
Other	1	2	2	1	3
TOTAL	12	16	21	32	31

4.4.5. Responsible approach to natural environment

PGE Group is the leader in producing electricity from renewable sources in Poland, with an approx. 10% market share (together with biomass). The energy produced in the Renewables segment could not be produced without natural resources: water, wind and sun. Taking this into account, PGE Group in its daily activities follows a responsible approach to the resources that it uses to produce electricity.

Investing in renewable sources since 2007, the wind asset portfolio currently has approx. 550 MWe. The renewable energy segment's assets include the largest pumped storage plants in Poland that contribute to system stability during peak demand for electricity as well as numerous run-of-the-river hydro-power plants. Aside from generating clean and ecological energy, PGE Group's hydroelectricity assets, which have their own reservoirs, play a very important role in flood control. They can divert and smooth out flood waves in rivers and thus control their safe discharge in volumes that cause no losses or damages. Water storage at hydro-power plants' reservoirs is also of significance during draught. By supplying additional water to rivers, they support local fauna and flora. In addition, the operation of turbines adds oxygen to the water, which has a positive impact on the entire ecosystem. All hydro-power assets in the renewable energy segment have modernised installations that have no adverse effect on waters and do not change their physical and chemical properties, e.g. temperature.

The Renewables segment is also implementing development projects that focus on the use of wind, water - also offshore - and photovoltaics, which uses solar energy. Also of significance are the investments being implemented by companies in the Renewables segment that focus on maintaining riverbeds, participating in the costs being incurred by river administrators and participating in the costs of restocking, which is a way of compensating for making fish migration more difficult on account of damming facilities being built across rivers.

The Group cooperates with inter alia the Environment Ministry, Regional Directorates for Water Management, National Fund for Environmental Protection and Water Management and other entities involved in water management, environmental protection and clean energy. These programmes make it possible to more effectively use the energy potential of waterways and mitigate the negative impact of water management facilities.

4.5. Distribution segment

4.5.1. Volumes, customers and operational data

PGE Dystrybucja S.A. operates in the area of 122,433 sq. km and delivers electricity to approximately 5.4 million.

Diagram: Area of PGE distribution grid.



Table: Volume of distributed energy and number of customers in 2017, 2016 and 2015.

Tariff	Volume of distributed energy [TWh]*			Number of customers according to power take-off points		
	2017	2016	2015	2017	2016	2015
A tariff group	5.44	5.16	5.21	109	106	98
B tariff group	13.51	13.02	12.30	11 423	11 209	10 977
C+R tariff groups	6.89	6.82	6.63	480 345	484 532	490 847
G tariff group	9.50	9.32	9.24	4 858 798	4 811 211	4 761 809
TOTAL	35.34	34.32	33.38	5 350 675	5 307 058	5 263 731

* with additional estimation of sales

Table: Key operational data in 2017, 2016 and 2015.

Operational data	Unit	2017	2016	2015
Number of stations:	pieces	93 493	92 837	92 258
number of transformer stations	pieces	93 104	92 474	91 874
MVA power	MVA	30 826	29 903	29 500
Length of power lines	km	287 864	285 701	283 804
HV lines	km	10 278	10 197	10 143
MV lines	km	111 588	110 798	109 938
LV lines	km	165 998	164 706	163 723
Grid loss ratio	%	5.4	5.8	5.9
SAIDI ratio	minutes	557	401	442
Planned	minutes	95	119	159
Unplanned with cata- strophic	minutes	462	282	283

SAIFI ratio		per customer	5.48	4.49	4.72
Planned		per customer	0.48	0.61	0.70
Unplanned with catastrophic		per customer	5.00	3.88	4.02
Connection time		days	215	248	291

4.5.2. Key financial figures

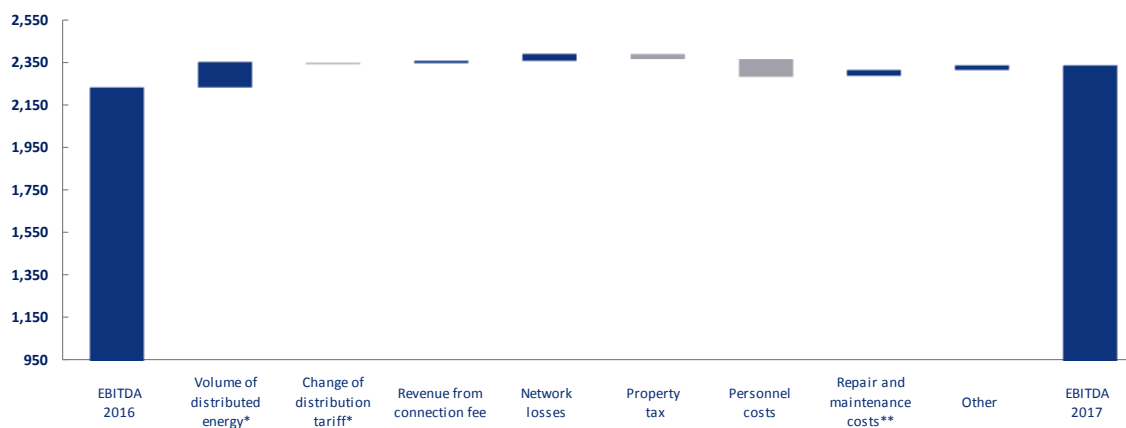
Table: Key figures for Distribution.

PLN million	2017	2016	% change	2015	% change
Sales revenues	6 392	5 918	8%	6 083	-3%
EBIT	1 166	1 104	6%	1 387	-20%
EBITDA	2 333	2 230	5%	2 461	-9%
Capital expenditures	1 716	1 721	0%	1 841	-7%

PLN million	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q4 2016
Sales revenues	1 643	1 532	1 552	1 665	1 552
EBIT	326	316	297	227	258
EBITDA	618	604	585	526	545
Capital expenditures	263	366	431	656	586

4.5.3. Key factors for the results of the segment

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



Change	119	-4	7	35	-23	-78	28	19
EBITDA 2016	2,230	4,022	91	465	343	1,039	153	
EBITDA 2017		4,137	98	430	366	1,117	125	2,333

* Except costs of transmission by PSE S.A.

** Cost of materials and services for repair and maintenance

Key factors affecting the results of Distribution in 2017 compared to the results of the previous year included:

- **Increased volume of distributed energy** by 1 019.7 GWh, resulting from – inter alia – higher number of customers measured by power take-off points (by approx. 43.6 thousand) in comparison to 2016 and growth of the economic activity of customers from groups A and B in the area of operation of PGE Dystrybucja S.A.
- **A slight drop of the average rate** by approximately PLN 0.1/MWh after decreasing revenues by cost of fees for PSE S.A.
- **Increase of revenues from connection fees** results mainly from completion of large connection-related investment with PKP Energetyka S.A. pursued by the Rzeszów Branch.
- **Lower costs of energy to cover balancing difference** mainly as a result of lower average purchase price of electricity along with losses volume lower by 38.6 GWh.

- **Increase of costs of tax on real estate** in connection with an increase of grid assets value as a result of investments.
- **Increase in personnel costs**, resulting largely from an on-going process to optimise salaries.
- **Lower costs of renovation and exploitation** in connection with more effective use of the company's own resources and shift of some of the work to the following months. In 2016 the company realised more tasks with regard to tree and branch felling.
- **Change in other** resulting mainly from positive result on other operations (increase by PLN 21 million).

4.5.4. Capital expenditures

Table: Capital expenditures incurred in Distribution segment in 2017, 2016 and 2015.

PLN million	Capital expenditures				
	2017	2016	% change	2015	% change
MV and LV power networks	586	546	7%	553	-1%
110/ MV and MV/MV	177	182	-3%	223	-18%
110 kV power lines	105	60	75%	52	15%
Connection of new off-takers	504	572	-12%	585	-2%
Purchase of transformers and energy counters	144	153	-6%	183	-16%
IT, telemechanics and communication	132	140	-6%	157	-11%
Other	68	68	0%	88	-23%
TOTAL	1 716	1 721	0%	1 841	-7%

PLN million	Q1	Q2	Q3	Q4	Q4
	2017	2017	2017	2017	2016
MV and LV power networks	80	113	123	270	185
110/ MV and MV/MV	33	35	34	75	82
110 kV power lines	7	6	64	28	26
Connection of new off-takers	91	135	133	145	163
Purchase of transformers and energy counters	31	40	44	29	43
IT, telemechanics and communication	15	23	26	68	56
Other	6	14	7	41	31
TOTAL	263	366	431	656	586

Key developments in the Distribution segment in 2017:

- On February 8, 2017, the President of URE notified PGE Dystrybucja S.A. that its Development Plan for 2017-2022 had been agreed.
- In March 2017, the modernisation of a two-system 110/20 kV Hańcza station at the Białystok branch was completed, with expenditures totalling over PLN 13 million.
- In June 2017, a technical acceptance of the 110/15kV Czosnów station was successfully performed.
- In August 2017, the construction of a 110 kV overhead cable line Łomianki-Czosnów at the Warszawa Teren branch was completed, with expenditures totalling over PLN 51 million.
- In September and October 2017, the construction of a 110/15 kV station Korczowa Logistic Park and a two-track 110 kV line to the Korczowa station at the Zamość branch was completed, with expenditures totalling over PLN 20 million.
- In December 2017, the modernisation and expansion of 110/15kV station Gorzyce at the Rzeszów branch was completed, with expenditures totalling over PLN 13 million.

4.5.5. Responsible approach to natural environment

The Distribution segment manifests its responsible approach to the natural environment through compliance with legal regulations concerning the operation of its power networks and equipment. This also involves investment and repair tasks that are conducted in such a way as to minimise their burden and impact on the surrounding natural environment.

All investments in the distribution area are implemented in a way that ensures the maximum available reduction in adverse impact on the natural environment by facilities owned by PGE Dystrybucja S.A. The construction of new power facilities or the conversion of existing facilities is based on decisions on environmental conditions, issued by environmental protection authorities. In 2017, the matter of environmental decisions was included in the Procedure for supervising the report and assessment of environmental impact and plan for stakeholder engagement - as required by the EBRD.

PGE Dystrybucja S.A. has been implementing a project to limit grid losses for years, mainly by replacing transformers with low-loss equipment and by converting and modernising the grid. These investments are contributing to the improvements in quality parameters of electricity supplies and to reducing grid operation costs. In 2017, as a result of a number of efficiency initiatives, the grid loss ratio was reduced from 5.77% to 5.37%.

Distribution segment is subject to mandatory notification of installations that emit an electromagnetic field. New or modernised installations being operated by PGE Dystrybucja S.A. are notified to the relevant environmental protection authorities on an on-going basis.

In 2017, on the PGE distribution area, the company undertook a number of activities intended to maintain the natural character of the environment. The most important activities included:

- continuing activities intended to protect the natural environment from insulating oil pollution in the event of an emergency leak from transformers used on 110 kV substations, by constructing sealed containers (basins) under power transformers,
- continuing activities within a programme to protect white stork nests, consisting of installing special structures on low-voltage lines facilitating the set up and protection of stork nests,
- introduction of modern small-format power equipment and grid elements in order to decrease area occupied by infrastructure,
- replacement of bare aluminium wires on overhead lines with insulated wires in order to reduce electrocution risk, which is of particular importance in areas with protected landscape elements.

4.6. Supply segment

4.6.1. Volumes, customers, fees and operational data

Within the Supply segment, operations are conducted by PGE Obrót S.A., PGE S.A., PGE Dom Maklerski S.A., PGE Trading GmbH, PGE Paliwa sp. z o.o. and Enesta sp. z o.o. The segment's operations involve sales of electricity to final off-takers, wholesale electricity trading on domestic and international market, wholesale fuels and fuel-related products trading on domestic and international market, providing services to the PGE Group companies with regard to management of generation capacities and electricity produced, as well as trading of CO₂ emission rights and certificates.

Revenues are mainly generated from electricity sales to final customers and sales of distribution services under master agreements. The main costs of operation in the segment are costs of electricity purchase and expenses incurred in compliance with the obligation to buy units of ownership which are subject to remittance under the system of support for Renewable Energy Sources, co-generation and energy efficiency. As an alternative, in the case of limited supply or lack property rights a substitute fee may be contributed.

The volume of electricity sales to final customers amounted to 40.01 TWh, what represented 93% of the previous year sales.

Expenses borne by power undertakings involved in the sale of electricity and relating to the system of support for renewable and co-generation energy sources and resulting from introduction of certificates of energy efficiency is a substantial item in the retail price of electricity paid by the final customer.

Table: Substitution fees.

Substitution fee	Unit	2017	2016	2015
Renewable energy sources	PLN/MWh	300.03	300.03	300.03
Energy certificate - cogenerated energy (colliery methane)	PLN/MWh	56.00	63.00	63.26
Certificates of origin – energy generated in highly-efficient cogeneration	PLN/MWh	10.00	11.00	11.00
Certificates of origin – energy generated in highly-efficient cogeneration fuelled by gas or with a total installed capacity of the unit below 1 MWe	PLN/MWh	120.00	125.00	110.00
Certificates of energy efficiency	PLN/toe	1 500.00	1 000.00	1 000.00

Table: Obligation to redeem certificates.

Obligation to redeem the property rights	Unit	2017	2016	2015
Renewable energy sources*	%	16.0	15.0	14.0
Energy certificate - cogenerated energy (colliery methane)	%	1.8	1.5	1.3
Certificates of origin – energy generated in highly-efficient cogeneration	%	23.2	23.2	23.2
Certificates of origin – energy generated in highly-efficient cogeneration fuelled by gas or with a total installed capacity of the unit below 1 MWe	%	7.0	6.0	4.9
Certificates of energy efficiency	%	1.5	1.5	1.5

* Including obligation arising from the purchase of certificates of origin for electricity generated from agricultural biogas ("blue" certificates) from July 1, 2016 (0.65%). For year 2017 the obligation to redeem blue certificates was 0.6%.

4.6.2. Key financial figures

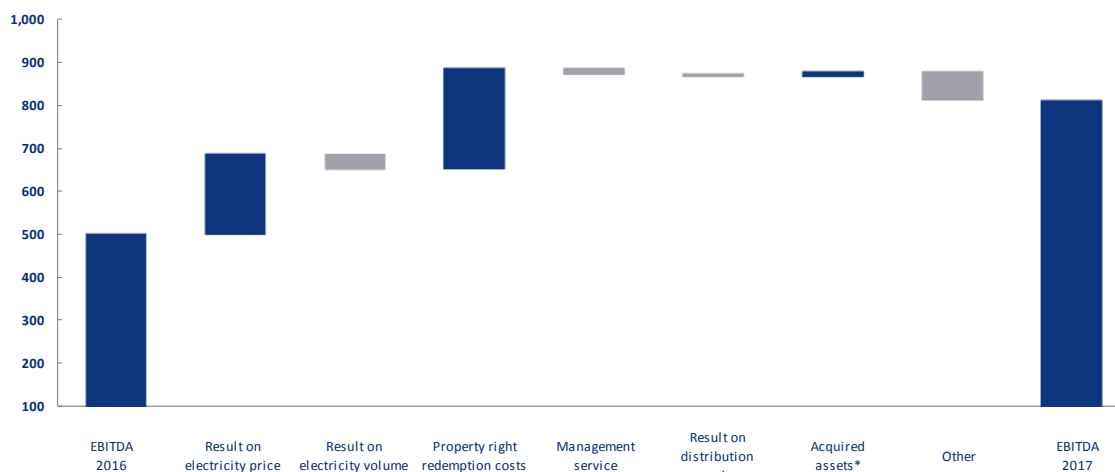
Table: Key figures for Supply.

PLN million	2017	2016	% change	2015	% change
Sales revenues	15 662	16 014	-2%	15 783	1%
EBIT	784	473	66%	585	-19%
EBITDA	811	500	62%	610	-18%
Capital expenditures	14	23	-39%	31	-26%
Purchase of property, plant and equipment and intangible assets within purchase of new companies	2	0	-	0	-

PLN million	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q4 2016
Sales revenues	3 953	3 677	3 610	4 422	4 182
EBIT	237	172	185	190	173
EBITDA	243	179	192	197	180
Capital expenditures	3	2	4	5	9
Purchase of property, plant and equipment and intangible assets within purchase of new companies	0	0	0	2	0

4.6.3. Key factors for the results of the segment

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



Change	186	-33	233	-14	-6	11	-66	
EBITDA 2016	500	1,391	977	468	0	0	382	
EBITDA 2017		1,544	744	454	-6	11	448	811

*PGE Paliwa sp. z o.o.

Key factors affecting EBITDA of Supply segment in 2017 compared to 2016 included:

- **Increase of result from electricity** resulting from the change of sales policy, which currently is set at maximization of the total gross margin.
- **Decrease in costs to redeem certificates**, mainly as a result of lower market prices for green and co-generation certificates and lower demand for certificates. That growth was partly compensated by introduction in mid-2016 of duty to redeem the certificates granted for electricity produced in biogas plants, what was a consequence of amended RES Law.

- Decrease of revenues from the Agreement for Commercial Management of Generation Capacities ("ZHZW") due to lower trading volume by 2.1 TWh. Those revenues are entirely derived from companies of PGE Group belonging to other segments.
- **Change in result on distribution services** mainly as a result of settlement of prosumers who do not pay variable fee for distribution service while PGE Obrót bears the full cost of distribution service.
- **Change in other** resulting mainly from higher operating expenses by PLN 8 million and lower result on other operations by PLN 54 million, including: discounted amount of donation for years 2018-2026 for Polish National Foundation (PLN 27 million) and provision and provision for penalty for non-compliance to redeem blue certificates for 2016 (PLN 7 million).

4.6.4. Responsible approach to natural environment

PGE Obrót S.A. is one of the leading electricity sellers in Poland. With access to a wide customer base, the company may implement its responsible approach to the natural environment through an offering for clients who care about ecology and the origin of their electricity.

In 2017, PGE Obrót S.A. continued to sell ecological packages for the segment of large corporates and local government units. This offering included the sale of electricity generated from renewable sources along with an obligation to provide to the end user guarantees of origin for electricity derived from renewable sources in the Origin Guarantee Register maintained by the power exchange TGE.

In the SME segment, the company continued to market its "Oszczędzaj światłem dla małych firm" (eng. Save with light for small businesses) offering, which is a solution piloted in the first half of 2017. This deal includes electricity sales together with an additional product - a package of LED bulbs / lamps dedicated to the small business segment in the C1x tariff group in the legacy market area. A similar offer named "Oszczędzaj światłem" (eng. Save with light) was addressed to customers in the household segment.

Being aware of the national energy policy concerning reductions in pollution related to household emissions, at the end of January 2018 PGE Obrót S.A. introduced two promotional offers for electricity sales: "Anti-smog offer" and "Anti-smog offer. Expanded". These offers are directed to those customers who either already use or will use electricity for heating purposes as well as those who charge electric vehicles using their electric installation.

4.7. Other operations

Table: Key figures for Other operations.

PLN million	2017	2016	% change	2015	% change
Sales revenues	449	688	-35%	682	1%
EBIT	-88	-64	-38%	-51	25%
EBITDA	43	67	-36%	66	2%
Capital expenditures	126	170	-26%	216	-21%
Purchase of property, plant and equipment and intangible assets within purchase of new companies	24	0	-	0	-

PLN million	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q4 2016
Sales revenues	172	79	86	112	177
EBIT	-21	-10	3	-60	-25
EBITDA	12	8	20	3	11
Capital expenditures	33	-19	71	41	68
Purchase of property, plant and equipment and intangible assets within purchase of new companies	0	0	0	24	0

Decrease in the EBITDA result of the Other operations segment by PLN 24 million was mainly connected with the share sale agreement concluded on March 29, 2017, concerning the transfer of 100% shares of EXATEL S.A. to the State Treasury.

Increased EBITDA of PGE Systemy S.A. that is a consequence of increasing the range of provided services for companies from the Group belonging to other segments, positively attributed the segment's result.

4.7.1. Capital expenditures

Capital expenditures in Other Operations in 2017 amounted to PLN 126 million compared to PLN 170 million in 2016.

Within the above amount, the highest capital expenditures in 2017 were incurred by the following companies:

- PGE Systemy S.A. – for IT infrastructure and software development PLN 66 million;
- PGE EJ 1 sp. z o.o. – for nuclear project development PLN 43 million.

4.8. Entity authorised to audit of financial statements

An entity authorised to audit stand-alone financial statements of PGE S.A. and consolidated financial statements of PGE Capital Group for 2017 is Ernst & Young Audyty Polska sp. z o.o. sp. k. on the ground of the agreement signed on July 17, 2017.³

An entity authorised to audit and review of financial statements, which was responsible for review of stand-alone financial statements of PGE S.A. and review of consolidated financial statements of the PGE Capital Group for the first half-year 2017 and for audit of annual stand-alone financial statements of PGE S.A. and consolidated financial statements of the PGE Capital Group for 2016 was KPMG Audyty sp. z o.o. sp. k. on the ground of the agreement signed on November 4, 2014.⁴

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

Auditor's fee	2017*	2016	2015
Audit and reviews of the financial statements	464	493	398
Other	0	32	118

* remuneration of KPMG Audyty sp. z o.o. sp. k. and Ernst & Young Audyty Polska sp. z o.o. sp. k.

In 2017 Ernst & Young Audyty Polska sp. z o.o. sp. k. audited annual financial statements of the following companies from the PGE Capital Group i.e.: PGE GiEK S.A., PGE EJ 1 sp. z o.o., PGE Energia Odnawialna S.A., EW Baltica 1 sp. z o.o., EW Baltica 2 sp. z o.o., EW Baltica 3 sp. z o.o., PGE Dom Maklerski S.A., PGE Energia Natury PEW sp. z o.o., PGE Dystrybucja S.A., PGE Obrót S.A., PGE Ekoserwis sp. z o.o., PGE Paliwa sp. z o.o., PGE Energia Ciepła S.A., PGE Toruń S.A., PGE Gaz Toruń sp. z o.o., EC Zielona Góra S.A., Kogeneracja S.A., PGE TFI S.A., PGE Systemy S.A., PGE Obsługa Księgowo-Kadrowa sp. z o.o., PGE Sweden AB.

In 2016 KPMG Audyty sp. z o.o. sp. k. audited annual and reviewed half-year financial statements of the following companies from the PGE Capital Group i.e.: PGE GiEK S.A., PGE EJ 1 sp. z o.o., PEC Zgierz sp. z o.o., PGE Energia Odnawialna S.A., EW Baltica 1 sp. z o.o., EW Baltica 2 sp. z o.o., EW Baltica 3 sp. z o.o., Bio-Energia sp. z o.o., PGE Dom Maklerski S.A., PGE Energia Natury sp. z o.o., PGE Energia Natury PEW sp. z o.o., PGE Obsługa Księgowo-Kadrowa sp. z o.o. and ELBEST Security sp. z o.o.

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

Auditor's fee	2017	2016	2015
Audit and reviews of the financial statements	3 681*	847	846
Other	1 409**	109	114

* including Acquired assets (PGE Energia Ciepła S.A., PGE Toruń S.A., PGE Gaz Toruń sp. z o.o., EC Zielona Góra S.A., Kogeneracja S.A., PGE Paliwa sp. z o.o., PGE Ekoserwis sp. z o.o.). Data of the acquired companies are presented for full year 2017.

** PGE Paliwa sp. z o.o., PGE Energia Ciepła S.A.

³ The contract includes annual audits of separate and consolidated financial statements for 2017 and 2018 and reviewing the semi-annual separate and consolidated condensed financial statements as at June 30, 2018.

⁴ The contract included annual audits of financial statements for 2014, 2015 and 2016 and reviewing the semi-annual separate and consolidated condensed financial statements as at June 30, 2015, June 30, 2016 and June 30, 2017.

4.9. Significant events of the reporting period and subsequent events

4.9.1. Investment Agreement on the financial investment in Polska Grupa Górnicza S.A.

Investment Agreement on the financial investment in Polska Grupa Górnicza S.A. is described in note 33.2 to the consolidated financial statements.

4.9.2. Capital investment in Polimex-Mostostal S.A.

Capital investment in Polimex-Mostostal S.A. is described in note 33.4 to the consolidated financial statements.

4.9.3. Impairment tests

Impairment tests are described in note 3 to the consolidated financial statements.

4.9.4. Acquisition of EDF assets in Poland

On May 11, 2017 PGE and EDF International SAS and EDF Investment II B.V. (jointly "EDF") signed Put Option Agreement (the "POA") regarding the sale of EDF assets in Poland. In accordance with the POA, terms provided EDF with the option to call PGE to sign the Share sale agreement (the "SSA") for the above mentioned assets, provided that certain conditions are met, including inter alia EDF's corporate approvals for the sale transaction.

On May 19, 2017, in connection with execution by EDF of put option resulting from the POA, EDF and PGE signed the Conditional Share Sale Agreement (the "CSSA").

The CSSA included in particular (the "Transaction"):

- acquisition of 99.52% of shares of EDF Polska S.A.,
- acquisition of 100% of shares of EDF Investment III B.V.,
- indirect acquisition of 50% of shares + 1 share of ZEW Kogeneracja S.A. (shares held by EDF Polska S.A. and EDF Investment III B.V.), acquisition of shares in supporting subsidiaries of EDF Polska S.A..

Upon satisfaction of all conditions precedent (a clearance on the transaction from the relevant governmental authorities in France, the Minister of Energy clearance, the antitrust authority conditional, a statement by the General Director of the National Center for Agricultural Support (Krajowy Ośrodek Wsparcia Rolnictwa - KOWR), that it will not exercise the pre-emption right, the Transaction took place on November 13, 2017 the "Closing Date").

As a result of the execution of the agreement, PGE S.A. acquired a number of generation assets (including: 4 CHP plants i.e. Kraków, Gdańsk, Gdynia and Toruń, district heating networks in Toruń and Rybnik power plant) currently controlled PGE Energia Ciepła S.A. and 4 CHP plants i.e. Wrocław, Czechnica and Zawidawie, Zielona Góra and district heating networks in Zielona Góra, Siechnice and Zawidawie.

The final Transaction value amounted to approximately PLN 4.27 billion. As a consequence of final settlement, the total Transaction-related expenditures incurred by PGE included:

- equity value of approximately PLN 2.45 billion, determined as at December 31, 2016 according to the Locked-Box formula,
- intra-company debt balance as of the Closing Date of the Transaction, i.e. November 13, 2017, in amount of approx. PLN 1.68 billion and approx. USD 10 million (the "Intra-Company Debt"),
- interest on the Equity Value accrued pro rata from January 1, 2017 until the Closing Date of the Transaction, i.e. until November 13, 2017, amounting to PLN 93.27 million as a result of economic benefits from operations of acquired assets vesting with the Company following the Locked Box Date i.e. December 31, 2016,
- outstanding interest as of the Closing Date of the Transaction related to the Intra-Company Debt and other fees in amount of approx. PLN 18 million.

The payment for the EDF assets in Poland as well as the transfer of shares took place at the Closing Date of the Transaction.

In connection with the closing of the Transaction and PGE's indirect acquisition of shares of Kogeneracja S.A. resulting in crossing the 33% threshold of voting rights in Kogeneracja, on February 1, 2018 PGE announced a tender offer for 2 383 999 dematerialised ordinary bearer shares (the "Share") issued by Kogeneracja S.A. for a price of PLN 81.80 for each Share, entitling to 16.00% of votes on the General Meeting of the Company (the "Tender Offer"). The company which acquires Shares is PGE Energia Ciepła S.A. (the "Acquirer"). The Tender Offer was announced on the ground of art. 73 section 2 p. 1 of the Act of July 29, 2005 on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies, as well as in accordance with the Regulation of the Minister of Economy and Finance of September 14, 2017 on the templates of tender offers to subscribe for the sale or exchange of shares in a public company, the detailed means of their publication and the conditions for acquiring shares as a result of

these tender offers. After the Tender Offer, the Acquirer, jointly with its subsidiary Investment III B.V., intends to reach 66% of total votes at the General Meeting of the company, what is represented by 9 834 000 shares of Kogeneracji S.A. The acquisition of assets from EDF was initially settled for the purposes of the financial statements. Details are described in note 1.4 to the consolidated financial statements.

4.9.5. Termination by Enea S.A. of agreements for sale of certificates

Termination of agreements for sale of certificates by Enea S.A. is described in note 28.4 to the consolidated financial statements.

4.9.6. Network failures caused by strong winds

In 2017, PGE's distribution network area was subject to extremely unfavorable weather conditions - caused in particular by very strong gusts of wind (exceeding 100 km/h), which resulted in grid failures resulting in mass damages of power network. Due to numerous and long-lasting downtimes caused by catastrophic events, PGE Dystrybucja did not meet SAIDI and SAIFI quality targets for 2017. Impact of the company's failure to reach its SAIDI and SAIFI targets in 2017 on the company's financial results will be visible in 2019 (see point 5.4.5 in this report). Currently, all Distribution Network Operators, through the Board of PTPIRRE, are in talks with the Energy Regulatory Office President concerning the removal of the effects of catastrophic events from these indicators, which are taken into account in the quality tariff.

4.9.7. Mechanism of split VAT payment

Starting from July 1, 2018, the so-called mechanism of split VAT payment will be introduced. The change will affect the increase in net debt and the ratio of net debt to EBITDA. According to PGE Group's estimates, the impact on the level of net debt is approx. PLN 100-200 million. Details are described in note 31 to the consolidated financial statements.

4.9.8. Description of material agreements

In 2017 there were no agreements meeting the criteria of material agreement apart from the agreement for purchase of EDF assets in Poland that is described in p. 4.9.4 of this report.

4.9.9. Changes in the Management Board and Supervisory Board

Changes in the Management Board and Supervisory Board are described in p. 8.3 of this report.

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

Decisions of the President of the Energy Regulatory Office related to realisation of LTC Act are described in note 33.1 to the consolidated financial statements.

4.9.11. Legal aspects

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

Information on claims for annulment of the resolutions of the General Meetings of PGE S.A. are described in note 28.4 to the consolidated financial statements.

The issue of compensation regarding the conversion of shares

Information on the issue of compensation regarding the conversion of shares are described in note 28.4 to the consolidated financial statements.

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

As at December 31, 2017 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 p. 4.9.11 Legal aspects and in note 28.4 to the consolidated financial statements.

4.9.13. Information concerning the guarantees for loans granted by the Company or a subsidiary

Within the Group, in 2017 PGE S.A. and subsidiaries did not grant guarantees to other entities or to a subsidiary, where a value of guarantees constitutes at least 10% of the Company's equity.

4.9.14. Change of accounting rules

Change of accounting rules is described in note 5 to the consolidated financial statements.

4.9.15. Information on issue, redemption and repayment of debt securities and other securities

Information on issue, redemption and repayment of debt securities and other securities is described in p. 1.4 of the foregoing report and in note 1.3 to the consolidated financial statements.

4.9.16. Activities related to nuclear energy

The programme to build Poland's first nuclear power plant (the "Programme") is focusing on conducting site characterisation and environmental surveys until an environmental impact assessment report and site report are prepared. Decisions with regard to the continuation of the Programme, in the above scope or otherwise, will be made based on decisions by the Minister of Energy concerning a model for the procurement of nuclear power plant technology, financing model and an updated Programme for Poland's Nuclear Power.

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.

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 EJ1 in form of the increase of the share capital. In the fourth quarter of 2017, PGE EJ 1 received a loan from its shareholders instead of a share capital increase. PGE's financial commitment in the Development Stage will not exceed amount of approx. PLN 700 million.

Proceeding for selection of technology

Further action with regard to delivery of technology is dependent on the final arrangements with the Ministry of Energy related to formula of technology selection, working out economic, organisational and legal solutions, including the risk distribution and estimated costs of implementation of those solutions.

Site characterisation, environmental and other surveys

Site characterisation and environmental surveys connected necessary to prepare an environmental impact assessment and a site characterisation report.

The aim of the environmental surveys is to specify the project's impact on the environment, broken down into the preparation, construction, operation and disassembly of the nuclear plant. Works are being conducted at two sites: Lubiatowo-Kopalino and Żarnowiec, within Choczewo, Krokowa and Gniewino municipalities in the Pomeranian Voivodeship. The surveys are being carried out with the participation of ELBIS Sp. z o.o., a company from PGE Group. The works are planned to be finished at the end of 2020, however the works on schedule update have been commenced.

Social acceptance

The main aim of activities in this area is to maintain a high level of community support at the planned nuclear plant sites and to deliver knowledge about nuclear power and about the Programme to the widest possible range of stakeholders.

In 2017, works were continued within the Site Municipality Development Support Programme intended to reinforce partner relations of PGE and the local communities and authorities of the municipalities by providing support to initiatives that are of significance to the residents and development of the region.

Public opinion polls were taken at local level and showed support for the nuclear plant build.

Legal regulations concerning nuclear energy

In 2017, PGE S.A. and PGE EJ1 participated in public consultations on a draft act on, among others, amendment of the Nuclear Law, on a draft of the Urban and Construction Code Law, a draft of the act on investment administration and construction supervision organs and on draft Water Law act.

Compensations from WorleyParsons

In 2013, PGE EJ1 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"), in the amount of approximately PLN 253 million net (including basic scope of approximately PLN 167

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

Contractual penalties of 2013 were deducted from the remuneration payable to WorleyParsons in 2014. Penalties for 2014 were partly deducted from the remuneration payable to WorleyParsons and partly obtained from the bank guarantee. After all deductions and amounts received by the company from the bank guarantee, PGE EJ 1 is entitled to claim towards WorleyParsons for payment of approximately PLN 14 million as a penalty by way of delay.

On August 7, 2015 PGE EJ 1 filed with the District Court in Warsaw a claim against WorleyParsons for the payment of approximately PLN 15 million plus statutory interest for late payment of the amount due.

On November 13, 2015, PGE EJ 1 received a payment demand from WorleyParsons for about PLN 59 million due for WorleyParsons remuneration, which - according to the claimant - was deducted unduly, for the works that in opinion of WorleyParsons were unjustifiably not accepted and for the project management, as well as funds collected 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. Moreover, value of claims by WorleyParsons amounting to approximately PLN 54 million was included in the WorleyParsons' payment demand for PLN 92 million of March 13, 2015 with regard to termination of the agreement. On March 24, 2017, PGE EJ1 received a procedural document expanding the action being brought by WorleyParsons from approximately PLN 59 million to approximately PLN 104 million (i.e. by around PLN 45 million). It is possible that WorleyParsons will file another claim amounting to approximately PLN 32 million representing the difference in amount of claims from the demand for payment of March 13, 2015 and the expanded claim received on March 24, 2017.

On March 29, 2017, mediation between the Parties took place – the meeting did not result in a settlement. The first hearing was held on December 8, 2017, during which the Court decided to examine the matter behind closed doors (without an audience).

The Court-ordered deadline for responding to the letter from WorleyParsons expanding the lawsuit is March 31, 2018.

PGE EJ 1 does not accept the claim and regards its possible admission by the court as less likely than its dismissal.

Furthermore, on May 20, 2016, PGE EJ 1 filed a motion with the District Court for the Capital City of Warsaw in Warsaw to commit WorleyParsons to attempt reaching a settlement concerning PGE EJ 1's claims of PLN 41 million together with statutory interest for compensation for undue contractual performance. A conciliation meeting at the court is scheduled for June 8, 2017. During the hearing on June 8, 2017, the Court stated that a certified copy of the application was not delivered to the American WorleyParsons companies, and therefore it adjourned the hearing without setting a date. On July 3, 2017, a representative of PGE EJ 1 received information that a certified copy of the application was delivered to the American companies. At a hearing on September 19, 2017, the court ruled that a settlement had not been agreed and concluded the case.

4.10. Transactions with related entities

Information about transactions with related entities is presented in note 32 to the consolidated financial statements.

4.11. Publication of financial forecasts

PGE S.A. did not publish financial forecasts.

4.12. Management of financial resources and financial liquidity

4.12.1. Net debt of the Group and main financial ratios

Table: Group's net debt as at December 31, 2017, December 31, 2016 and December 31, 2015.

PLN million	As at December 31, 2017	As at December 31, 2016	As at December 31, 2015
Cash on hand and cash at bank	1 309	808	1 304
Overnight deposits	34	42	57
Short-term deposits	1 209	1 819	1 743
Cash and cash equivalents	2 552	2 669	3 104
Adjustment for restricted cash*	-92	-72	-290
Investments held until maturity date (short-term deposits)	6	2 300	1
Cash at PGE Group's disposal	2 466	4 897	2 815
Current loans and borrowings	570	332	214
Bonds issued - current	1 051	78	76
Current lease	2	1	1
Non-current loans and borrowings	5 788	5 839	1 459
Bonds issued – non-current	2 632	3 764	3 658
Non-current lease	2	0	1
Gross financial debt (short and long-term)	10 045	10 014	5 409
Net financial debt	7 579	5 117	2 594

* Restricted cash includes collaterals for settlements of the Group entities with Izba Rozliczeniowa Gield Towarowych S.A. (Warsaw Commodity Clearing House), security deposits and performance bonds.

Table: Key financial ratios.

Ratios	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Return on sales ROS [in %]			
Net result x 100% / Net revenues	11.55%	9.13%	-10.64%
Return on sales ROS [in %]- adjusted**			
Net result x 100% / Net revenues	14.69%	11.96%	15.02%
Return on equity ROE [in %]			
Net financial result x 100% / (equity – net financial result)	6.10%	6.38%	-6.99%
Return on equity ROE [in %] – adjusted**			
Net financial result x 100% / (equity - net financial result)	8.12%	8.53%	11.87%
Debtor's days			
Average trade receivables (gross) x 365 days / net revenues	49	37	34
Debt ratio [in %]			
Liabilities x 100% / total equity and liabilities	35.72%	36.61%	34.06%
Current ratio			
Current assets / short-term liabilities	1.1	1.6	1.5

* data restated

** financial results were adjusted by the value of impairment losses

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

In order to optimise the cash flows of the Group companies, improve the liquidity management efficiency and secure short-term financing of the entities from the Group, PGE Capital Group introduced one-way real cash-pooling. The cash pooling agreements were signed on December 22, 2014.

4.12.2. Bonds issued

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

As at December 31, 2017 PGE GiEK S.A. had bonds issued for a total nominal value of PLN 9 780 million that were purchased by PGE S.A. under two bond programs concluded with ING Bank Śląski S.A. and with Powszechna Kasa Oszczędności Bank Polski S.A.

As at December 31, 2017 PGE EO S.A. had bonds issued and purchased by PGE S.A. amounting to nominal value of PLN 1 085 million.

As at December 31, 2017 PGE Energia Natury PEW sp. z o.o. had bonds issued and purchased by PGE S.A. amounting to nominal value of PLN 176.5 million.

In 2015 - within of the merger process of PGE Energia Natury S.A. and PGE EO S.A., as a result of which PGE EO S.A. entered into the rights and assumed the obligations of PGE Energia Natury S.A. (general succession) – those companies signed appropriate agreements with ING Bank Śląski S.A. allowing to terminate Agency Agreement initially executed between PGE EO S.A. and the bank. Servicing the bonds issued by the issuer – PGE EO S.A., but not yet bought back, is continued under the Agency Agreement initially executed between PGE Energia Natury S.A. and the bank. In addition, new entities from the PGE EO S.A. group, i.e. Elektrownia Wiatrowa Baltica-2 sp. z o.o. oraz Elektrownia Wiatrowa Baltica-3 sp. z o.o., were included in the bond issue program.

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

During 2017, PGE S.A. had a binding Agency Agreement with ING Bank Śląski S.A. regarding the establishment of the bond issue made to companies of the PGE Group PGE S.A. concluded on May 11, 2009. The maximum amount of the programme for the Group is PLN 5 000 million. Under the Program for the Group, PGE S.A. may issue coupon or zero coupon bonds.

As at December 31, 2017 the Company did not have any bonds issued under this programme.

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

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

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

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

As at December 31, 2017 the indebtedness of the Company resulting from the bonds issued under the Program I amounted to PLN 1 000 million.

PGE Sweden AB market bond issue program of up to EUR 2 000 million

On May 22, 2014 PGE Sweden AB established bond issue program ("Program II"). The agreement was signed for indefinite period with BNP Paribas, CITIGROUP Global Markets Ltd., ING Bank N.V., London Branch, Nordea Bank Danmark A/S, Powszechna Kasa Oszczędności Bank Polski S.A. and Societe Generale.

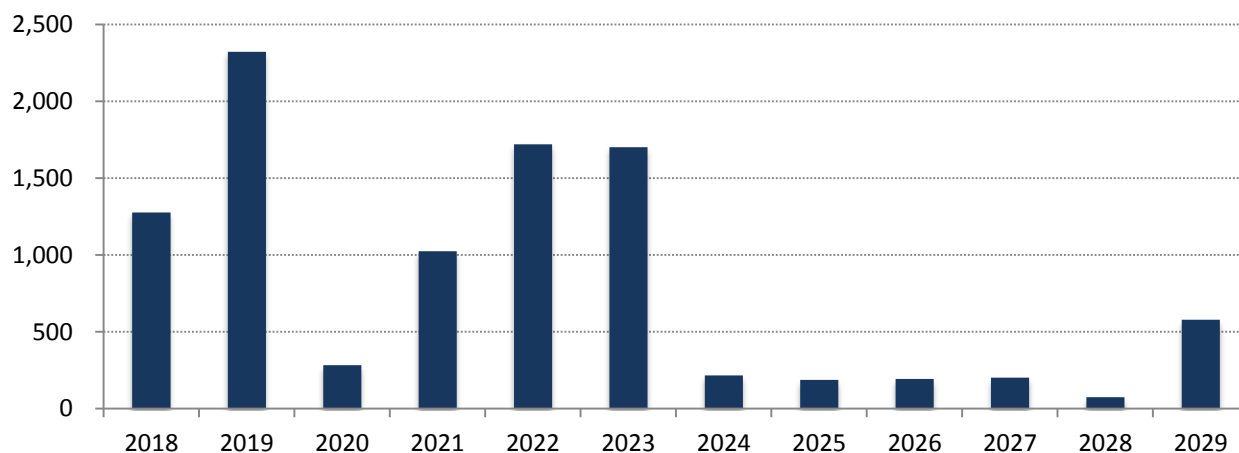
The maximum indebtedness amount from the bonds issued (representing a maximum aggregate nominal value of bonds issued and outstanding) under the Program II cannot exceed EUR 2 000 million.

A public issue of 5-year coupon bearer bonds with fixed rate took place on June 9, 2014. Maturity date of bonds with a nominal value of EUR 500 million is June 9, 2019.

A private placement of 15-year bonds with a nominal value of EUR 138 million took place on August 1, 2014. Maturity date of those bonds is August 1, 2029.

As at December 31, 2017 the indebtedness of the company resulting from the bonds issued under the Program II amounted to EUR 638 million. PGE Sweden AB granted loans to PGE S.A. from the proceeds received under the financing.

Diagram: External debt maturity as at December 31, 2017 [in PLN million].



4.12.3. Bank loans and advances

Table: Information about loans and advances agreements signed in 2017.

Company (Lender)	Party of an agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Amount (million)	Currency	Fixed/ floating rate	Interest rate
PGE Energia Ciepła S.A. (EDF Polska S.A.)*	PGE S.A.	Loan	2016-04-25	2018-04-27	1 528.0	PLN	Floating	WIBOR +2.25% p.a.
PGE Energia Ciepła S.A.	PGE S.A.	Loan	2017-11-14	2019-11-13	552.4	PLN	Fixed	2.20% p.a.
PGE S.A.	European Bank of Reconstruction and Development	Bank loan	2017-06-07	2028-06-06	500.0	PLN	Floating	b.d.**
PGE Dystrybucja S.A.	PGE S.A.	Loan	2017-07-06	2020-07-06	350.0	PLN	Fixed	0.10% p.a.
PGE Energia Ciepła S.A.	PGE S.A.	Loan	2017-12-06	2019-12-29	250.0	PLN	Floating	WIBOR +0.80% p.a.
PGE Energia Ciepła S.A. (EDF Polska S.A.)*	PGE S.A.	Loan	2015-01-30	2018-01-31	150.0	PLN	Floating	WIBOR +1.00% p.a.
PGE Energia Ciepła S.A. (EDF Polska S.A.)	Powszechna Kasa Oszczędności Bank Polski S.A.	Bank loan	2017-09-25	2020-09-25	100.0	PLN	Floating	WIBOR +0.85% p.a.
PGE EJ 1 sp. z o.o.	PGE S.A.	Loan	2017-11-08	2020-11-08	20.6	PLN	Fixed	3.40% p.a.

*loan agreements signed before 2017 subrogated in 2017.

**to be determined in the application for payment of the tranche

Table: Information about the bank loans and advances agreements amended in 2017.

Company (Lender)	Party of an agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Annex signing date (yyyy-mm-dd)	Amount (million)	Currency	Fixed/ floating rate	Interest rate
PGE GiEK S.A.	NFOŚiGW	Loan	2014-06-26	2028-12-20	2017-03-10, 2017-12-05	214.0	PLN	Fixed	3.50% p.a.
PGE Energia Ciepła S.A. (EDF Polska S.A.)	ING Bank Śląski S.A.	Bank loan	2012-06-25	2018-06-25	2017-04-05, 2017-07-10	150.0	PLN	Floating	WIBOR +0.95% p.a.
PGE Energia Ciepła S.A. (EDF Polska S.A.)	WFOŚiGW	Loan	2014-06-27	2020-12-10	2017-12-11	45.0	PLN	Floating	0.95 redis-count rate (1.75%), not less than 3.5%
PGE Energia Ciepła S.A. (EDF Polska S.A.)	WFOŚiGW	Loan	2016-05-20	2024-06-30	2017-11-16	39.8	PLN	Floating	WIBOR 3M, not less than 2%
PGE Energia Ciepła S.A. (EDF Polska S.A.)	WFOŚiGW	Loan	2014-06-27	2020-11-30	2017-06-30, 2017-12-11	35.7	PLN	Floating	0.95 redis-count rate (1.75%), not less than 3.5%
PGE GiEK S.A. (EDF Polska S.A.)	WFOŚiGW	Loan	2014-06-30	2021-09-30	2017-04-20	19.8	PLN	Floating	0.6 srw, not less than 2.5%

4.12.4. Information about the loans terminated / repaid ahead of schedule / amortised by the PGE Group companies in 2017.

In 2017 the companies from the Capital Group repaid ahead of schedule the following agreements.

Company (Lender)	Party of an agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Repayment date (yyyy-mm-dd)	Amount (million)	Currency	Fixed/ floating rate
BESTGUM POLSKA sp. z o.o.	Millennium S.A.	Bank loan	2013-11-22	2019-03-06	2017-09-16	2.3	PLN	Floating

4.12.5. Loans granted

In 2017, PGE S.A. and Group companies granted advances as in p. 4.12.3 of this report.

4.12.6. Guarantees

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

Pursuing the cash management project, on December 22, 2014 PGE S.A. concluded an agreement (valid until December 21, 2017) for the guarantee line in amount of PLN 250 million with Bank Polska Kasa Opieki S.A. Under the agreement PGE S.A. requested issuance of bank guarantees for the liabilities of PGE S.A. and selected companies from the PGE Group. Pursuant to the provisions of the agreement for the guarantee line, the guarantees may be valid for 5 years from the agreement expiry date.

Table: Main guarantees granted by the PGE Group companies as at December 31, 2017.

Company	Entity entitled to guarantee (Beneficiary)	Entity whose liabilities are subject to guarantee (Debtor)	Form of security	Validity of guarantee (yyyy-mm-dd)		Value of guarantee (million)	Currency
PGE S.A.	Bondholders	PGE Sweden AB	Guarantee of financial instrument; Guarantee issued for liabilities of PGE Sweden AB resulting from issue of Eurobonds under the Program of up to EUR 2,000 million	2014-05-22	2041-12-31	2 500.0	EUR
PGE S.A.	Bank Polska Kasa Opieki S.A.	PGE GiEK S.A.	Guarantee of Bank Guarantee issued in order to secure payments under the contract for construction of power units no. 5 and 6 in Opole power plant.	2014-01-29	2020-03-31	293.4	PLN
PGE S.A.	Nordic Investment Bank	PGE GiEK S.A.	Guarantee of liabilities of PGE GiEK S.A. towards NIB in connection with the loan agreement.	2017-05-24	2024-06-20	134.3	EUR
PGE Energia Ciepła S.A. (EDF Polska S.A.)	ING Bank Śląski S.A.	Kogeneracja S.A., PGE Paliwa sp. z o.o., PGE Toruń S.A., EC Zielona Góra S.A., PGE Gaz Toruń sp. z o.o.	Guarantee of financial instrument; Guarantee issued for liabilities of companies from PGE Energia Ciepła group due to Framework Agreement regarding the guarantee line.	2016-01-07	2020-08-31	130.0	PLN
PGE S.A.	Powszechna Kasa Oszczędności Bank Polski S.A.	PGE GiEK S.A.	Guarantee of Bank Guarantee issued in order to secure payments under the contract for construction of power units no. 5 and 6 in Opole power plant.	2014-01-29	2020-03-31	48.9	PLN
PGE S.A.	BNP Paribas Bank Polska S.A.	PGE GiEK S.A.	Guarantee of Bank Guarantee issued in order to secure payments under the contract for construction of power units no. 5 and 6 in Opole power plant.	2014-01-29	2020-03-31	48.9	PLN
PGE Energia Ciepła S.A. (EDF Polska S.A.)	Powszechna Kasa Oszczędności Bank Polski S.A.	PGE Paliwa sp. z o.o.	Guarantee of liabilities resulting from credit line agreement.	2017-09-21	2020-12-31	48.0	USD

The total amount of guarantees granted by the companies of the PGE Capital Group and mandatory on December 31, 2017 amounted to more than EUR 2 600 million, approximately PLN 900 million and USD 73 million.

Table: Main guarantees in PLN received by the PGE Group companies and valid as at December 31, 2017.

Company	Guarantee issuer	Entity for whose liabilities a guarantee was issued (Debtor)	Form of security	Validity of guarantee yyyy-mm-dd		Value of guarantee (million)	Currency
PGE GiEK S.A.	Societe Generale S.A.	ALSTOM Power sp. z o.o.	Performance bond related to construction of power units no. 5 and 6 in Opole power plant	2014-01-29	2018-08-30	317.2	PLN
PGE GiEK S.A.	Mizuho Bank Ltd	Mitsubishi Hitachi Power Systems Europe GmbH	Performance bond related to construction of new power unit in Turów power plant	2014-07-10	2020-06-30	238.4	PLN
PGE GiEK S.A.	PKO BP S.A.	Polimex Projekt Opole sp. z o.o.	Performance bond related to construction of power units no. 5 and 6 in Opole power plant	2014-01-29	2018-08-30	199.2	PLN
PGE GiEK S.A.	Millennium Insurance Company Ltd	Mostostal Power Development sp. z o.o.	Performance bond related to construction of power units no. 5 and 6 in Opole power plant	2014-01-29	2018-08-30	192.6	PLN
PGE GiEK S.A.	Societe Generale S.A.	ALSTOM Power sp. z o.o.	Performance bond related to construction of power units no. 5 and 6 in Opole power plant	2015-10-29	2018-08-30	187.0	PLN
PGE GiEK S.A.	Bank of Tokyo-Mitsubishi UFJ Ltd	Mitsubishi Hitachi Power Systems Europe GmbH	Advance payments guarantee for construction of power unit in Turów power plant.	2015-01-09	2021-06-01	170.2	PLN
Kogeneracja S.A., PGE Paliwa sp. z o.o., PGE Toruń S.A., EC Zielona Góra S.A., PGE Gaz Toruń sp. z o.o.	PGE Energia Ciepła S.A.	Kogeneracja S.A., PGE Paliwa sp. z o.o., PGE Toruń S.A., EC Zielona Góra S.A., PGE Gaz Toruń sp. z o.o.	Guarantee of financial instrument; Guarantee issued for liabilities of companies from PGE Group due to Framework Agreement regarding the guarantee line.	2016-01-07	2020-08-31	130.0	PLN
PGE GiEK S.A.	Lloyds Bank Plc	ALSTOM Power sp. z o.o.	Guarantee for return of unsettled advance related to construction of power units no. 5 and 6 in Opole power plant	2014-01-29	2019-05-15	103.9	PLN

The total amount of guarantees received by the companies of the PGE Capital Group and mandatory on December 31, 2017 amounted to more than PLN 3 300 million and more than USD 73 million. Guarantees were received in connection with investments being pursued and day-to-day operations and include mainly: advance payments guarantees and performance bonds.

4.13. Description of structure of main capital deposits or main capital investments made within the Issuer's Capital Group in a given financial year

Information on PGE Group's structure are presented in note 1.3 to the consolidated financial statements. Investments in associates and entities jointly controlled valued using the equity method are presented in note 12 to the consolidated financial statements. Changes in the Capital Group's structure which took place in 2017 and capital investments related thereto are described in p. 1.4 of this report. Besides, as at December 31, 2017 PGE Group held short-term deposits with a total value of PLN 1 209 million.

Table: bank deposit of PGE S.A. as at December 31, 2017.

Bank	Type of instrument	Date of conclusion (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Amount (million)	Currency
Bank Polska Kasa Opieki S.A. (Pekao S.A.)	short-term deposit	2017-12-29	2018-01-12	400.0	PLN
Bank Polska Kasa Opieki S.A. (Pekao S.A.)	short-term deposit	2017-12-22	2018-01-05	200.0	PLN
Bank of China	short-term deposit	2017-12-15	2018-01-05	199.0	PLN
Bank Polska Kasa Opieki S.A. (Pekao S.A.)	short-term deposit	2017-12-29	2018-01-19	150.0	PLN
Bank Gospodarstwa Krajowego	short-term deposit	2017-12-29	2018-01-19	100.0	PLN
Credit Agricole	short-term deposit	2017-12-22	2018-01-05	50.0	PLN
Bank Handlowy	overnight	2017-12-29	2018-01-02	0.4	PLN

Total value of short-term deposits in subsidiaries amounted to approx. PLN 110 million as at December 31, 2017.

4.14. Significant off-balance sheet items

Significant off-balance sheet items are described in note 28 to the consolidated financial statements.

4.15. Evaluation of investment capacities

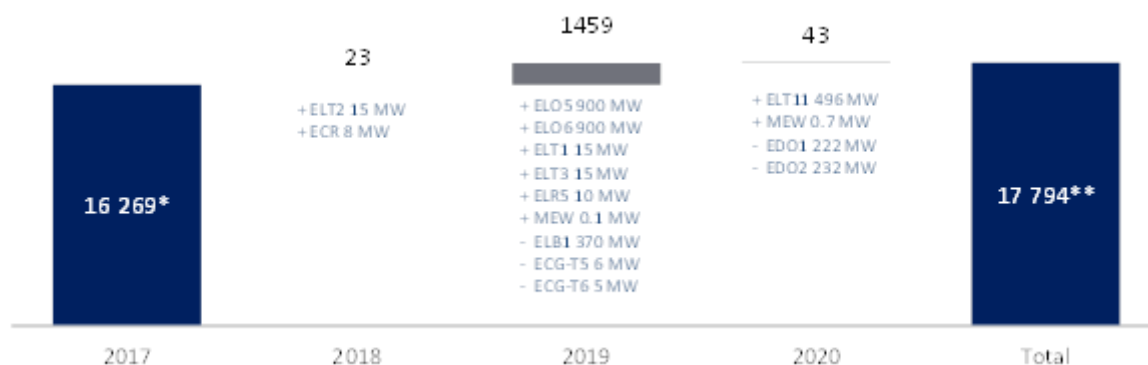
On-going and future investments are and will be financed from funds generated by the core activity of the PGE Group, funds obtained from the issue of bonds, both on domestic and international markets, and from other types of external financing, e.g. bank loans. Financial results achieved by the PGE Group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

4.16. Prospects for the development of PGE S.A. and the Capital Group

4.16.1. EBITDA outlook for 2018

	Outlook 2018 vs. 2017	Main factors
Conventional Generation	Decline	<ul style="list-style-type: none"> Average wholesale realised price at PLN 170-172/MWh. Termination of LTC settlements. In 2017 revenues and EBITDA from LTC amounted to approx. PLN 1.28 billion. Lignite-fired generation volume slightly lower due to heavier overhaul schedule in Bełchatów Hard coal prices in 2018 higher up to 10% resulting from price paths in agreements and contracted volumes. Allocation of free CO₂ allowances at the level of approx. 13 m tonnes vs approx. 15 m tonnes in 2017. Growing total costs due to higher prices of allowances. Efficiency programs to be continued.
including Acquired assets	Decline	<ul style="list-style-type: none"> Increased hard coal price not fully transferred in heat tariffs for 2018 due to tariff's characteristics and formula.
Renewables	Stable	<ul style="list-style-type: none"> Production volume dependent on weather conditions. Possible decrease of costs related to the property tax in case of changes in regulations regarding property tax.
Supply	Decline	<ul style="list-style-type: none"> Strategy of maximization of the total gross margin to be continued. Changes in the green certificates market will adversely affect the achieved wind-fall profit.
Distribution	Moderate growth	<ul style="list-style-type: none"> Regulatory Assets Base (RAB) at approx. PLN 16.26 billion in tariff for 2018, approx. PLN 120 million for AMI. WACC for 2018 set at 6.015%, WACC for 2017 was 5.633% (pre-tax). Efficiency programs to be continued.

4.16.2. Prospects for growth of achievable capacities in years 2017-2020 (MW gross)



* including 10 868 MW gross achievable capacities in conventional units of PGE GIEK S.A. and 3 212 MW in Acquired assets (Rybnik power plant, EC Gdańsk, EC Gdynia, EC Kraków, EC Wrocław, EC Czechnica, EC Zawidawie, EC Zielona Góra, EC Toruń)

** including 12 382 MW gross achievable capacities in conventional units of PGE GIEK S.A. and 3 222 MW in Acquired assets

Chart presenting the growth of capacity illustrates commissioning and decommissioning of capacity of the PGE Capital Group. The schedules may change. Data do not include potential capacity growth related to investments in renewables installations that are dependent on the results of future RES auctions.

Explanation:

ELB – Bełchatów power plant	EDO – Dolna Odra power plant	ECR – Rzeszów CHP
ELO – Opole power plant	ELR – Rybnik power plant	MEW – Small hydro power plants
ELT – Turów power plant	ECG – Gorzów CHP	

5. Electricity market in 2017 and regulatory and business environment

5.1. Macroeconomic environment

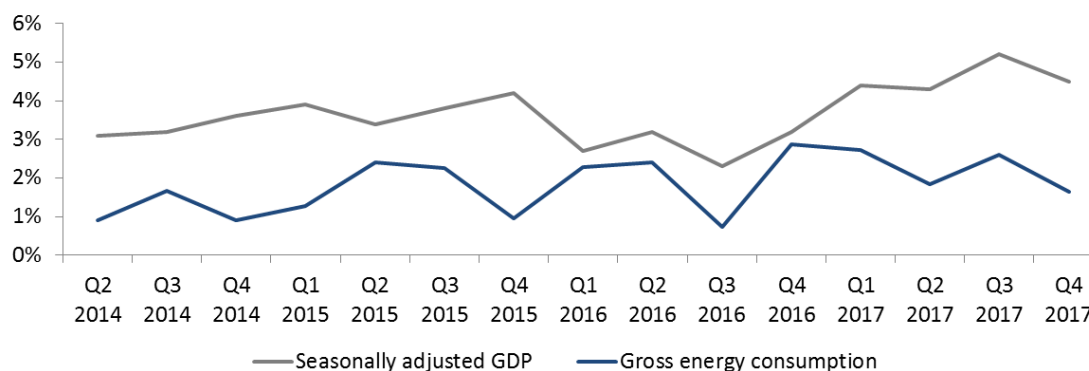
PGE Group's main operating area is Poland, and the domestic macroeconomic backdrop has a substantial impact on Group's results. At the same time, the condition of Poland's economy remains largely tied to the situation across the European Union and in global markets. The Group's financial results are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

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

In 2017, gross electricity consumption went up 2.2% compared to 2016. The increase was higher than in the previous year, when consumption went up 2.0% compared to 2015.

Economic trends in 2017 remained positive in general. According to initial estimates by Poland's statistics office GUS, real gross domestic product in 2017 was 4.6% higher than in 2016.

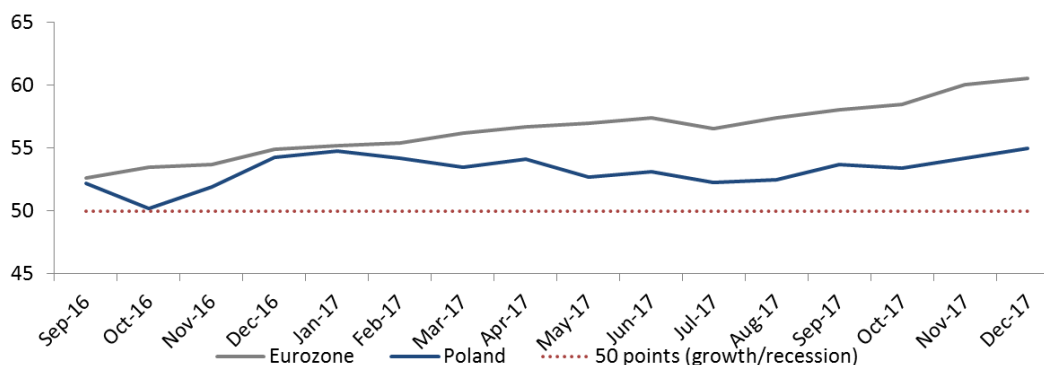
Diagram: Seasonally adjusted GDP change vs. change in domestic gross electricity consumption.



Source: Central Statistical Office of Poland, PSE

Economic growth and rising electricity consumption were accompanied by optimistic condition of Polish industry, which is responsible for approx. 45% of domestic electricity consumption. The Purchasing Managers' Index (PMI) for industry reached 51.9 points on average in 2016, and 53.6 points on average in 2017. Result above 50 points means that the respondents expect the sector's situation to improve. This 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 2016 reached an average level of 52.5 points, and 57.4 points in 2017.

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



Source: Markit Economics

Positive development in the Polish economy is confirmed by dynamics in overall industrial production. In 2017, it went up by 4.1% y/y, compared to 1.5% in 2016. The change resulted from increase in industrial production dynamics (4.5% y/y in 2017 versus 2.3% in 2016). Simultaneously, production in the whole energy sector increased by 9.5% y/y in 2017 vs -2.5% in 2016. The value of industrial manufacturing depends on volumes of goods produced and prices. PPI in 2017 amounted to 2.9% in relation to 2016. CPI reading amounted to 2.1% y/y at the end of December 2017.

Table: Key economic indicators for Poland.

Key economic indicators (% change y/y)	2017	2016
GDP ¹	4.6	2.9
CPI ²	2.1	0.8
PPI ³	2.9	-0.2
Sold industrial production ³	4.1	1.5
Sold production – manufacturing ³	4.5	2.3
Sold production – energy ³	9.5	-2.5
Dynamics of domestic electricity consumption ⁴	2.2	2.0
Gross domestic electricity consumption (TWh) ⁴	168.3	164.6
EUR/PLN ⁵	4.26	4.36

Source: ¹Central Statistical Office of Poland, ²National Bank of Poland, ³Central Statistical Office of Poland, ⁴PSE S.A., ⁵National Bank of Poland.

5.2. Market environment

Market environment

The electricity sector in Poland comprises four operating segments:

- generation of electricity,
- transmission, for which the transmission system operator – PSE S.A. – is responsible,
- distribution,
- retail sales.

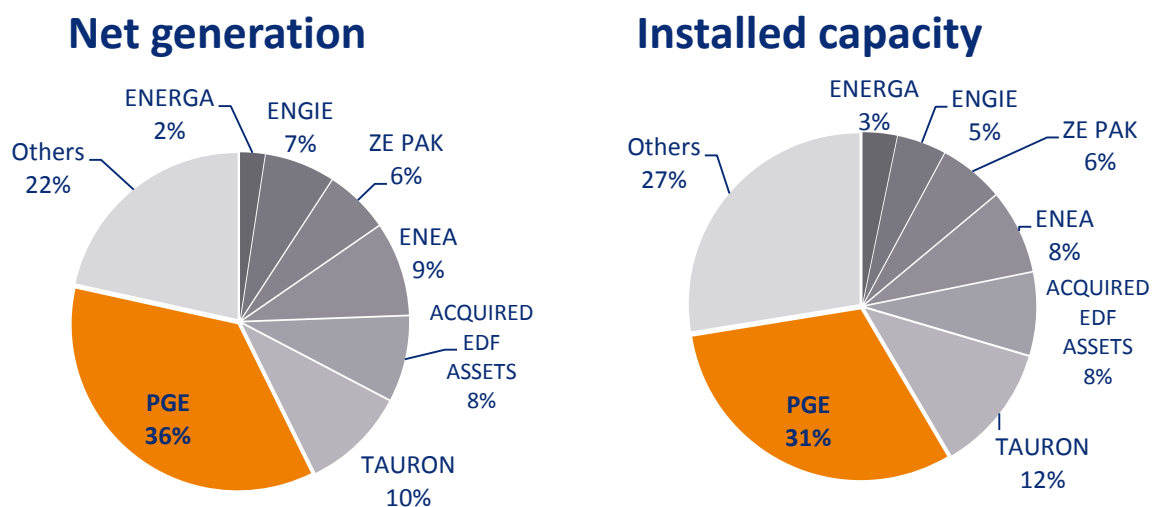
District heating sector may be also distinguished, within which PGE is active in heat generation, distribution and sales.

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

The generation segment in 2017 included the four major producers and, though on a smaller scale involved in other energy activities, the following entities: Zespół Elektrowni Pątnów Adamów Konin S.A. ("ZE PAK") and the French companies EDF and ENGIE, through their Polish units EDF Polska S.A. and ENGIE Energia Polska S.A. (formerly GdF SUEZ Polska S.A.). With PGE's acquisition of EDF Polska's conventional assets and with ENEA's acquisition of Elektrownia Połaniec from ENGIE, the market consolidated last year. Both of the groups acquired market shares from their existing competitors.

PGE Group produced 56.8 TWh of electricity in 2017 and is the undisputed market leader. The group produces more electricity than all of the competitors on the consolidated market combined, whilst having the largest maximum capacities, both conventional and renewable. ZE PAK is another entity aside from PGE Group that bases its electricity production on lignite. Fuels used by the other major competitors are dominated by hard coal, which continues to be the main energy source in Poland – nearly half of the electricity produced in the country is sourced from it – and is the key energy source for PGE Group's competitors. One-third of electricity production in Poland is lignite-based. The use of other fuels is of relatively low significance from the viewpoint of the national power system.

Chart: Share of largest Polish electricity generators in installed capacity and net generation in 2016.



Source: own work based on information published by the companies and Agencja Rynku Energii S.A. („ARE”)

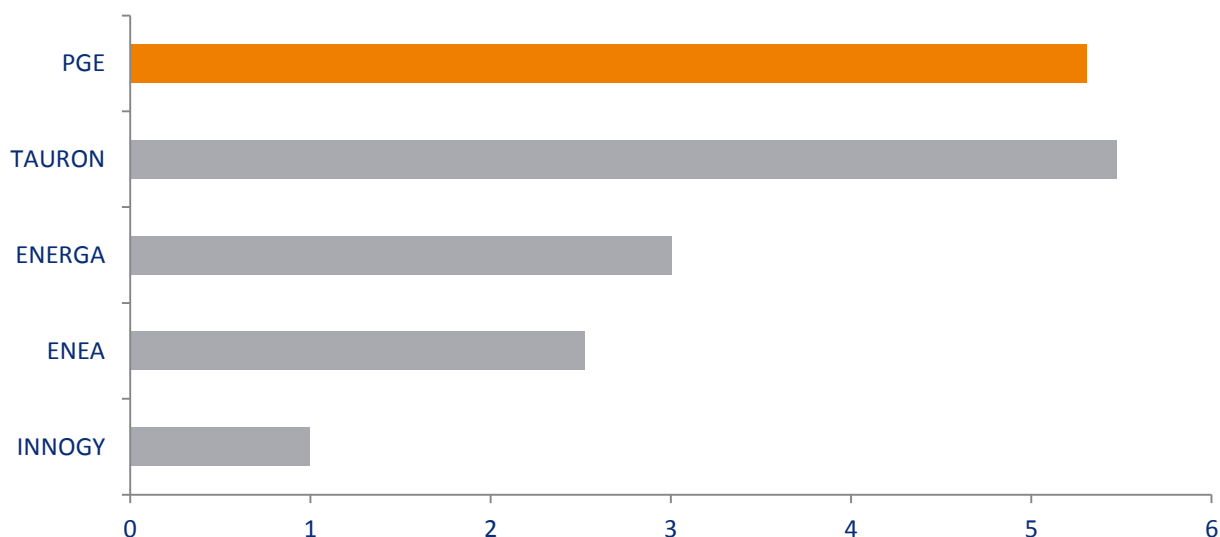
The heat production market in Poland is highly dispersed, with the four leading producers accounting for less than 40% of production countrywide, and thanks to the acquisition of EDF's cogeneration assets, PGE Group became the undisputed leader of this market, too. This market is of a local nature and bears the traits of a natural monopoly, with heating prices being set in an administrative procedure – tariffs approved by the President of the Energy Regulatory Office. The dominant producers focus their production activities in different urban areas therefore sector competition is limited. With this transaction, PGE gained access to district heating markets in the Wrocław agglomeration, Tri-City area, Kraków, Toruń and Zielona Góra. Besides PGE Group, the key producers of heat are PGNiG Termika S.A. (focused on production mainly in the Warsaw agglomeration) and Veolia Group (Poznań agglomeration, Łódź).

Energy production from renewable sources is much more dispersed than the conventional generation market. Energy from biomass is produced at both dedicated installations and in a co-firing process with other energy sources across the country.

In previous years wind power sector was the most dynamically developing sector, with PGE Group's leading role. Having delivered four new wind projects in 2015, PGE Group became an entity with the largest installed wind capacity – 549.9 MW (through PGE EO S.A.). PGE Group has approximately 9% share of total wind capacity in Poland, which reached close to 5.9 GW in 2017. Other notable wind farm operators include: EDP Renováveis Polska sp. z o.o., innogy Renewables Polska sp. z o.o., Vortex Energy Polska sp. z o.o., Polenergia S.A., TAURON Ekoenergia sp. z o.o., ENERGA Wytwarzanie S.A. and E.ON Energie Odnawialne sp. z o.o. The competition between existing wind installations is related, in view of existing until the end of 2017 (for large producers) obligation to purchase energy from RES, to participation in green certificates scheme. They are subject of free market trade, however, due to significant oversupply this are administrative decisions with regard to the level of obligation to redeem that essentially influence the prices. The competition within new support scheme for RES takes place in auctions via lower offered amount of support.

In the distribution area, the country is divided into regions, with five large distribution system operators (the "DSO") on the market, who are required to carve out distribution activities from their other business. Aside from the above-mentioned energy groups, another significant entity is innogy Stoen Operator sp. z o.o. (formerly RWE Stoen Operator sp. z o.o.), an RWE Group company responsible for electricity distribution in Warsaw. A historical division of the distribution areas has substantial impact on the operating conditions of the business, and this specific situation is reflected in the distribution tariffs approved by the URE president. PGE Group operates in an area that is less urbanised and industrialised, meaning that it has 5.4 million clients throughout an area of 122 ths km². For comparison, TAURON has a similar number of clients in an area nearly twice smaller and distributes a larger amount of energy.

Chart: Number of off-takers of energy distributed in 2016 (million).



Source: own work based on information published by the companies

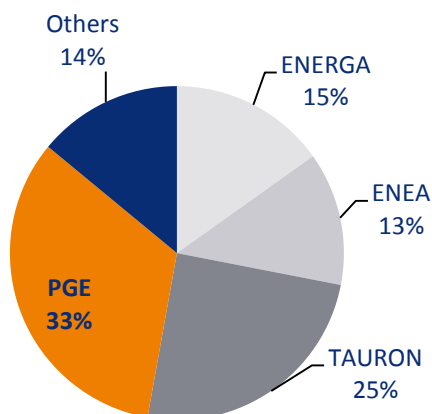
Chart: Areas of operation of Polish distribution system operators.



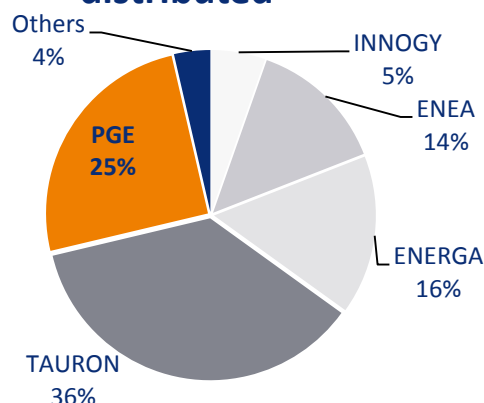
Source: own work

Chart: Share of particular energy groups in sales of electricity and volume of energy distributed to final off-takers in year 2016.

Sale to final off-takers



Volume of electricity distributed



Source: own work based on information published by the companies, ARE and ERO

In the retail segment, which covers sales to end customers – individual, small and medium enterprises as well as large industrial customers – most of the sales are conducted by the four largest energy groups and innogy Polska S.A. (formerly RWE Polska S.A.), i.e. groups considered as incumbent sellers of electricity – historically operating in areas coinciding with distribution area and the default sellers for clients who have not decided to switch electricity suppliers. PGE Group and TAURON remain the leaders, having approximately 60% of the market. Both PGE and TAURON sell electricity to over five million clients. Despite a growing number of competitors in the segment, including companies for which electricity is not a core product, companies from outside the four largest Polish groups continue to control little market share. The leaders control close to 90% of the market, while other significant player is innogy, based on sales connected with serving as distributor for the Warsaw area.

Energy group profiles

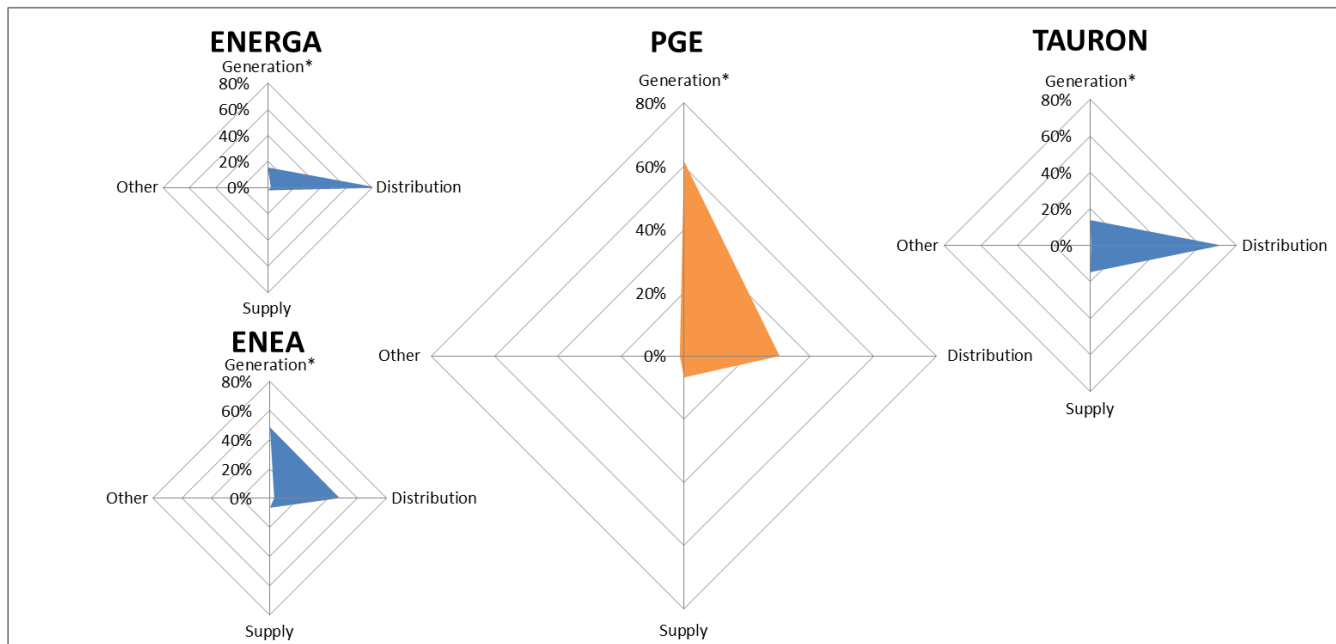
The electricity sector is divided into segments, what is reflected in the operating segments of the respective energy groups. In contrast to the other energy groups in Poland, whose dominant EBITDA driver is the electricity distribution segment, PGE Group derives much of its operating profit from the generation segment, even though the group is the country's second-largest electricity distributor by volume. This allows to optimally deploy its competences and capitalise on opportunities

arising in the generation area (both conventional and renewable) as well as in wholesale energy trade, whilst generating high and stable EBITDA on regulated activities.

By consolidating the generation segment with mining (similarly as in the case of PGE Group in the case of lignite mining) and the acquisition of the Bogdanka mine by ENEA, this group increased the generation segment's share in total EBITDA in 2016. This brought ENEA Group close to PGE's profile and, with ENEA's acquisition of Połaniec power plant, this trend can be expected to continue.

A key feature of all the groups is a relatively small contribution of retail sales to operating profit, which is a result of low sales margins, driven by strong competition in the segment.

Chart: Profiles of Polish energy groups (size of the chart is proportionate to share in 2016 EBITDA of respective business segments and the amount of total EBITDA).



* Generation – conventional generation, generation from renewables, mining and heat generation

Source: own work based on information published by the companies

5.3. Regulatory environment

Regulatory environment

Domestic

- adoption of Act on capacity market (see p. 2.2.1 of this report) and launch of procedure to notify the mechanism to European Commission
- changes in system services: introduction of additional demand reduction services packages and potential modification of existing system service mechanism – Operational Reserve mechanism
- amendment to the Law on Renewable Energy Sources, defining support scheme for energy generation in renewables, including in particular the entry into force of a change in the substitute fee calculation procedure and work on a next draft that is to adapt the content of the RES Law to the European Commission requirement and includes new technological baskets
- completion of process to notify renewables support mechanism and receipt of approval from European Commission for the auction-based renewables support system, stating that public aid granted in compliance with the EC's decision is in line with the internal market
- change in the level of the green obligation, i.e. the obligation to redeem certificates of origin confirming electricity production from renewable energy sources in 2018-2019 (ordinance of the Minister of Energy of August 11, 2017)
- specification of auction parameters for renewables installations, including reference prices and quantity of energy from renewable sources that may be sold via auctions in 2017. An ordinance of the Council of Ministers of September 29, 2017, established this quantity at 0 MWh
- publication of Commission Implementing Decision of July 31, 2017 establishing best available techniques (BAT) conclusions, under Directive 2010/75/EU of the European Parliament and of the Council, for large combustion plants
- matter of implementation of quality tariff in distribution, that will make regulated income dependant on SAIDI and SAIFI ratios and connection time, among others
- publication of the ordinance of the Energy Minister of December 29, 2017, on detailed rules for establishing and calculating tariffs and settlements in trade in electricity, which introduced a tariff with lower prices and fee rates during off-peak hours (e.g. at night)
- adoption of the Water Law of July 20, 2017, which introduced a system of fees for using water for energy purposes and publication of the ordinance of the Council of Ministers of December 22, 2017, on rates for water services, which specifies unit rates for fees for using water for energy purposes
- 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 GiEK S.A.
- on-going work on an update of the act on investment in wind farms. The draft updated bill includes a change in property tax rules for wind farms (only a part of an installation would constitute the tax base)
- on-going work on a new support mechanism for high-efficiency cogeneration. The existing system, based on cogeneration certificates of origin, expires at the end of 2018
- work on a legislative package that is intended to transform linear economy towards a circular economy
- adoption of draft act on electromobility and alternative fuels by the Council of Ministers on December 28, 2017
- work on National Action Plan concerning energy efficiency for Poland 2017
- works on new Energy Policy of Poland until 2050
- work on amendment to Law on Renewable Energy Sources that is to adapt the content of the RES Law to the European Commission requirement and includes new technological baskets

International

- key climate-energy package regulations being proceeded in 2017, setting out greenhouse gas emission reduction targets by 2030 and the package "Clean energy for all Europeans," which aims to implement on the legal side the concept of energy union. The following regulations will have a significant impact on the Polish energy sector, including PGE Group, after 2020:
 - COM (2015) 337 final - proposal for DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2003/87/EC to enhance cost-effective emission reductions and low- carbon investments ("EU ETS"), in particular: the level of the linear reduction factor

("LRF") set at 2.2% annually from 2021; double increase in volume of allowances to be directed to the market stability reserve ("MSR") in 2019-2023 from 12% to 24% of allowances being traded and the introduction of cyclical removal of allowances from 2023 in a volume that will exceed the volume of allowances being the subject of auctions in the preceding year; Modernisation Fund, the size of which has been set at 2% of the total number of allowances after 2021, with a conditional possibility to increase its size to 2.5%; way of redistributing the Modernisation Fund's investment funds, with a simple decision path for select project categories (including renewables and grids) and receipt of a recommendation from the investment committee if support of coal investments is not possible; way of redistributing free allowances that does not interfere with obtaining support for pro-environment modernisations.

- Having agreed on a common position of the European Commission, European Parliament and the EU Council in November 2017, this directive is expected to be adopted in 2018 and work is expected to begin on secondary legislation that will specify detailed rules for the Modernisation Fund.
- COM (2016) 767 final - proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the promotion of the use of energy from renewable sources ("RED II"), including the way in which Poland would contribute to achieving the target share of renewable sources in EU's energy mix by 2030. The draft includes proposed regulations that limit the use and further support for biomass.
- COM (2016) 861 final - proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the internal market for electricity ("EMR") and COM (2016) 864 final - proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on common rules for the internal market in electricity ("EMD"), the objective of which is to create a new structure for a single energy market, including through introducing numerous pro-consumer solutions and making the market more flexible and intervening in the structure of capacity mechanisms (detailed proposal to introduce European assessment of capacity sufficiency and a standard for CO₂ emissions for units participating in the capacity market at 550 g/kWh).
- COM (2016) 759 final/2 - proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the Governance of the Energy Union ("EU Governance"), which is intended to create a system for managing energy union objectives based on cooperation with other EU member states and arrangements with the European Commission. As regards the renewables objective, the draft includes a platform for financing renewables projects.
- COM (2016) 761 final - proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2012/27/EU on energy efficiency ("EED"), including the way in which Poland may contribute to EU's energy efficiency improvement targets by 2030.
- The Council has adopted a *general approach* for the EED draft on June 26, 2017 and to the RED II, EMR, EMD and EU Governance proposals on December 18, 2017.
- regulations related to emission reduction as part of the environmental policy, including:
 - The European Commission on July 31, 2017, adopted Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 establishing best available techniques (BAT) conclusions, under Directive 2010/75/EU of the European Parliament and of the Council, for large combustion plants ("BAT conclusions for LCP"), which was published in the EU Journal on August 17, 2017. The deadline for adapting installations is four years from the publication date, i.e. August 17, 2021. The Polish government filed a complaint regarding this decision with the EU Court of Justice.

5.3.1. Electricity prices

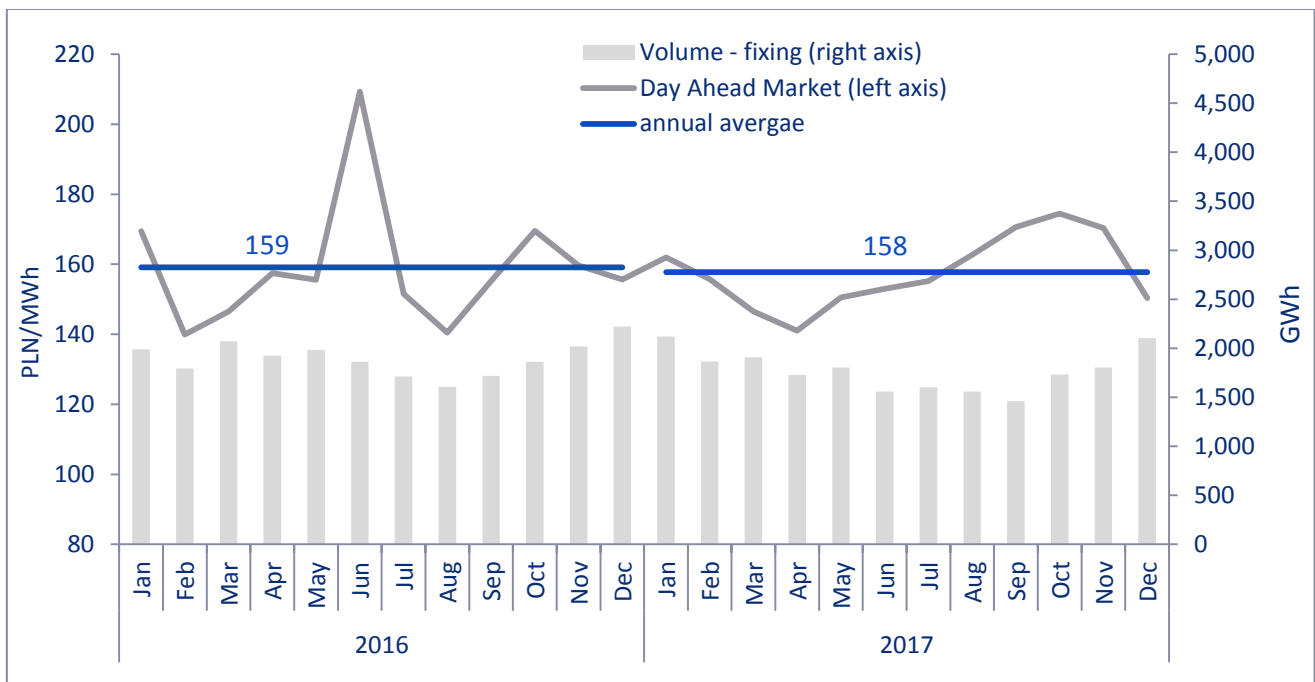
Domestic market - Prices

Day-ahead market

In the fourth quarter of 2017, the average price of electricity on the day-ahead market ⁵was PLN 165/MWh and was 2% higher than in the same period in the preceding year (PLN 162/MWh). The growth in prices on the day-ahead market was driven by cost factors: prices of CO2 emission allowances increased by 38% in the fourth quarter of 2017 in comparison with the same period in the year prior. Coal prices also went up - the average level of the Polish Index for Energy Coal Market ("PSCMI1") went up by 10% in the fourth quarter of 2017 to PLN 9.5/GJ, compared to PLN 8.6/GJ in the same period of the previous year. On the other hand, supply of wind-based energy was 20% higher than in the preceding year, which was a factor limiting the growth in energy prices.

In full year 2017, the average price on the day-ahead market was PLN 158/MWh, which is 1% lower than the price recorded in the preceding year (PLN 159/MWh). The stable price level on a year-to-year basis may be explained by a balance between positive and negative price-sensitive factors: on the one hand, growth in supply of electricity produced from wind by 23% from the previous year (driving energy prices down), on the other - average prices of CO2 emission allowances ("EUA Dec17") for the entire year 2017 were up by 10% (y/y). The PSCMI1 index in 2017 averaged PLN 9.3/GJ, up by 5% y/y.

Chart: Monthly prices and price volatility at the day ahead market in 2016–2017 (TGE)*.



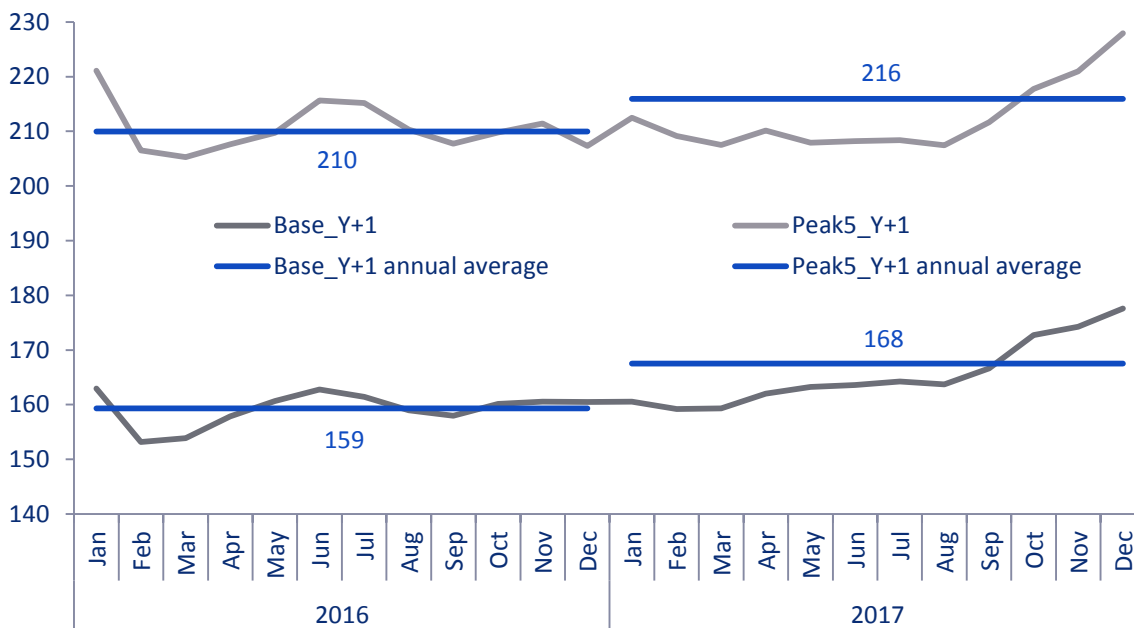
* average monthly price of IRDN index calculated on the base of hourly quotations (fixing), weighted by the trading volume

⁵ Statistics calculated for data from fixing

Forward market

The average price for BASE_Y-18 contracts in 2017 reached PLN 175/MWh, while in the same period of last year BASE_Y-17 was PLN 160/MWh on average (+9% y/y). Trading volume for BASE_Y-18 in the fourth quarter of 2017 was 17.7 TWh – this is 61% higher than the BASE_Y-17 trading volume in the fourth quarter of 2016. The average price for PEAK5_Y-18 contracts in the fourth quarter of 2017 was PLN 223/MWh and was 6% higher than the contract PEAK5_Y-17 quoted in the fourth quarter of 2016. PEAK5_Y-18 trading volume in the fourth quarter of 2017 amounted to 3.1 TWh – this is by 59% higher than the PEAK5_Y-17 in the fourth quarter of 2016. During 2017 the average price for BASE_Y-18 contracts amounted to PLN 168/MWh and was by 5% higher than BASE_Y-17 quotations in 2016 (PLN 159/MWh). BASE_Y-18 trading volume in 2017 amounted to 46.3 TWh – this is 6% higher than the BASE_Y-17 trading volume in 2016. The average price for PEAK5_Y-18 contracts in 2017 reached PLN 216/MWh what means 3% growth compared to average price of PEAK5_Y-17 in 2016. PEAK5_Y-18 trading volume in 2017 amounted to 6.4 TWh – this is 26% higher than the PEAK5_Y-17 trading volume recorded in 2016.

Chart: Monthly prices and price volatility on the forward market in 2016–2017 (TGE)*.



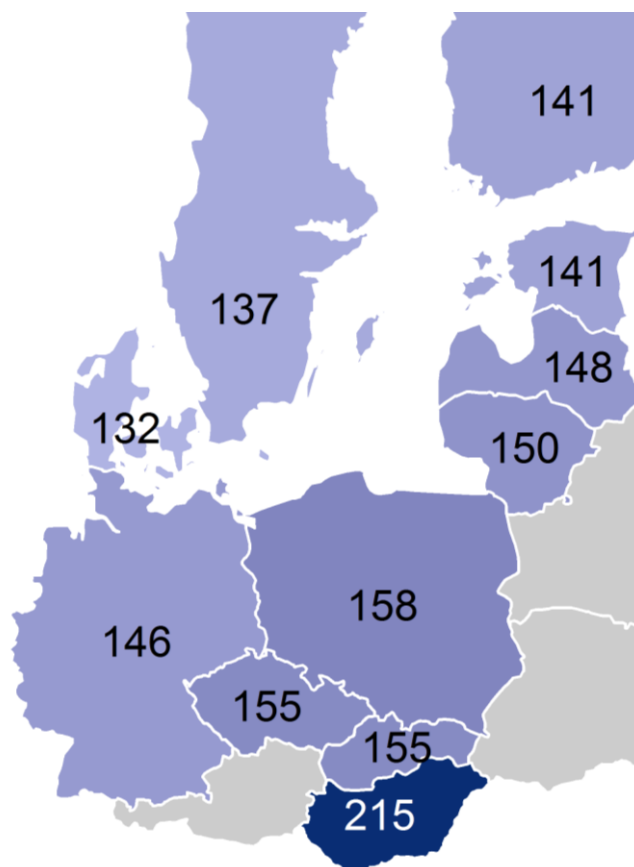
* monthly average index level for forward contracts for the next year (Y+1), baseload and peak, calculation based on hourly quotations, weighted by the trading volume.

International market

Wholesale market (comparison of day-ahead markets)

In the fourth quarter of 2017, wholesale electricity prices declined in most of the region's countries on a year-to-year basis: by 15% in Sweden and Germany, by 18% in the Czech Republic and by 12% in Lithuania. At the same time, prices in Poland were stable (+2% y/y). This resulted in a reversal of the price relation in comparison with the fourth quarter of the preceding year (back then, wholesale energy prices in Poland were lower than in the neighbouring countries and positively affected net export balance). In the fourth quarter of 2017, wholesale energy prices in Poland were higher than in Sweden (by PLN 26/MWh), Germany (by PLN 25/MWh), Lithuania (by PLN 19/MWh) and the Czech Republic (by PLN 19/MWh) - as a result, Poland was a net importer of energy. The y/y reversal in price relations resulted from a base effect and the specific situation observed in the fourth quarter of 2016 (adverse hydrological conditions in Sweden and problems at French power plants). Throughout 2017, energy prices in Poland were higher than in Sweden (by PLN 21/MWh), Germany (by PLN 12/MWh) and Lithuania (by PLN 8/MWh) - this was naturally reflected in cross-border exchange volumes.

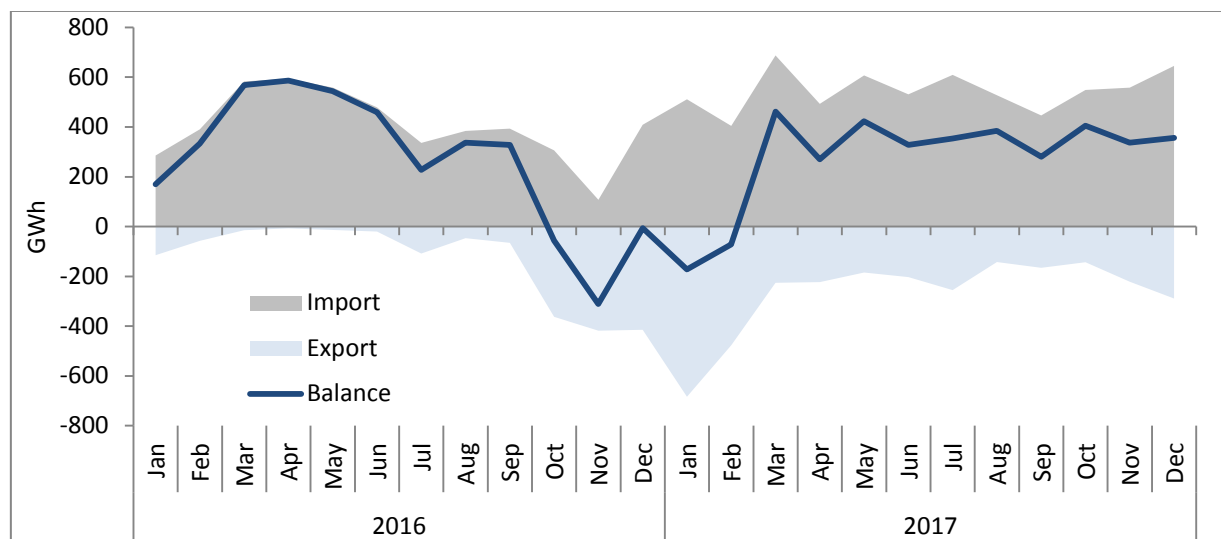
Chart: Comparison of average prices on Polish market and on selected European markets in 2017 (prices in PLN/MWh, average exchange rate EUR/PLN 4.26).



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

International trading

Chart: Monthly imports, exports and cross-border exchange balance in 2016-2017 (in GWh).

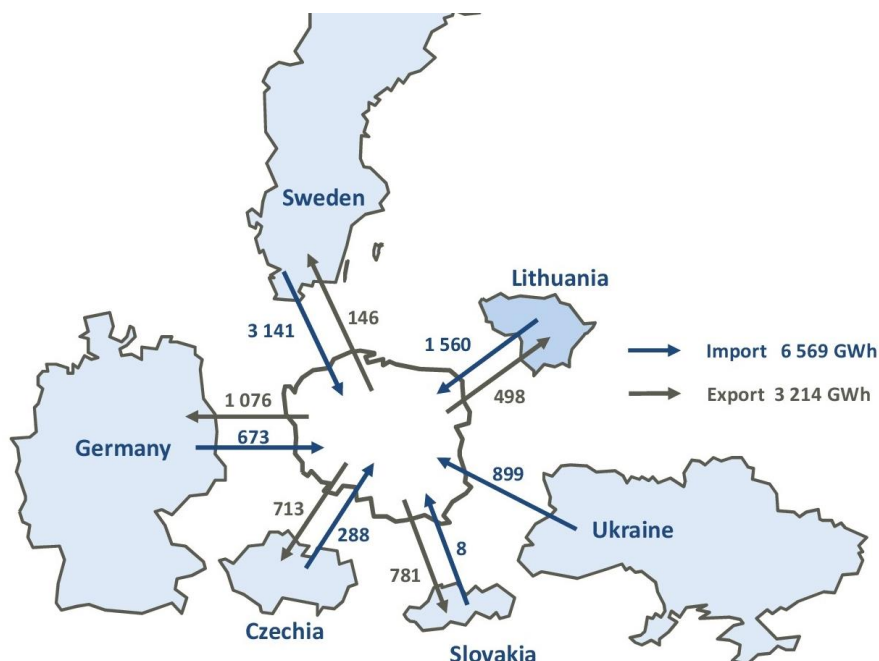


Source: own work based on PSE data.

In the fourth quarter of 2017, Poland was a net importer of electricity: trading balance was 1.10 TWh (import 1.75 TWh, export 0.65 TWh), while in the same period of the preceding year Poland was a net exporter, with a trading balance of 0.37 TWh (including import of 0.82 TWh and export of 1.20 TWh). Net import from Sweden to Poland increased in the fourth quarter of 2017 to 0.76 TWh from 0.23 TWh in the preceding year. Net import from Lithuania to Poland reached 0.38 TWh in the fourth quarter of 2017, while in the base year Poland was a net exporter, with a balance of 0.03 TWh. In the fourth quarter of 2017, the trading balance with the Czech Republic was close to even at 0.01 TWh whereas in the same period of the previous year net export from Poland to the Czech Republic reached 0.39 TWh.

In full year 2017, Poland remained a net importer of energy, with a balance of 3.35 TWh (import 6.57 TWh, export 3.21 TWh), compared to 3.18 TWh in the previous year (import 4.83 TWh, export 1.64 TWh). 2017 was another year in which cross-border commercial exchange intensified, driven by the installation of phase-shifters at the border with Germany (in June 2016). Sweden remains the key import direction, with a balance of 3.00 TWh, compared to 2.45 TWh in the preceding year. Further, the balance of exchange with Lithuania, which also serves a transit role between Poland and the Nordic countries, increased to 1.06 TWh from 0.63 TWh in the previous year. On the other hand, growth in net exports to Slovakia was observed, to 0.77 TWh from 0.12 TWh in the preceding year.

Diagram: Geographical structure of commercial exchange in 2017 (GWh).



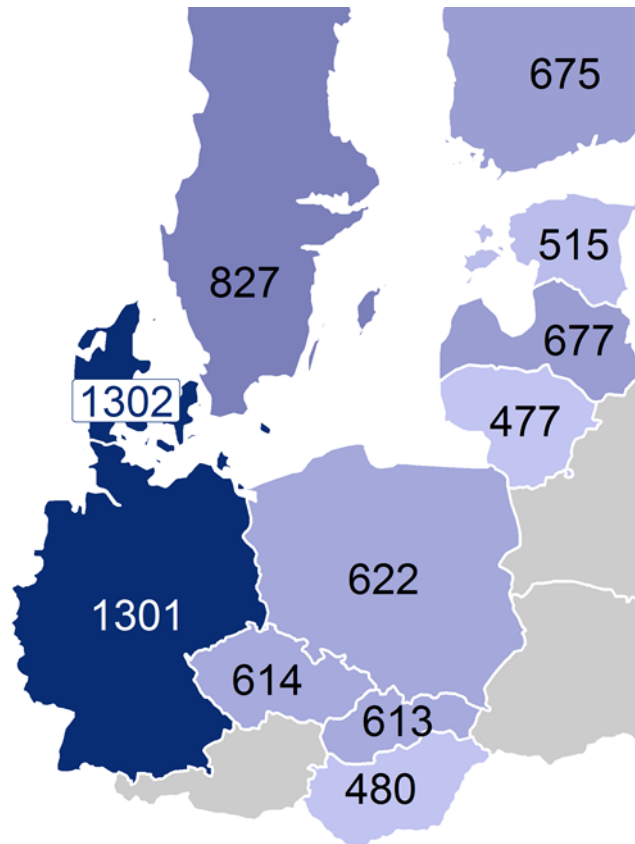
Source: own work based on PSE data.

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 2017⁶, an additional burden for individual customers accounted for 24% of the electricity price, compared to the EU average of 31%. In Denmark and Germany the proportion of additional charges in the price of electricity exceeded 50%.

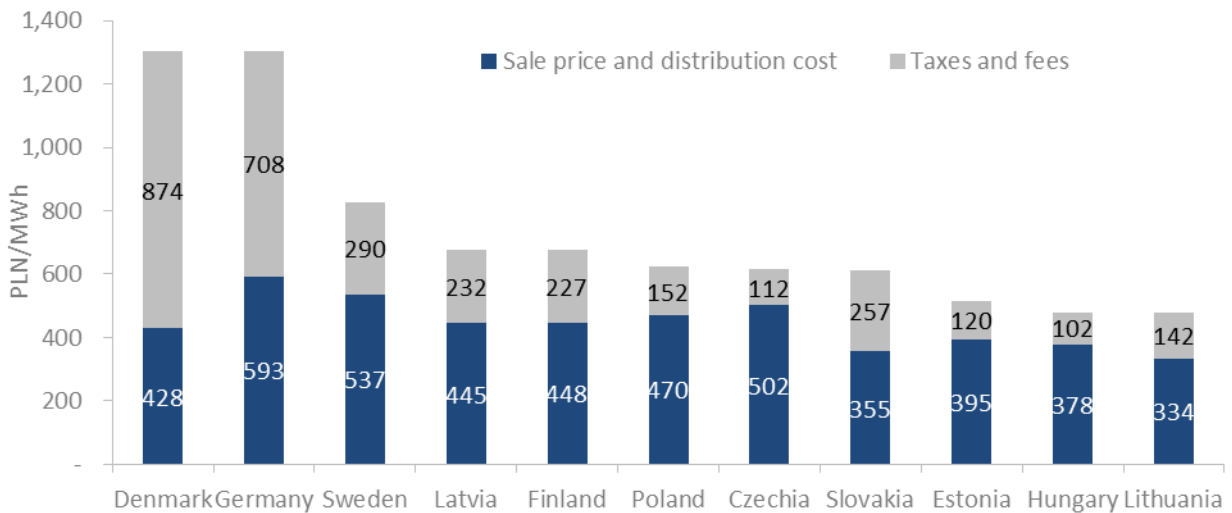
⁶ Eurostat data are published every six months.

Chart: Comparison of average prices for individual customers in selected EU countries in the first half of 2017 (prices in PLN/MWh).



Source: own work based on Energy prices in the EU. Eurostat, the statistical office of the European Union. EUR/PLN 4.27

Diagram: The share of additional charges in electricity prices for the individual customers in selected EU countries in the first half of 2017 (prices in PLN/MWh, calculated with average exchange rate EUR/PLN 4.27).



Source: Eurostat

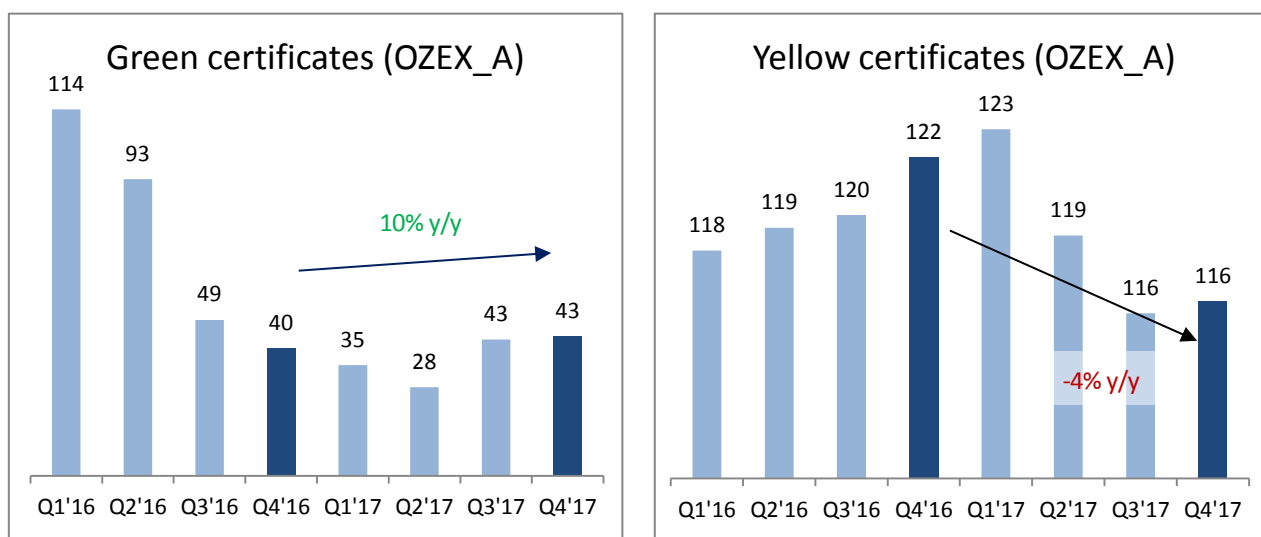
5.3.2. Prices of certificates

In the fourth quarter of 2017, the average price of green certificates (PMOZE) reached PLN 43/MWh and was 10% higher than in the same period of last year (index OZEX_A). Compared to the previous quarter, the average price remained unchanged. In full year 2017, the average price of green certificates reached nearly PLN 39/MWh and was 47% lower than in the previous year, when it amounted to approx. PLN 74/MWh.

The reversal for the green certificate market was driven by an updated act on renewable energy sources, which amended the way in which the substitute fee is calculated – nominal establishment of the substitute fee (previously at PLN 300/MWh) was replaced by establishing the substitute fee on a relative basis as 125% of the average market price from the previous year. At the same time, market price changes were also affected by a regulation of the Minister of Energy that introduced an obligation to redeem green certificates from 15.4% in 2017 to 17.5% in 2018 and to 18.5% in 2019.

The average price of yellow certificates in the fourth quarter of 2017 reached PLN 116/MWh and was 4% lower than in the same period last year. The decline resulted from a higher supply of energy produced in gas-fired cogeneration sources and a reduction of the substitute fee from PLN 125/MWh in 2016 to PLN 120/MWh in 2017. The substitution fee for 2018 was set at the level of PLN 115/MWh. The obligation to redeem yellow certificates will increase to 8% in 2018, compared to 7% in 2017.

Chart: Average quarterly prices of certificates.



Source: Own work based on TGE quotations. The yellow certificates prices presented on the chart are weighted average blended price – for products PMGM-16, PMGM-17.

5.3.3. Prices of CO₂ emission rights

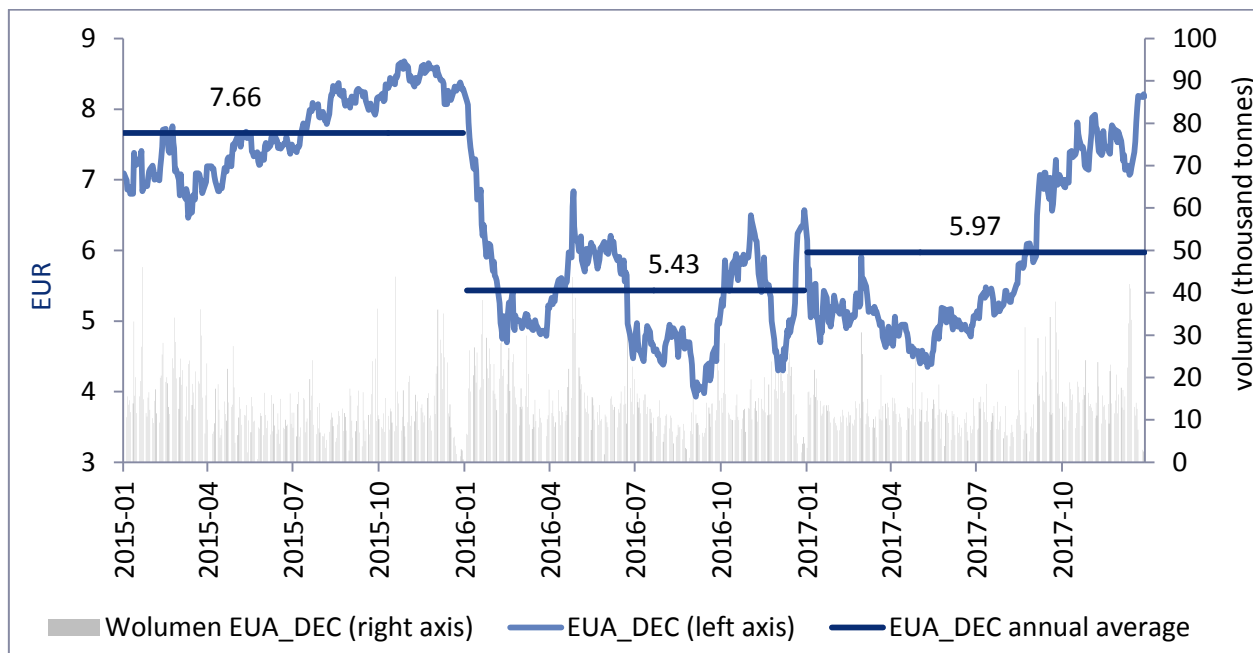
Two types of emission rights are available on the market – European Union Allowances (“EUA”) and Certified Emission Reductions (“CER”). CER-type rights may be redeemed by business operators only to a limited extent, in settlement period 2013-2020 up to 11% of the allocations granted under the National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

EUA prices are one of the key factors determining wholesale energy prices and PGE Group’s financial results. When it comes to costs of CO₂ emissions it means the expenses for purchasing EUA allowances to cover the deficit, i.e. the difference between CO₂ emissions at PGE Group’s generating units and the free-of-charge allowances received under derogation in accordance with the National Investment Plan.

In the fourth quarter of 2017, the average weighted price of the EUA DEC 17 instrument was EUR 7.38/t and was 38% higher than the EUR 5.34/t average price of EUA DEC 16 in the previous year. In November 2017, an agreement was reached between the European Parliament, the European Commission and the Estonian Presidency as to the final wording of the reformed ETS directive. The agreement includes a doubling of the volumes of allowances for the market stability reserve in 2019-2023 from 12% to 24%, together with the introduction of cyclical cancellations of allowances from 2023. A reduced supply of allowances in the next settlement period is pushing prices up. Concerns about the final shape of the agreement and the subsequent reaction to the compromise reached in the three-party dialogue could have had an impact on the prices of emission allowances in the fourth quarter of 2017.

In full year 2017, the average weighted price of the EUA DEC 17 instrument was EUR 5.97/t and was 10% higher than the EUR 5.43/t average price of EUA DEC 16 in the previous year. The decline in prices observed in the first months of the previous year was caused by the end of a three-year backloading period, which increased the supply of EUAs on the primary market (trade on the primary market in the course of 2017 reached 955.2 million tonnes of CO₂, compared to 720.4 million tonnes of CO₂ in the preceding year). The down trend lasted until May 11, 2017, which is when the EUA DEC 17 product bottomed out at EUR 4.35/t. From that moment, the price of EUA DEC 17 systematically rose, reaching its maximum on November 6, 2017 (EUR 7.92/t), whereas in the last days of December, when EUA DEC 17 was no longer quoted, the EUA DEC 18 contract traded at EUR 8.18/t. In the whole 2017, EUA prices in forward contracts for December 2017 were in the range of EUR 4.35-7.92/t. In the same period, CER units in forward contracts for December 2017 were valued at EUR 0.16-0.29/t.

Chart: Prices of CO₂ emission rights.



Source: Bloomberg, own work

5.3.4. 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.

In 2017, operator holding accounts in the EU's register for PGE's installations were under the influence of the allocation of allowances for heat generation for 2017 and electricity generation for 2016. While free allowances for electricity for 2017 will be received by the Group by the end of April 2018, 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 2016 was completed in April 2017.

Table: Emission of CO₂ from major Group installations in 2017 in comparison to allocation of CO₂ emission rights for 2017 (in tonnes).

Operator	CO ₂ emissions in 2017*	Allocation of CO ₂ emission rights for 2017**
Bełchatów Power Plant	37 646 220	7 788 822
Turów Power Plant	7 108 058	3 135 350
Opole Power Plant	6 278 862	1 802 162
ZEDO	4 250 126	1 484 923
Bydgoszcz CHPs	766 247	354 984
Lublin Wrotków CHP	507 729	202 222
Gorzów CHP	433 258	158 071
Rzeszów CHP	317 164	94 345
Kielce CHP	197 402	64 141
Zgierz CHP	192 520	26 016
TOTAL PGE GIĘK S.A.	57 697 586	15 111 036
Rybnik power plant***	6 484 111	460 420
Gdańsk CHP***	1 237 883	246 768
Gdynia CHP ***	668 687	194 847
Kraków CHP ***	1 775 841	383 084
Wrocław CHP ***	1 167 200	226 526
Czechnica CHP ***	355 700	73 649
Zawidawie CHP ***	12 700	4 822
Zielona Góra CHP ***	570 888	55 354
Toruń CHP ***	218 956	82 472
TOTAL Acquired assets***	12 491 966	1 727 942
including Acquired assets from Nov. 14, 2017	1 755 106	317 124
TOTAL Conventional Generation segment	59 452 692	15 428 160

* 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 2018

*** The units' volumes are on a pro-forma basis and are presented for illustration purposes in order to adequately show the scale of the acquired assets in comparison with PGE GiEK S.A.'s generating units (without the distortion related to proportional recognition in annual results).

Acquired assets: Rybnik power plant, EC Gdańsk, EC Gdynia, EC Kraków, EC Wrocław, EC Czechnica, EC Zawidawie, EC Zielona Góra, EC Toruń

5.4. Supply markets

5.4.1. Provision of raw materials

Lignite, hard coal, natural gas and biomass are key fuels used to generate electricity and heat by power plants and heat and power plants belonging to the PGE Group. The cost of fuel procurement constitutes a major share in electricity generation costs. PGE S.A., on the ground of Agreement for Commercial Management of Generation Capacities, secures hard coal, gas and biomass supplies to the branches of the Conventional Generation segment.

Lignite supplies are carried out within a framework of regular cooperation between branches operating in the structure of Conventional Generation segment. The KWB Bełchatów mine supplies lignite to the Bełchatów power plant and the KWB Turów mine supplies it to the Turów power plant. The Group set up internal rules with respect to the performance and settlement of lignite supplies between individual branches of Conventional Generation segment.

The main supplier of the hard coal for the electricity and heat production needs in the branches of Conventional Generation segment was Polska Grupa Górnicza S.A. (from April 2017 the company took over the mines and contracts of the Kompania Węglowa S.A.), whose share in the yearly demand for this raw material amounted to nearly 77%, and Jastrzębska Spółka Węglowa S.A.

Natural gas for electricity and heat production in CHPs of Conventional Generation segment, was mainly supplied on the ground of agreements with the domestic fuel suppliers and through purchases on the OTC market and the TGE exchange (Towarowa Giełda Energii S.A.). PGE S.A., PGE Obrót S.A. and Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG S.A.) were the major suppliers.

Biomass was obtained via procurement procedures from suppliers operating on the Polish biomass market.

As regards fuel supplies at PGE Group in 2017, no threats were identified such as could have disrupted continuity of the production process.

5.4.2. Purchases of transmission and distribution services

Under the existing legislation, power undertakings in Poland must have:

- a valid Agreement for the Provision of Electricity Transmission Services signed with PSE S.A.;
- a valid Agreement for the Provision of Electricity Distribution Services, signed with a DSO;
- or valid agreements concluded both with PSE S.A. and a DSO – if required due to the scope of operations.

In view of the above obligations, companies dealing with generation, trade and distribution of electricity in Poland (including entities in the PGE Group) are, directly or indirectly, dependent on agreements for the provision of transmission services, which provide for rules with regard to the settlement of services rendered to a PSE S.A. or by PSE S.A. and methods for fixing and settling energy divergences of BM Units arising as a result of balancing the domestic electricity demand by the Operator. Operations of PSE S.A. include rendering electricity transmission while maintaining required criteria for the operational security of the National Power System (NPS).

Pursuant to the provisions of the Energy Law, PSE S.A., as the TSO, is responsible for grid flow in the transmission system, current and long-term security of the system, maintenance, repairs and necessary development of the transmission grid, including connection with other power systems.

Power undertakings, which operate under a license and whose active Generation Units are connected to the National Power Grid, must enter into a contract for transmission services ("Contract") with PSE S.A. This obligation also applies to the DSO, who as a Balancing Market Participant of the Balancing Company type (URB_{OSD}) holds a passive Balancing Graphic Unit (JG_{Bi}) through which it purchases electricity in order to cover distribution grid losses originating during the distribution of electricity through this grid.

Under the Agreement and the Transmission Network Code, a power undertaking is obliged to report on a daily basis any concluded Electricity Sale Contracts to PSE S.A. PSE S.A. as an operator in charge of the performance of the signed agreements and the trade balancing through the Balancing Market, carries out cyclical settlements of deviations of electricity supplied and received. The obligation referred to above creates dependency of a systemic nature which additionally affects companies within the PGE Group to the extent defined by law and determined by the scope and character of their operations.

Termination or expiry of the transmission agreement while the terms of a new transmission services agreement between a power undertaking and PSE S.A. are not agreed leads in practice to a request being filed by one party with the President of the Energy Regulatory Office to establish the terms of the agreement.

An integral part of a transmission Contract is an Agreement on the Terms and Conditions for the Provision of Ancillary Services (the "Agreement") with PSE S.A. The Agreement remains in force for one calendar year. The generation units of

the PGE Capital Group render selected services from the catalogue of ancillary services to PSE S.A. the extent which has been agreed and provided for in the Agreement.

5.4.3. Provision of system services

In 2017, PGE GiEK S.A. prolonged provision of the following system services:

- I. Energy consumption reduction at the PSE S.A. request ("DSR"). Two new agreements were executed for the "summer" and "winter" periods, which are collectively in effect from July 1, 2017, to June 30, 2018. The service consists of shutting down, specific volumes of electricity supply in 4-hour blocks at a request issued by PSE S.A. in order to ensure the continuous security of the. These agreements were executed under a "guaranteed programme," i.e. a programme in which PSE S.A. pays for both reducing a declared quantity of energy and for the readiness to perform this operation.
- II. Generating unit availability (i.e. „GWS” – generation forced by grid considerations). On April 28, 2017, three new agreements were executed, effective until December 31, 2017. Performance of these agreements consisted of the operation of certain CHP plants at the request of PSE S.A., either generating or reducing electricity output, in the indicated hours, in order to ensure the on-going safety of the national power system.
- III. Cold reserve intervention service ("IRZ"), consisting of providing PGE GiEK S.A.'s generating units (Units 1 and 2 at Dolna Odra) to PSE S.A. for management and operation for the balancing of active power, in intervention mode, in order to ensure the continuous security of the NPS, including in particular:
 - maintaining the contractor's generating units on stand-by and, following receipt of a request from PSE S.A., load active power at a level specified in the request,
 - usage of the capacity of the contractor's generating units, which consists of turning the units on and feeding the electricity produced by these units into the grid, at a volume and time specified in PSE S.A. request.

IRZ is intended only for the PSE S.A. statutory tasks. The agreement was executed in December 2013 and is valid in years 2016 - 2019.

Use of the above services by PSE S.A. is intended to meet the binding continuity and reliability criteria for electricity supply and to maintain the required quality parameters in respect of the electricity being supplied.

- IV. Operational Capacity Reserve (ORM). ORM is the production capacities of Production Scheduling Units (JGwa) constituting excess capacity over executed Energy Sale Agreements (USE), which:
 - constituted a capacity reserve in the course of conducting energy supplies at JGwa in operation or at standstill, available because of the plant's operating conditions,
 - were used to forced electricity production or to produce electricity under USE relocation to JGwa on the Balancing Market,

Settlement for ORM is performed for peak demand hours, i.e. between 8 and 22, only on business days.

- V. Regulatory System Services within active JGwa:
 - start-up of JGwa (from hot, warm and cold state),
 - JGwa participation in primary control,
 - JGwa participation in secondary control,
 - JGwa overload operation,
 - JGwa participation in automatic load and passive capacity control – operation of blocks in Automatic Control of Plant Load (ARNE).

In 2017 PGE Energia Ciepła S.A. performed following services to PSE S.A. with regard to:

- I. Generating unit availability. Performance of these agreements consists of the utilization of units for generation of additional Energy or reducing energy output in generating units of Kraków CHp and Wybrzeże CHP group, on the request by PSE S.A. in order to ensure the on-going safety of the National Power System.
- II. Operational Capacity Reserve – production capacities of Production Scheduling Units (JGwa) constituting excess capacity over executed USE, which:
 - constituted a capacity reserve in the course of conducting energy supplies at JGwa in operation or at standstill, available because of the plant's operating conditions,
 - were used to forced electricity production or to produce electricity under USE relocation to JGwa on the Balancing Market.

Settlement for ORM is performed from January 1, 2014, for peak demand hours, i.e. between 8 and 22, only on business days.

- III. Regulatory System Services within JGwa for generating units of Rybnik power plant:

- start-up of JGwa (from hot, warm and cold state),
- JGwa participation in primary control,
- JGwa participation in secondary control,
- JGwa overload operation (in scope restricted by the agreement),
- JGwa participation in automatic load and passive capacity control – operation of blocks in Automatic Control of Plant Load (ARNE).

On December 30, 2014, PGE EO S.A. signed a new 4-year agreement with PSE S.A. for provision of intervention services. Under the agreement, which covers years 2015-2018, PGE EO S.A. carries out intervention work for PSE S.A. consisting of providing PSE S.A. with the capability to manage and operate the following pumped-storage plants: Żarnowiec, Porąbka Żar, Dychów and Solina, for management, in intervention mode, the balance of active and reactive power in the system and management of power flows in the transmission network.

The services cover:

- active cold intervention reserve service,
- self-start-up service,
- load and reactive power control service,
- power compensation service.

In 2017 purchase of services from PSE S.A. constituted approx. 13% of operating costs incurred by the Group. PSE S.A. is an entity related to PGE S.A. as a subsidiary of the State Treasury.

5.4.4. Fuel purchase costs

Table: Volume and cost of purchase of fuels from third party suppliers in 2017 on a quarterly basis and in the fourth quarter of 2016.

Type of fuel	Q1 2017		Q2 2017		Q3 2017		Q4 2017		Q4 2016	
	Volume (tons ths)	Cost (PLN m)	Volume (tons ths)	Cost (PLN m)	Volume (tons ths)	Cost (PLN m)	Volume (tons ths)	Cost (PLN m)	Volume (tons ths)	Cost (PLN m)
Hard coal	1 308	290	1 138	256	1 305	293	2 460	556	1 585	334
Gas (cubic metres)	242 934	179	125 752	87	76 735	37	311 429	224	236 967	163
Biomass	133	24	120	22	108	21	167	32	120	22
Fuel oil*	7	10	6	8	8	10	15	23	10	12
TOTAL		503		373		361		835		531

* heavy and light

Table: Volume and cost of purchase of fuels from third party suppliers in 2017, 2016 and 2015.

Type of fuel	2017		2016		2015	
	Volume (tons ths)	Cost (PLN m)	Volume (tons ths)	Cost (PLN m)	Volume (tons ths)	Cost (PLN m)
Hard coal	6 211	1 395	5 340	1 141	5 588	1 315
Gas (cubic metres ths)	756 850	527	659 542	454	575 198	484
Biomass	528	99	868	190	1 215	333
Fuel oil*	36	51	41	41	30	38
TOTAL		2 072		1 826		2 170

* heavy and light

In 2017 the costs of purchasing primary fuels from providers outside the Group amounted to PLN 2 072 million and were higher by PLN 246 million than in the previous year. The biggest impact on the change of fuel purchase costs in PGE Group came from the Acquired assets which are mainly hard coal-fired and gas-fired.

Hard coal

- higher purchase volume by 16% (PLN +186 million)

The higher volume of hard coal purchased in 2017 is mainly related to the acquisition of EDF's assets.

- lower average price by 5% (PLN +68 million)

Higher hard coal price in 2017 results chiefly from the prices on the mining market, both domestic and international, what translated into higher contractual prices.

Biomass

- lower volume of biomass purchase by 39% (PLN -74 million)
Lower volume of biomass purchase is a result of lower electricity production from combustion and co-combustion with biomass due to the decreased profitability of utilisation of this raw material (see p. 4.2.1 of this report).
- average price lower by 14% (PLN -17 million)

Gas

- higher purchase volume by 15% (PLN +67 million)
Increased volume of gas used results from acquisition of gas-fired EDF assets and from higher productions at gas-fired CHP plants PGE GiEK S.A. (see p. 4.2.1 of this report).
- higher average price by 1% (PLN +6 million)

Fuel oil

- higher average price by 41% (PLN +15 million)
Higher global prices of crude oil and refinery products attributed to the significant increase of average purchase price of fuel oil.
- purchase volume lower by 12% (PLN -5 million)

Lower purchase volume in 2017 compared to the previous year results from lower number of trial run of units related to failures, planned overhauls and TSO request.

In 2017 approximately 69% of the electricity was produced from internally sourced lignite, whose extraction price is fully controlled by PGE Capital Group. In 2016 the production from lignite accounted for 70% of total production.

5.4.5. 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.

Distribution of electricity

Methodology of and assumptions for tariffs determination were published in the document "Tariffs for the DSO for the year 2017", which was prepared and published by the President of the Energy Regulatory Office.

On December 15, 2016 the ERO President approved the Tariff of PGE Dystrybucja S.A. for electricity distribution services for the period from January 1, 2017 until December 31, 2017.

Tariff came into force on January 1, 2017.

Distribution tariffs for 2017 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 2016:

- A tariff group – decrease by 0.15%;
- B tariff group – increase by 5.89%;
- C+R tariff group – increase by 3.77%;
- G tariff group – increase by 6.23%.

The change in distribution service rates takes into consideration a significant increase in the transition fee (from approx. 80% for tariff B groups to 106% for customers with highest consumption in tariff G groups) related to the costs of liquidating long-term contracts and RES fee (by approx. 47%) related to support mechanisms for the production of energy from renewable sources. These fees have an impact on growth of regulated revenue and distribution service fees, but they are fully transferred to entities in charge of support instruments, thus they do not impact profit of the distribution companies.

Changes in average tariff in particular tariff groups (not including RES fees and transition fee) are as follows:

- A tariff group – no change;
- B tariff group – decrease by 0.55%;
- C+R tariff group – decrease by 0.22%;
- G tariff group – increase by 0.64%.

The quality regulation elements introduced in 2016 were being continued in 2017. 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 monitoring, in accordance with quality regulations, was planned from 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 2017 will be included in tariff for 2019. In accordance with the assumptions adopted by the ERO, a penalty cannot exceed 2% of regulated revenue and value of 15% of return on capital in a given year.

On December 14, 2017, the President of ERO approved a tariff for PGE Dystrybucja S.A. for electricity distribution services over the period from January 1, 2018, to December 31, 2018.

On January 3, 2018, the President of ERO approved a change in PGE Dystrybucja S.A.'s tariff consisting of the introduction of so called an anti-smog tariff (G12as). This tariff was adjusted by the decision of the ERO President of January 16, 2018.

Tariff for heat

Pursuant to the Energy Law, energy companies holding concessions set tariffs for heat and propose their duration. Conduction of proceedings concerning heat tariffs approval lies within the competence of regional branches of the Energy Regulatory Office. Average sale price of heat in PGE Group decreased by approximately 2% in comparison to the prices in 2016.

6. Report on activities of the Issuer

Pursuant to art. 55 section 2a of the Accounting Act and § 83 section 7 Regulation of the Minister of Finance on current and periodic information, the Company has prepared the report on activities of PGE Polska Grupa Energetyczna S.A. and of the Capital Group in form of one document. Other required elements of the report on activities of the Companies which are not included in chapter 7, are identical with the ones in the report on activities of PGE Capital Group.

6.1. Key financial results of PGE S.A.

Key financial data	Unit	Year ended December 31, 2017	Year ended December 31, 2016	% change	Year ended December 31, 2015	% change
Sales revenues	PLN million	9 185	10 847	-15%	10 929	-1%
EBIT	PLN million	541	495	9%	715	-31%
EBITDA	PLN million	557	510	9%	730	-30%
Net cash from operating activities	PLN million	801	874	-8%	797	10%
Net cash from investing activities	PLN million	-582	-4 931	-88%	-1 448	241%
Net cash from financial activities	PLN million	-1 179	-4 931	-76%	-1 448	241%
Net earnings per share	PLN	2.43	0.85	193%	0.95	-11%
EBITDA margin	%	279	3 977	-93%	-318	-
Shares in subsidiaries	PLN million	32 565	29 678	10%	29 469	1%
Working capital	PLN million	2 032	4 491	-55%	1 946	131%
Net debt/LTM EBITDA*	x	10.36	9.17		4.26	

* LTM EBITDA – Last Twelve Months EBITDA

Key financial data	Unit	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q4 2016
Sales revenues	PLN million	2 400	2 191	2 213	2 381	2 681
EBIT	PLN million	157	133	141	110	83
EBITDA	PLN million	161	137	145	114	87
Net cash from operating activities	PLN million	380	177	157	87	103
Net cash from investing activities	PLN million	1 640	133	511	-2 866	-2 858
Net cash from financial activities	PLN million	146	194	-142	-516	-51
Net earnings per share	PLN	0.09	1.60	0.77	-0.03	0.08
EBITDA margin	%	7%	6%	7%	5%	3%

Key financial data	Unit	As at				
		March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	December 31, 2016
Shares in subsidiaries	PLN million	29 287	29 313	30 880	32 568	29 678
Working capital	PLN million	4 334	6 041	3 777	2 032	4 491
Net debt/LTM EBITDA*	x	10.23	10.11	7.79	10.36	9.17

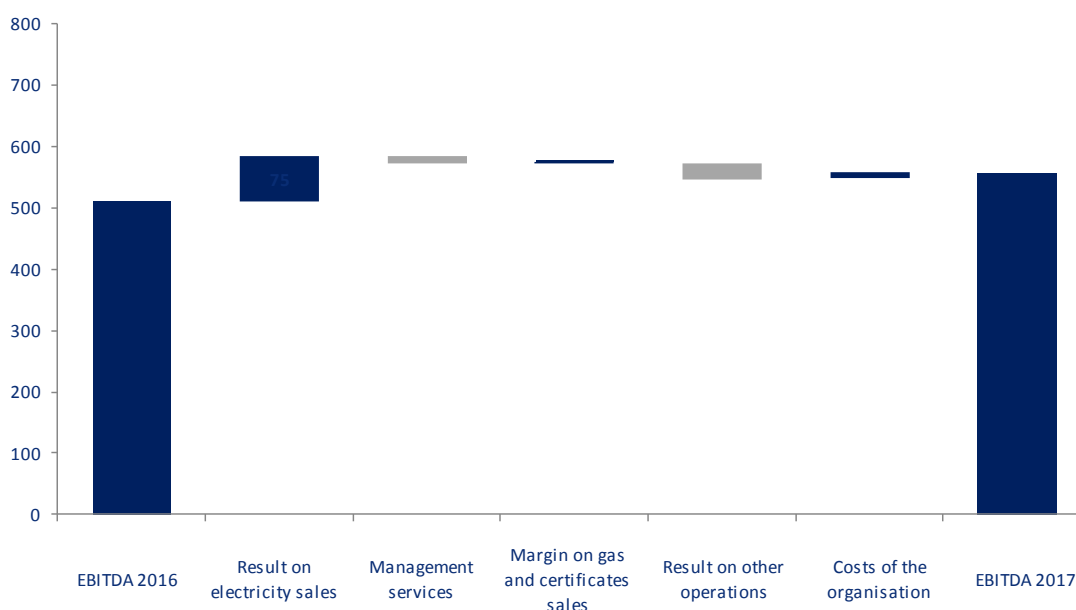
* LTM EBITDA – Last Twelve Months EBITDA

6.1.1. Revenues by geographical areas

Table: Breakdown of the Company's income from continuing operations, by geographic area, in 2015 - 2017.

PLN million	Total revenues							
	2017	% share	2016	% share	% change	2015	% share	% change
Domestic market	9 142	100%	10 822	100%	-16%	10 910	100%	-1%
EU member states	43	0%	25	0%	72%	19	0%	32%
Other countries	0	0%	0	0%	0%	0	0%	0%
Total sales revenues	9 185	100%	10 847	100%	-15%	10 929	100%	-1%

Chart: Key changes of EBITDA in PGE S.A. (in PLN million).



Change	75	-13	2	-26	9	
EBITDA 2016	510	124	468	6	161	278
EBITDA 2017	199	455	8	135	269	557

- **The higher result on sales of electricity** results from higher margins than in the previous year. The lower margins in 2016 resulted mainly from a reduction in the second half of 2016 of sales prices to PGE Obrót S.A. as part of managing the margin throughout the entire value chain.
- **Decreased revenues from the Group companies from the services under the agreement for Commercial Management of Generation Capacities** is connected mainly with the lower electricity volume under management (-2.1 TWh).
- **Change in other operations** results mainly from recognition of discounted donations for years 2018-2026 for Polish National Foundation, as a consequence of the foundation's certificate of incorporation.

- **A decline in operating costs**, mainly exchange fees and commissions resulting from the re-organisation of electricity trading due to the reduction of the "exchange obligation" as well as representation and advertising costs resulting from a smaller number of advertising campaigns and sponsoring-related expenditures.

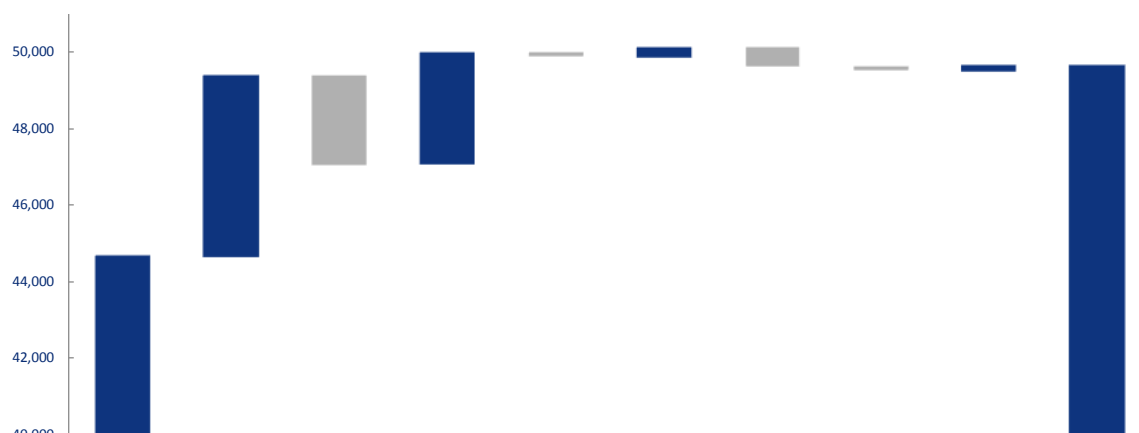
Table: Financial operations

in PLN million	2017	2016	% change	2015	% change
Financial revenues	4 594	1 439	219%	1 285	12%
Dividends from PGE Capital Group companies	2 872	1 063	170%	1 050	1%
Interest from bonds, cash, deposits and loans granted	368	252	46%	208	21%
Reversal of impairment losses	1 289	89	1 348%	0	-
Other, including: profit from valuation of derivatives, foreign exchange differences	65	35	86%	27	30%
Financial expenses	586	260	125%	210	24%
Interest from bank loans and advances and bonds issues	326	226	44%	186	22%
Impairment loss	253	23	1 000%	0	-
Other, including: loss from valuation of derivatives and, foreign exchange differences	7	11	-36%	24	-54%
Result on financial operations	4 008	1 179	240%	1 075	10%

- **Dividend income increase** largely as a result of a dividend received from PGE GIEK S.A. in 2017 and a lack of dividend from this company in 2016.
- **Increased revenues on impairment losses** results mainly from partial decrease in 2017 of the impairment loss on PGE Obrót S.A. shares.
- **Increased revenues from interests** results mainly from higher interests from purchased bonds issued by the Group companies and increased interest on deposits.
- **Increase of other financial revenues** results mainly from valuation of forward transactions on financial instruments and CO₂ emission rights.
- **Higher interest expenses** mainly due to interest on syndicated loan, which was drawn in 2016 in amount of PLN 3.6 billion (interest on this loan are paid every six months).
- **Higher costs related to impairment loss** results mainly from following impairment losses made in 2017: impairment loss on shares of Exatel S.A., partial impairment loss on shares in PGE EJ 1 and partial impairment loss on Autostrada Wielkopolska S.A. bonds.

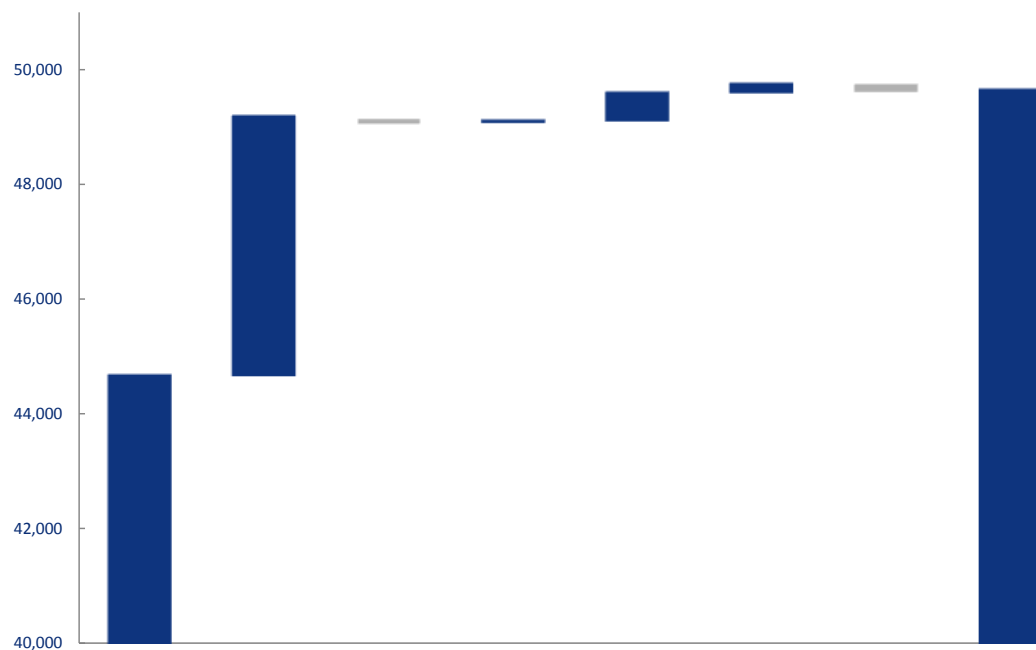
6.1.2. Statement of financial position

Chart: Key changes in Assets (in PLN million).



	Assets December 31, 2016	Debentures and loans	Deposits	Shares and bonds in related parties	Derivatives	Trade receivables	Other financial receivables	Cash and cash equivalents	Others	Assets December 31, 2017
Change		4,714	-2,299	2,890	-95	235	-497	-100	132	
Assets as at December 31, 2016	44,651	8,870	2,299	29,678	365	523	631	1,932	353	
Assets as at December 31, 2017		13,584	0	32,568	270	758	134	1,832	485	49,631

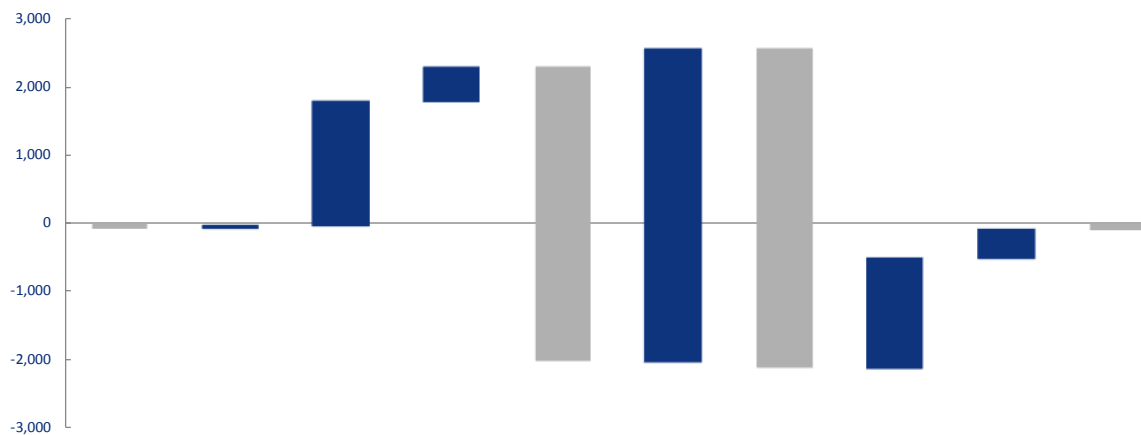
Chart: Key changes in Equity and Liabilities (in PLN million).



	Equities and liabilities as at December 31, 2016	Equity	Credit, loans, debentures, cash pooling	Derivatives	Trade liabilities	Income tax liabilities	Others	Equities and liabilities as at December 31, 2017
Change		4,506	-80	9	489	172	-116	
Equities and liabilities as at December 31, 2016	44,651	34,638	9,558	23	184	4	244	
Equities and liabilities as at December 31, 2017		39,144	9,478	32	673	176	128	49,631

6.1.3. Statement of cash flows

Chart: Net change in cash (in PLN million).



	Change in cash 2016	EBITDA	Received dividends	Purchase/buyout of bonds from PGE Group companies	Purchase of shares of subsidiaries	Opening/termination of deposits over 3 months	Drawing/repayment of loans and bonds	Cash pooling-related income and expenses	Other income and expenditures	Change in cash 2017
Change	47	1,809	509	-4,307	4,580	-4,665	1,588	420		
Change in cash 2016	-80	510	1,063	-2,651	-44	-2,290	4,648	-991	-325	
Change in cash 2017		557	2,872	-2,142	-4,351	2,290	-17	597	95	-99

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

Table: Company's net debt as at December 31, 2017, December 31, 2016 and December 31, 2015.

PLN million	As at December 31, 2017	As at December 31, 2016	As at December 31, 2015
Cash on hand and cash at bank	732	331	611
Overnight deposits	1	1	2
Short-term deposits	1 099	1 600	1 400
Cash and cash equivalents	1 832	1 932	2 013
Investments held until maturity date (short-term deposits)	0	2 299	0
Short-term loans and debt securities (PGE Group)	1 744	21	30
Loans and receivables - cash pooling	134	628	320
Cash at the Company's disposal	3 710	4 880	2 363
Current loans and borrowings	188	207	74
Bonds issued - current	1 000	24	24
Short-term liabilities - cash pooling	576	473	1 157
Non-current loans and borrowings	7 714	7 878	3 240
Bonds issued – non-current	0	976	976
Gross financial debt (short and long-term)	9 478	9 558	5 471
Net financial debt	5 768	4 678	3 108

Table: Key financial ratios

Ratios	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Return on sales ROS (in %) Net financial result x 100% / Net revenues	49%	15%	16%
Return on equity ROE (in %) Net financial result x 100% / equity	12%	5%	5%
Debtor's days Average trade receivables (gross) x 365 days / net revenues	25	20	21
Debt ratio (in %) Liabilities x 100% / total equity and liabilities	21%	22%	15%
Current ratio Current assets / short-term liabilities	2	5	2

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

6.2. Key operational figures of PGE S.A.

Table: Volume of electricity sales (in TWh).

Sales volume	2017	2016	% change	2015	% change
Sale of electricity to the Group companies	38.6	42.0	-8%	39.4	7%
Sale of electricity on the power exchange and in bilateral transactions outside the Group	4.8	3.5	37%	2.7	30%
Sale within the balancing group and on the balancing market	1.2	3.4	-65%	2.0	70%
Total electricity sales	44.6	48.9	-9%	44.1	11%

Sales volume	Q1	Q2	Q3	Q4	Q4
	2017	2017	2017	2017	2016
Sale of electricity to the Group companies	10.1	8.8	9.8	9.9	10.6
Sale of electricity on the power exchange and in bilateral transactions outside the Group	1.3	1.2	1.1	1.2	1.0
Sale within the balancing group and on the balancing market	0.4	0.3	0.3	0.2	0.8
Total electricity sales	11.8	10.3	11.2	11.3	12.4

PGE S.A. acts as a wholesale centre for the PGE Capital Group. In comparison to the previous period, in 2017 a decline was observed in volumes of electricity sold to PGE Capital Group – mainly to PGE Obrót S.A., what was connected with the lower demand of that company for electricity with regard to supplies to the retail customers.

Volume of electricity sale within the balancing group also decreased. Increased sale outside the Group resulted from higher contracting on OTC market.

Table: Volume of certificates sales.

[TWh]	2017	2016	% change	2015	% change
Green certificates	0.4	0.3	33%	2.6	-88%
Yellow certificates	0.0	0.0	-	1.8	-
Red certificates	0.0	0.0	-	5.5	-
Purple certificates	0.0	0.0	-	0.0	-

[TWh]	Q1	Q2	Q3	Q4	Q4
	2017	2017	2017	2017	2016
Green certificates	0.1	0.0	0.2	0.1	0.0
Yellow certificates	0.0	0.0	0.0	0.0	0.0
Red certificates	0.0	0.0	0.0	0.0	0.0
Purple certificates	0.0	0.0	0.0	0.0	0.0

In 2015, a process to re-organise trade in property rights within PGE Group was commenced, as a result of which the agreements were signed for cession of bilateral contracts from PGE S.A. to PGE Obrót S.A. The last contract, to which PGE S.A. was a party, was performed in 2017.

Table: Volume of CO₂ emission rights sales

[t million]	2017	2016	% change	2015	% change
Sale of EUA to the Group	12.9	41.8	-69%	35.3	18%
Total CO₂ emission rights sales to the Group	12.9	41.8	-69%	35.3	18%
CO₂ emission rights sales outside PGE Group*	1.2	3.5	-66%	19.4	-82%

* The Company is also engaged in trading of CO₂ emission rights within so called trading portfolio on the exchange market and in bilateral transactions outside the PGE Capital Group. Result on those transactions is recognised by the Company in financial revenues and expenses.

	Q1	Q2	Q3	Q4	Q4
[t million]	2017	2017	2017	2017	2016
Sale of EUA to the Group	2.4	7.8	2.0	0.7	10.5
Total CO₂ emission rights sales	2.4	7.8	2.0	0.7	10.5

Procurement of CO₂ emission allowances for PGE GiEK S.A. was done in line with the adopted trading strategy. These allowances were purchased on electricity markets via spot and forward contracts and under bilateral agreements. The diminishing share of free allowances is resulting in higher purchases of CO₂ emission allowances every year.

Table: Volume of natural gas sales

[TWh]	2017	2016	% change	2015	% change
Sale of natural gas to the Group	3.2	4.6	-30%	2.7	70%
Sale of natural gas outside the Group	4.3	1.7	153%	1.3	31%
Total natural gas sales	7.5	6.3	19%	4.0	58%

	Q1	Q2	Q3	Q4	Q4
[TWh]	2017	2017	2017	2017	2016
Sale of natural gas to the Group	0.9	0.9	0.6	0.8	0.7
Sale of natural gas outside the Group	1.0	1.0	0.6	1.7	0.9
Total natural gas sales	1.9	1.9	1.2	2.5	1.6

In 2017, the volume of gas sales went up by 19%, largely in transactions with entities from outside PGE Group - on the exchange and the OTC market. This is the result of expansion of the wholesale gas trading business. However, the volume of sales to PGE Group entities declined by 30%, mainly resulting from a change in fuel suppliers for CHP units: Lublin-Wrotków CHP and Rzeszów CHP. In 2016, these units were supplied with gas by PGE Group and PGNiG S.A., whereas in 2017 PGNiG S.A. became the sole supplier of gas fuel.

6.3. Ownership structure

State Treasury is a main shareholder of PGE S.A. State Treasury holds 1 072 984 098 Company's ordinary shares with nominal value of PLN 10.25 each, representing 57.39% of company's share capital and entitling to perform 1 072 984 098 votes at the general meeting of the Company. State Treasury stake represents 57.39% of the total number of votes.

State Treasury is the only shareholder holding at least 5% of the Company's shares (more information on the ownership structure in p. 7.4.2 of this report).

6.4. Dividend policy

Until May 2017 dividend policy assumed a dividend for shareholders at the level of 40-50% of the consolidated net profit adjusted by the value of impairment loss. The policy was subject to reservation that the amount for each individual dividend distribution will depend, in particular, on the Company's overall indebtedness, expected capital expenditures and prospective acquisitions.

In May 2017 the Management Board decided to change the dividend policy of PGE Group. The Management Board of the Company recommended to suspend dividend payment from the profit for years 2016, 2017 and 2018 facing the need to finance an ambitious development program and limitation of the debt level increase.

After that period, the Management Board of the Company intends to make a recommendation to the General Meeting of the Company of dividend payment for shareholders at the level of 40-50% of the consolidated net profit attributable to the equity holders adjusted by the value of impairment loss on property, plant and equipment and intangible fixed assets. New dividend policy, just like the previous one, is subject to reservation that the amount for each individual dividend distribution will depend, in particular, on the Company's overall indebtedness, expected capital expenditures and prospective acquisitions.

The dividend policy will be periodically verified by the Management Board of the Company. Information about the change of the dividend policy was published through the current report no. 27/2017 dated May 11, 2017.

In accordance with the updated dividend policy, the Ordinary General Meeting of June 27, 2017 adopted a resolution on allocation of net profit of the Company for 2016 in amount of PLN 1 598 million for the reserve capital of the Company.

6.5. Rating

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

	Moody's	Fitch Ratings
Long-term company rating	Baa1	BBB+
Rating outlook	stable	stable
Date of rating assignment	September 2, 2009	September 2, 2009
Date of the latest rating confirmation	November 6, 2017	October 24, 2017
Poland long-term rating	A2	A-
Rating outlook	stable	stable

In 2017 both rating agencies: Moody's and Fitch affirmed long-term rating of PGE S.A. at investment grade respectively at Baa1 and BBB+, both with stable outlook. Both agencies underline affirmation results from strong market position of PGE in the Polish electricity sector. Fitch in its latest release emphasises the extension of the operations in district heating segment (following the acquisition of Polish EDF assets), which will contribute to increased revenues from regulated operations and is more predictable than electricity generation sector. On the other side, Fitch points out the falling margins on electricity production and growing capital expenditures that will increase funds from operations adjusted net leverage to approximately 3x by 2020 from 0.8x net leverage in 2016. Moody's in its latest release also mentioned larger involvement in regulated district heating sector, while pointing out risks like concentration of fuel mix on high-emission fuels in context of EU decarbonisation policy and large-scale investment program of the Company which may weaken the financial profile PGE S.A.

Ratings assigned by both agencies confirm PGE's long-term credibility on the credit market.

6.6. Shares of PGE S.A. and its quotations

PGE shares are listed in the continuous trading system on the Main Market of Warsaw Stock Exchange ("WSE"). PGE has the largest market capitalization among Polish companies from power sector listed on WSE. PGE shares are included in the most important WSE indexes: WIG20 – the index of the largest and most liquid companies, WIG – the index of all companies from the Main Market, and WIG Energia – the index of power sector companies, as well as the foreign index MSCI Poland. PGE shares since 2011 have been also included in the index of socially responsible companies – RESPECT Index.

Chart: Key events on the background of stock quotes of PGE in 2017 (PLN).



In 2017 PGE shares quotation were in range PLN 10.04-14.95. Average market capitalisation (value of all shares of the Company) in 2017 amounted to PLN 22.8 billion. Average trading volume amounted to 2.3 million shares per session and average trading amount reached PLN 28 million.

Chart: Quotes of PGE share price (in PLN) in relation to the WIG, WIG - ENERGY and RESPECT Index.

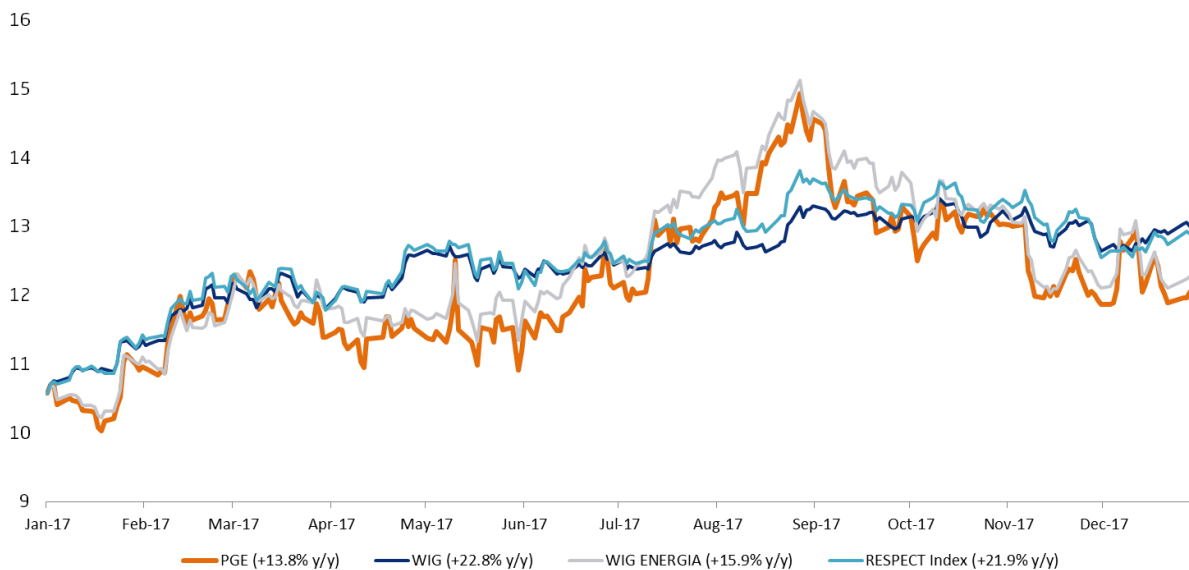


Table: Key data on PGE shares

	2017	2016	2015
Turnover (PLN)	6 908 723 518	8 612 913 380	10 214 951 620
Average number of transactions per session (pcs)	2 274 482	2 889 444	2 511 839
Maximum price during the year (PLN) ¹	14.95	14.39	21.43
Minimum price during the year (PLN) ¹	10.04	9.06	12.06

¹Stock prices relate to closing

Source: Bloomberg

All Company shares are bearer shares. Shares are not privileged, however the Company's Statute provides for special rights for the State Treasury, e.g. with respect to the appointment of members of the Supervisory Board. (more information on special powers for the State Treasury in section 7.4.1 of this report).

6.7. Investor relations of PGE S.A. and investor communication tools

Effective communication with investors and transparency are in the Company's interest and create value for its shareholders. Investor relations efforts at PGE S.A. go beyond what is required by law. The Company is legally obligated to fulfil information obligations as regards periodic and current reporting, with particular emphasis on price-sensitive information. In order to accommodate our demanding shareholders and investors, the investor relations team at PGE S.A. launched a number of additional tools to remove information asymmetry between the Company and the capital market. These tools are available in the Investor Relations section of the Company's website.

PGE's website at <https://www.gkpgge.pl/Investor-Relations/PGE-Group/Analyst-s-zone> also features a comprehensive presentation entitled PGE BIG BOOK. This material provides wide-ranging information on the Company's market surroundings, regulations in the energy sector and on PGE Group itself.

The Company has also prepared an editable [xls file with financial and operating data](#), presented as a time series from the first quarter of 2011 to the most recent reporting period.

In addition, the Company publishes preliminary estimates of results prior to quarterly reporting, in accordance with a schedule available at the website. These publications contain the key financial values, operating volumes and information on significant one-off events.

For investors concerned about social and environmental issues, who are seeking a link between business, finance and the Company's involvement in its surroundings, we publish an online version of PGE Group's integrated report.

The Company's information policy in this area was recognised by the Polish investor community, namely the Association of Brokers and Investment Advisors, which highlighted PGE Group's integrated report for the best analytical value. Along with this accolade PGE was awarded the third place in the main category of the competition "The Best Annual Report 2016," which is organised by the Accounting and Tax Institute.

6.8. Reporting calendar of PGE Capital Group and PGE S.A.

March 6, 2018 - Consolidated Annual Report of PGE Group for 2017
May 15, 2018 - Quarterly report for Q1 2018
August 7, 2018 - Consolidated half-year report for the first half of 2018
November 13, 2018 - Quarterly report for Q3 2018

7. Statement on implementation of Corporate Governance

This Statement on implementation of corporate governance in PGE S.A. in 2017 was prepared on the basis of § 91 section 5 point 4 of the Regulation of the Minister of Finance dated February 19, 2009 on current and periodic information published by issuers of securities and on conditions under which such information may be recognized as being equivalent to information required by the regulations of law of a state which is not a member state.

7.1. Corporate governance principles which the Company was obliged to follow in 2017

In 2017 PGE S.A. was obliged to follow the corporate governance principles described in "Best Practices of WSE Listed Companies" (further: Best Practices). Best Practices were adopted with the Resolution of the Board of the Warsaw Stock Exchange ("WSE") no. 26/1413/2015 on October 13, 2015, which came into force on January 1, 2016 and should be obliged by PGE starting from that date.

Management Board of PGE S.A. approved Best Practices for application in the Company by the resolution no. 19/03/2016 of January 19, 2016. The Management Board of the Company acts with due diligence to obey the principles of Best Practices.

For the full text of the Best Practices, see the official corporate governance website of the Warsaw Stock Exchange: <https://www.gpw.pl/best-practice>.

7.1.1. Information on exceptions in application of the corporate governance principles

In 2017 the Company applied the Best Practices with the exception of 2 recommendations IV.R.2, VI.R.1.

- I. Recommendation IV.R.2 in Chapter IV „General Meeting, Shareholder Relations” on enabling its shareholders to participate in a General Meeting using electronic communication means.

The Management Board of PGE twice proposed to shareholders introduction to the Statute and to the Regulations of the General Meeting provisions enabling organization of general meetings in the way prescribed in Code of Best Practices. Such proposal was not approved by shareholders during Ordinary General Meeting of May 30, 2012 and during Extraordinary General Meeting of June 27, 2013. The Management Board of PGE does not exclude adoption of the above-mentioned rule in future.

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

- II. Recommendation VI.R.1 in Chapter VI „Remuneration” on having remuneration policy and principles of determining remuneration for company's governing bodies and key managers.

In 2016 the Company did not have an uniform remuneration policy and principles determining the remuneration. The Company and its subsidiaries are bound to apply the provisions of various collective agreements, which significantly restricts the freedom of designing the remuneration policy. In 2017 the uniform rules were implemented with regard to remunerations of management boards and supervisory boards in companies being part of the Group (implementation took place at the end of June 2017). Currently only in companies required from EDF Polska S.A., that have been part of the Group since November 14, 2017, the rules for remuneration of corporate bodies have not been fully adapted to the ones valid in PGE Group. Full harmonisation of the rules is planned in 2018.

7.1.2. Information about the diversity policy

PGE Polska Grupa Energetyczna S.A. has not yet developed a diversity policy applicable to the Company's governing bodies and key managers. Recruitment process for the managing positions includes such elements as proper education, professional experience, qualifications and competences of the candidates and does not disqualify any candidates in terms of elements of the diversity policy that are indicated in the principle.

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

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

EU IFRS-compliant accounting policy of the PGE Capital Group is binding for the companies using IFRS for preparation of their statutory financial statements and at preparation of the IFRS-compliant reporting packages for the consolidation. Before every reporting period the companies subject to consolidation receive detailed guidelines from PGE S.A. with

regard to method and closing date of the accounting books, preparation and submitting the reporting packages and template updated for a given period.

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

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

Statutory auditors perform an independent assessment of reliability and correct preparation of the financial statements of PGE S.A. and financial statements of companies subject to consolidation.

The PGE Group has implemented a multi-stage process of approving financial statements with the participation of Supervisory Boards. Stand-alone and consolidated financial statements of PGE S.A. are evaluated by the Supervisory Board. The Audit Committee operates within the Supervisory Board and is responsible, among others, for: monitoring the independence of the statutory auditor, monitoring the effectiveness of internal control systems, reviewing interim and annual financial statements of the. Stand-alone financial statements of the companies subject to consolidation are evaluated by the Supervisory Boards of such companies. The financial statements are approved by the General Meetings of the companies.

The Company has an internal audit function, which covers all areas of PGE Group's activities, except for the protection of confidential information, the control of which is set by law. The aim of internal audit is to perform independent and objective assessments of business processes at PGE Group companies as regards implement effective and adequate risk management, control and corporate governance systems. Internal audit is based on the Internal Audit Regulations, which are aligned with the International Standards for the Professional Practice of Internal Auditing and encompasses both planned and ad hoc audits at the parent and other Group companies. Internal audit provides support to PGE Group in achieving its objectives by delivering information to the corporate organs and management of PGE and PGE Group companies on the effectiveness of risk management, control and corporate governance processes and by providing advisory in this area. Audit results are also reported to the Audit Committee.

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

7.1.4. Shareholders with a significant stake

Shareholders holding directly or indirectly by subsidiaries at least 5% of the total votes at Company's General Meeting are presented in p. 7.4.2 of the foregoing report.

7.1.5. Shareholders with special control powers

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

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

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

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

7.1.6. Limitations regarding exercise of the voting rights from the existing shares

As from June 29, 2011 the Statutes of the Company provide the limitations regarding exercise of the voting rights in shares. The voting right of shareholders shall be limited in such manner that at the General Meeting, none of them may

exercise more than 10% of the total number of votes existing in the Company as at the date of holding the General Meeting, subject to the provision that for the purposes of determining the obligations of entities acquiring considerable blocks of shares as provided for in the Act on public offerings, conditions for introducing financial instruments to an organised trading system and public companies of July 29, 2005, such limitation of the voting right shall be regarded as non-existent.

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

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

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

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

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

Moreover, each shareholder who intends to participate in the General Meeting, directly or by proxy, shall be obliged, without a separate call, to notify the Management Board or the Chairperson of the General Meeting of the fact that he holds, directly or indirectly more than 10% (ten per cent) of the total number of votes in the Company. This obligation does not apply to the State Treasury. A person who has failed to comply or has complied improperly with that obligation to provide information may exercise the voting right exclusively from one share until the remedy of such failure to. The exercise of the voting right from the other shares by such person shall be ineffective.

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

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

7.1.7. Limitations regarding the transfer of ownership of the Company's securities

There are no limitations regarding the transfer of ownership of the Company's securities, that the Company is aware of, apart from the limitations regarding the shares of the Company that belong to the State Treasury, resulting from the Act of December 16, 2016 on rules of management of the state assets. Disposal of shares in violation of this prohibition is invalid.

7.2. Rules for amendments to the Company's Statutes

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

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

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

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

I. Convening and cancelling the General Meeting.

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

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

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

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

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

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

II. Competencies of the General Meeting of the Company.

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

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

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

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

III. Participation in the General Meeting of the Company

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

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

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

IV. Voting at the General Meeting of the Company

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

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

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

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

7.3.1. Management Board

- I. Management Board members
- II. Until February 13, 2017 the Management Board consisted of:

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

In connection with expiration of the ninth term of office of the Management Board, on February 13, 2017 the Supervisory Board adopted resolutions on dismissal of following persons from the Management Board effective February 13, 2017:

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

At the same time, on February 13, 2017 the Supervisory Board adopted resolutions on appointment of following persons to the Management Board of the tenth term of office as from February 14, 2017:

- Mr. Henryk Baranowski and entrusting him the position of the President of the Management Board;
- Mr. Bolesław Jankowski and entrusting him the position of the Vice-President for International Affairs;
- Mr. Wojciech Kowalczyk and entrusting him the position of the Vice-President for Capital Investments;
- Mr. Marek Pastuszko and entrusting him the position of the Vice-President for Corporate Affairs;
- Mr. Paweł Śliwa and entrusting him the position of the Vice-President for Innovations.
- Mr. Ryszard Wasilek and entrusting him the position of the Vice-President for Operations;
- Mr. Emil Wojtowicz and entrusting him the position of the Vice-President for Finance;

In connection with the above, from February 14, 2017 the Management Board consisted of:

Name and surname of the Management Board member	Position
Henryk Baranowski	President of the Management Board
Bolesław Jankowski	Vice-President for International Affairs
Wojciech Kowalczyk	Vice-President for Capital Investments
Marek Pastuszko	Vice-President for Corporate Affairs
Paweł Śliwa	Vice-President for Innovations
Ryszard Wasilek	Vice-President for Operations
Emil Wojtowicz	Vice-President for Finance

On June 20, 2017 Mr. Bolesław Jankowski submitted his resignation from his position in the Management Board, effective as of July 1, 2017.

As at December 31, 2017 the Management Board consisted of:

Name and surname of the Management Board	Position
Henryk Baranowski	President of the Management Board
Wojciech Kowalczyk	Vice-President for Capital Investments
Marek Pastuszko	Vice-President for Corporate Affairs
Paweł Śliwa	Vice-President for Innovations
Ryszard Wasilek	Vice-President for Operations
Emil Wojtowicz	Vice-President for Finance



Henryk Baranowski – President of the Management Board

Mr. Henryk Baranowski is a graduate of Faculty of Electrical Engineering at the Warsaw University of Technology with specialty of power engineering. He also completed postgraduate studies in business management of power utilities on the energy market at the Warsaw University of Technology and postgraduate studies in financial management of companies at the Warsaw School of Economics. He also completed Executive MBA program at Business School of the Warsaw University of Technology, HEC School of Management, London Business School and Norwegian School of Economics and Business Administration.

In years 2013-2015 employed as the Director for Business Development, and later as the Director for Sales and Marketing of Energy Sector at Alstom Power Polska. From 2006 to 2008 held a position of the Vice-President of the Management Board in PGE, and in years 2001-2006 the President of the Management Board in PSE-Info Sp. z o.o. In period 1990-2001 associated with PSES.A., where he held a position of, among others, ICT Director. From November 2015 till March 2016 he held a position of the Undersecretary of the State in the Ministry of State Treasury supervising works of Key Companies Department and Corporate Governance Department.



Wojciech Kowalczyk - Vice-President for Capital Investments

Mr. Wojciech Kowalczyk graduated from the Foreign Trade Faculty of the Main School of Planning and Statistics (currently named Warsaw School of Economics).

Since March 2016 Mr. Wojciech Kowalczyk was the Undersecretary of the State in the Ministry of Energy. Between November 2014 and March 2016 he was the Secretary of the State and the Government Plenipotentiary for the restructuring of coal mining within structures of the Ministry of Economy, subsequently the Ministry of State Treasury and the Ministry of Energy.

In years 2012-2014 Mr. Wojciech Kowalczyk was the Undersecretary of the State in the Ministry of Finance, where he supervised the development of financial market, banking, insurance and capital sector and public debt. In years 2011-2012 he worked at Bank Gospodarstwa Krajowego, inter alia, as a Vice-President of the Management Board, responsible for financial markets, bank products and investment projects.

In years 1995-2001 and 2004-2010 Mr. Wojciech Kowalczyk was employed in Bank Handlowy, where he was responsible for bank's activities at the debt securities market. In years 2001-2004 he worked as a Director of Debt Securities Market at Merrill Lynch International in London.



Marek Pastuszko - Vice-President for Corporate Affairs

A legal counsel, graduated from Law and Administration Faculty at the University of Warsaw and from postgraduate studies on European Substantive Law at the University of Finance and Management in Warsaw.

Between October 2006 and July 2008 he was the President of the Management Board at PGE Energia S.A. As a Director of Law Section at the Organisation Department and as a Task Manager of the PGE's IPO Project he participated in the preparations of the Company for the IPO on the Warsaw Stock Exchange. For two years he worked as a legal counsel at the international law firm Bird & Bird. Since May 2010 Mr. Marek Pastuszko held a position of Deputy Director of Legal Department at the Gas Transmission Operator GAZ-SYSTEM. Earlier he was associated with the finance and insurance market. He was employed at Towarzystwo Ubezpieczeń i Reasekuracji Polisa and Towarzystwo Ubezpieczeń na Życie Polisa (insurance companies) inter alia as a Director of Law and Organization Department. He acted as a legal counsel at PTE Kredyt Banku S.A. (General Pension Society) and at the law firm Hunton & Williams, T. Kacymirow, J. Michalski, Z. Mrowiec. He was also employed in Telekomunikacja Polska as Director of the Department of Agreements Verification. In years 2003-2006 he was hired in Art Marketing Syndicate S.A. as a legal counsel and Coordinator of Legal Department.

He was also a Supervisory Board member in companies from power market (PSE-Operator, Agencja Rynku Energii, BOT Górnictwo i Energetyka and PGE RZE Dystrybucja).



Paweł Śliwa - Vice-President for Innovations

Mr. Paweł Śliwa graduated from Law and Administration Faculty at the Maria Curie-Skłodowska University in Lublin, branch in Rzeszów. He completed PhD studies on the Cardinal Stefan Wyszyński University in Warsaw. Completed attorney apprenticeship in Regional Bar Council in Rzeszów.

From March 1, 2016 till March 22, 2016 he held a position of the Supervisory Board member of PGE. Since November 2011 a judge at the Court of State. Since 2002 Mr. Paweł Śliwa has run a Law Firm in Gorlice. Since October 2010 a councilor in the legislative assembly of Małopolskie voivodship. In years 2005-2012 run a Solicitor's Partnership in Gorlice. In years 2006-2007 he held the position of the Vice-Chairman of the Supervisory Board of Ruch S.A.



Ryszard Wasilek - Vice-President for Operations

Mr. Ryszard Wasilek graduated from the Faculty of Mechanical Engineering at the Szczecin University of Technology, and completed postgraduate studies District Heating and Heating of the Warsaw University of Technology, Faculty of Environmental Engineering.

From 2003 till 2016 he was the President of the Management Board of a district heating company Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. in Stargard. In years 1990-1994 Mr. Ryszard Wasilek served as the Deputy President of Stargard, responsible for economic policy and in years 1994-2003 worked at KielArt Sp. z o.o. in Szczecin as CEO – Chairman.

He's been a Member of the Council of the Stargard Chamber of Commerce (since 2004), a Member of the Regional Council of the Polish Chamber of District Heating – North-Western Region (since 2010), a Member of the National Council of the Polish Chamber of District Heating (since 2014). In years 1993-1994 Ryszard Wasilek was also the President of the Western Pomerania Municipal Community "Euroregion Pomerania".



Emil Wojtowicz - Vice-President for Finance

Mr. Emil Wojtowicz is a graduate of Warsaw School of Economics (Finances and Banking).

In years 2009-2016 Partner and Vice-President of the Management Board in SmartCon Sp. z o.o. – independent IT advisory company, specializing in implementation of Enterprise Performance Management (EPM) systems offered by Oracle and SAP.

In years 2007-2008 he held the position of Vice-President of the Management Board in PGE, supervising finance department, including accounting, controlling and treasury areas. Mr. Emil Wojtowicz was also responsible for the preparatory process for the IPO of PGE.

In years 2001-2007 he was employed in Deloitte and was responsible for valuations, due diligence and economic fraud investigation. In years 2006-2007 he was responsible for financial advisory to the power sector companies, including among others PGE, PKN Orlen and Grupa Lotos.

In years 1998-2001 employed at Ernst & Young Management Consulting Services (later Cap Gemini Ernst & Young) and was responsible for due diligence, valuations, business plans and advisory projects.

III. Rules of appointing and recalling the management personnel

The Management Board of the Company consists of from one to seven members, including President. The remaining members fulfil the functions of Vice-Presidents. Members of the Management Board are appointed for a joint three-year term of office.

The Management Board or individual members of the Management Board are appointed and recalled by the Supervisory Board, following a competitive procedure intended to test and evaluate the candidates' qualifications and to select the best candidate for the position of Management Board member, with the stipulation that candidates for this post must meet the conditions specified in § 15 sec. 3 and 4 of PGE's Articles of Association. In addition, each member of the Management Board may be recalled or suspended by the General Meeting or, for major reasons, suspended by the Supervisory Board. A resolution of the Supervisory Board on the suspension of a member of the Management Board must include a justification. The Supervisory Board may delegate members of the Supervisory Board to perform activities of the members of the Management Board on a temporary basis. A member of the Management Board submits his/her resignation in writing to the Supervisory Board at the address of the registered office of the Company.

IV. Competencies of the Management Board

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

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

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

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

In accordance with the PGE's Statutes, resolutions of the Management Board are required particularly for the following:

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

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

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

V. Activities and organisation of work of the Management Board

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

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

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

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

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

7.3.2. Supervisory Board

I. Management Board members

Until April 5, 2017 the Supervisory Board consisted of:

Name and surname	Position
Anna Kowalik	Chairman of the Supervisory Board
Radosław Osiński	Vice-Chairman of the Supervisory Board – dependent
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

On April 6, 2017 the Company received from Mr. Mateusz Gramza a resignation from the Company's Supervisory Board with immediate effect.

On June 26, 2017, the State Treasury, represented by the Minister of Energy, by way of a written statement submitted to the Management Board of the Company, dismissed Mr. Radosław Osiński from the Supervisory Board. On June 27, 2017, Mr. Radosław Osiński was appointed by the Ordinary General Meeting to serve the function of a Member of the Supervisory Board.

On November 21, 2017 Mr. Radosław Osiński submitted a resignation from the Supervisory Board.

On December 29, 2017 the Company received from Mr. Jarosław Głowacki a resignation from the Supervisory Board.

As at December 31, 2017 the Supervisory Board consisted of:

Name and surname of the Supervisory Board member	Position
Anna Kowalik	Chairman of the Supervisory Board
Artur Składanek	Vice-Chairman of the Supervisory Board – independent
Grzegorz Kuczyński	Secretary of the Supervisory Board - independent
Janina Goss	Supervisory Board Member - independent
Witold Kozłowski	Supervisory Board Member - independent
Mieczysław Sawaryn	Supervisory Board Member - independent

On January 9, 2018 the State Treasury, represented by the Minister of Energy, by way of a written statement, appointed Mr. Tomasz Hapunowicz as a member of Supervisory Board of the Company as of January 9, 2018.

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
Artur Składanek	Vice-Chairman of the Supervisory Board – independent
Grzegorz Kuczyński	Secretary of the Supervisory Board - independent
Janina Goss	Supervisory Board Member - independent
Tomasz Hapunowicz	Supervisory Board Member - independent
Witold Kozłowski	Supervisory Board Member - independent
Mieczysław Sawaryn	Supervisory Board Member - independent

CVs of the Supervisory Board member are available at the corporate website of PGE S.A. www.gkpgge.pl.

II. Rules of appointing and recalling of the supervisory personnel

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

According to the provisions of the Statutes, the Supervisory Board shall include at least one person appointed by the General Meeting from among persons meeting the criteria of independence specified in the principles of corporate governance adopted by the Board of the Warsaw Stock Exchange. Proposing a candidate for this position a shareholder nominating such candidate shall be obliged to submit to the minutes of the General Meeting such candidate's written declaration confirming his/her independency.

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

III. Activities and organisation of the Supervisory Board

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

Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board or the Vice-Chairman in the absence of the Chairman. The meeting of the Supervisory Board is convened by sending out a written invitation to all

members of the Supervisory Board at least seven days before the schedule date of the meeting.

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

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

The Supervisory Board passes resolutions if at least half of the members of the Supervisory Board are present at the meeting and all the members have been invited. The Supervisory Board passes resolutions in an open voting. A secret voting is administered when requested by a member of the Supervisory Board, and during voting on personal matters. Resolutions of the Supervisory Board may be made in writing or using means of direct remote communications. The latter cannot be used for resolutions on the appointment or recalling of the Chairman, Vice-Chairman and Secretary of the Supervisory Board, and appointment, recalling or suspending a member of the Management Board oraz determining the remuneration and other contractual terms and executing agreements with Management Board members, except for competences reserved for the Company's General Meeting resulting from mandatory provisions of law.

IV. Competencies of the Supervisory Board

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

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

V. Committees

In accordance with the Company's Statutes, the Rules of the Supervisory Board or a resolution of the General Meeting may provide for establishment of committees within the Supervisory Board, in particular the audit committee and the appointment and remuneration committee. The current Rules of the Supervisory Board provide that the Supervisory Board may appoint standing or ad hoc committees, acting as collective advisory and opinion-making bodies of the Supervisory Board. The particular goal of the committees is to provide the Supervisory Board with opinions and recommendations on matters within the competencies of the committees. The committees are established by the Supervisory Board out of its members. The committee consists of 3 to 5 persons. The committee appoints a chairman out of its members. The chairman convenes meetings of the committee, manages works of the committee and represents the committee in relations with the authorities and employees of the Company. The mandate of a committee member expires with the expiry of the mandate of the member of the Supervisory Board, resignation from membership in the committee or recalling from the committee by the Supervisory Board. Each Member of the Supervisory Board may participate in committee meetings. The committee chairman may invite to the meetings members of the Management Board, Company employees and other persons whose participation is advisable. Decisions of the committee are made on a consensus basis, unless the regulations of a given committee state otherwise. The following standing committees are currently part of the Supervisory Board: the Audit Committee, the Strategy and Development Committee, the Appointment and Remuneration Committee, and the Corporate Governance Committee.

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

■ The Audit Committee

The Audit Committee is responsible for auditing whether internal financial controls are performed in a correct and effective manner in the Company and the PGE Capital Group. The Audit Committee also co-operates with statutory auditors of the Company. The Audit Committee's tasks include in particular defining the rules for selecting an audit firm to audit the Company's financial statements and monitoring the Company's financial reporting.

Given the need to determine detailed tasks and operational rules for the Audit Committee as a consequence of new tasks being assigned to audit committees following entry into force of the act of May 11, 2017, on statutory auditors, audit firms and public oversight, Regulations for the Audit Committee at the Supervisory Board of PGE Polska Grupa Energetyczna S.A. were adopted in 2017. In addition, the Audit Committee at the Supervisory Board of PGE Polska Grupa Energetyczna S.A. adopted a Policy and Procedure for selecting audit firms to conduct audits and a Policy for providing services unrelated to audit by the audit firm performing the audit, its related parties and members of this audit firm's network.

■ The Corporate Governance Committee

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

■ Strategy and Development Committee

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

■ Appointment and Remuneration Committee

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

Table: Composition of the committees in 2017:

Name and surname of the member of the Supervisory Board	Audit Committee	Corporate Governance Committee	Strategy and Development Committee	Appointment and Remuneration Committee
Jarosław Głowacki		Member from March 2, 2016 till December 29, 2017	Member from March 2, 2016 till Dec. 29, 2017 Chairman from December 11, 2017	
Janina Goss	Member from March 2, 2016			Member from March 2, 2016
Mateusz Gramza	Member from March 7, 2016 till April 6, 2017			Member from March 2, 2016 till April 6, 2017
Anna Kowalik	Member			Member
Witold Kozłowski		Member from Sep. 13, 2016 Chairman from October 25, 2016	Member from December 13, 2017	Member from September 13, 2016
Grzegorz Kuczyński	Member from March 2, 2016 Chairman from March 18, 2016	Member from March 2, 2016		
Radosław Osiński			Member from Sep. 13, 2016 Chairman from October 25, 2016 till June 26, 2017; Member From September 19, 2017 till November 21, 2017, including as Chairman from Nov. 7, 2017	Member from Sep. 13, 2016 till June 26, 2017; Member From September 19, 2017 till November 21, 2017
Mieczysław Sawaryn			Member from March 2, 2016	Member from March 2, 2016 Chairman from August 8, 2016
Artur Składanek	Member From September 19, 2017	Member from March 7, 2016	Member from March 2, 2016	

7.3.3. Remuneration of the management of PGE S.A.

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

On September 9, 2016, the Act of June 9, 2016 on the principles of determining the amount of remuneration for persons managing certain companies – so called new Public Sector Salary Cap Act – came into force. The new Public Sector Salary Cap Act determines, inter alia, principles for determining remuneration in companies with a stake of the State Treasury (for example PGE), in particular determines the way in which the remuneration of the members of the Management Board and Supervisory Board is set (rules for determining remuneration of the Management Board and Supervisory Board are adopted by the General Meeting and the Supervisory Board adopts resolutions on specific conditions of the management board remuneration), and determines select provisions of management services agreements executed with management board members. On December 14, 2016, the Company's Extraordinary General Meeting, convened at the request of the Minister of Energy representing the State Treasury, adopted resolution 4 on determining the rules for remuneration for members of the Management Board of PGE Polska Grupa Energetyczna S.A., subsequently changed through resolution 37 of the Company's Ordinary General Meeting of June 27, 2017. According to this resolution, remuneration for Management Board members consists of a fixed component in the form of a monthly base salary, and a variable component constituting supplementary pay for the Company's financial year, depended on progress in achieving management objectives. According to these General Meeting resolutions, the Supervisory Board of PGE Polska Grupa Energetyczna S.A. adopted resolutions in 2017 on the execution of management services agreements with Management Board members that correspond to the rules of the new Public Sector Salary Cap Act and clarified management objectives and indicators for assessing their performance.

Table: Remuneration and benefits received in 2017 by the Members of the Management Board of PGE S.A. from PGE S.A.

Name and surname of the Management Board member	Remuneration and benefits achieved by the Management Board members in PGE S.A. in 2017 (in PLN)
Henryk Baranowski	1 185 377.88 ¹
Marta Gajęcka	386 225.37 ^{1,2}
Bolesław Jankowski	789 503.34 ^{1,2}
Wojciech Kowalczyk	585 702.78 ¹
Grzegorz Krystek	76 451.70 ²
Marek Pastuszko	1 045 313.55 ¹
Paweł Śliwa	1 016 873.55 ¹
Ryszard Wasilek	1 016 873.55 ¹
Emil Wojtowicz	1 016 873.55 ¹
Marek Woszczyk	86 129.10 ²

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

² item including remuneration paid for 3 months after termination of Management Services Contracts (dismissal/resignation) or/and due to non-competition clause.

The total remuneration achieved by the Management Board members in 2017 and after the period of providing management services amounted to PLN 7.2 million (according to PIT11). In cost perspective (including provisions), in 2017 the remuneration of all persons who acted as Management Board members of PGE S.A., jointly with the post-employment benefits, amounted to PLN 7.5 million.

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

The amounts of remuneration of the Supervisory Board Members of PGE S.A. were determined by the resolution no. 5 of the Extraordinary General Meeting of December 14, 2016 concerning the principles of determining the amount of remuneration for members of the Supervisory Board of PGE S.A., pursuant to which the monthly remuneration of members of the Supervisory Board was set as a product of the average remuneration in the business sector exclusive of profit-based bonuses in the fourth quarter of the previous year as announced by the President of the Central Statistical Office of Poland and the following factor: 1.7 (for the chairperson of the Supervisory Board), 1.5 (for the other members of the Supervisory Board). The level of remuneration set for members of the Supervisory Board of PGE Polska Grupa Energetyczna S.A. corresponds to the rules specified in the new Public Sector Salary Cap Act.

Table: Remuneration received by the Supervisory Board Members of PGE S.A. who in 2016 performed their functions in PGE S.A.

Name and surname of the Supervisory Board member	Remuneration achieved by the Supervisory Board members in PGE S.A. in 2017 (in PLN)
Jarosław Głowacki	78 841.98
Janina Goss	79 268.04
Mateusz Gramza	21 138.15
Anna Kowalik	89 837.16
Witold Kozłowski	79 268.04
Grzegorz Kuczyński	79 268.04
Radosław Osiński	70 680.69
Mieczysław Sawaryn	79 268.74
Artur Składanek	79 268.04

Total remuneration earned in 2017 by the members of the Supervisory Board in PGE S.A. amounted to PLN 657 thousand. In cost perspective (including provisions), the remuneration of all persons who acted as Supervisory Board members amounted to PLN 760 thousand in 2017.

7.4. Information about shares and other securities

7.4.1. Share capital and ownership structure

As at December 31, 2015 the share capital of PGE S.A. amounted to PLN 18 697 608 290 and split into 1 869 760 829 shares with a nominal value of PLN 10 each.

On September 5, 2016, the Extraordinary General Meeting of PGE („EGM”), convened 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 (resolution no. 4 of the EGM) and resolution on the change to the Statutes of the Company and authorising the Supervisory Board to determine the consolidated text of the Company Statutes, including the change in amount of the share capital (resolution no. 5 of the EGM of PGE).

On November 25, 2016 the District Court of the City of Warsaw, XII Commercial Division of the National Court Register (the “Register Court”) registered the change in share capital amount and the changes to the Company's Statutes, made on the ground of resolutions no. 4 and 5 of the EGM of September 5, 2016.

The Register Court registered the increase of share capital of the Company from the amount of PLN 18 697 608 290 to PLN 19 165 048 497.25 i.e. by PLN 467 440 207.25 by increasing the nominal value of the shares in series A, B, C and D from PLN 10 to PLN 10.25. The total number of shares and votes resulting from all issued shares, after the registration of the changes in the amount of the share capital of PGE, amounts to 1 869 760 829.

As at December 31, 2017 the share capital of PGE S.A. amounted to PLN 19 165 048 497.25 PLN and split into 1 869 760 829 shares with a nominal value of PLN 10.25 each.

Table: Share capital of the Company.

Series/ issue	Type of shares	Type of privilege	Number of shares	Value of series/issue at nominal value	Capital payment method
"A"	ordinary	n/a	1 470 576 500	15 073 409 125.00	contribution in kind/cash
"B"	ordinary	n/a	259 513 500	2 660 013 375.00	cash
"C"	ordinary	n/a	73 228 888	750 596 102.00	merger with PGE GiE S.A.
"D"	ordinary	n/a	66 441 941	681 029 895.25	merger with PGE Energia S.A.
Total			1 869 760 829	19 165 048 497.25	

Table: Ownership structure of the Company's share capital as at December 31, 2017*.

	State Treasury		Other shareholders *		Total	
	nominal value of shares (PLN)	% share in the share capital and votes	nominal value of shares (PLN)	% share in the share capital and votes	nominal value of shares (PLN)	% share in the share capital and votes
Shares at Dec 31, 2017	10 998 087 004.50	57.39	8 166 961 492.75	42.61	19 165 048 497.25	100.00

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

All of the Company shares have been paid.

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

7.4.2. Shareholders with a significant stake

According to the best knowledge, on the ground of the letter from the Ministry of the State Treasury of April 27, 2016, the State Treasury holds 1 072 984 098 ordinary shares of the Company, representing 57.39% of the Company's share capital and entitling to 1 072 984 098 votes on the General Meeting of the Company, constituting 57.39% of total votes.

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

Shareholder	Number of shares	Number of votes	% in total votes on General Meeting
State Treasury	1 072 984 098	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%

Treasury shares

As at December 31, 2017 PGE S.A. and subsidiaries did not hold any treasury shares.

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

According to the best knowledge of the Management Board of the Company, members of management and supervisory authorities of the Company as of the date of submission of this report and as of the date of publishing of the consolidated report for the third quarter of 2017 held following number of shares:

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

Shareholder	Number of shares as of date of publishing of the consolidated report for Q3 2016 (i.e. November 7, 2017)	Change in number of owned shares	Number of shares as of submission date of the annual report	Nominal value of shares as of submission date of the annual report (PLN)
Management Board	-	-	-	-
Supervisory Board	7	-	-	-
Jarosław Głowacki*	7	-	-	-

* Mr Jarosław Głowacki resigned from the Supervisory Board of PGE S.A. on December 29, 2017

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

Shareholder	Position	Number of shares as of submission date of the annual report	Nominal value of shares as of submission date of the annual report [PLN]
Management Board of PGE GiEK S.A.		9 768	100 122
Krzysztof Domagała	Member of the Management Board	7 869	80 657
Andrzej Kopertowski	Vice-President of the Management Board	1 211	12 413
Stanisław Żuk	Vice-President of the Management Board	688	7 052
Management Board of PGE Obrót S.A.		3 416	35 014
Jan Mądrzak	Vice-President of the Management Board	3 416	35 014
Management Board of PGE Energia Ciepła S.A.		50	513
Andrzej Modzelewski*	Member of the Management Board	50	513

* Mr. Andrzej Modzelewski was dismissed as from January 29, 2018 by the resolution of the Management Board of PGE S.A.

7.4.4. Control system of employees share scheme

In 2017, PGE S.A. did not maintain any employees share schemes.

7.4.5. Use of proceeds from issues

Proceeds from the issue of bonds were used for financing of the on-going activities as well as for financing of the investments conducted by PGE Group companies (see p. 4.12.2 of this report).

8. Statement on non-financial data

A separate report on non-financial data of PGE Polska Grupa Energetyczna S.A. and PGE Group for 2017, drafted in accordance with art. 49b sec. 9 of the Accounting Act, was published together with the Management Board's report on activities of PGE Polska Grupa Energetyczna S.A. and PGE Group for 2017 and is available at PGE Group's website in the section dedicated to financial data for 2017: <https://www.gkpge.pl/Investor-Relations/Financial-data/2017#tab-Q4>

9. Statements of the Management Board

Statement on the reliable preparation of the financial statements

To the best knowledge of the Management Board of PGE S.A., the annual separate financial statements and 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 as well as financial result of the parent company and of PGE Capital Group.

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

Statement on the entity authorised to audit the financial statements

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

10. Approval of the Management Board's Report

The foregoing Management Board's Report on activities of PGE Polska Grupa Energetyczna S.A. and PGE Capital Group was approved for publication by the Management Board of the parent company on March 6, 2018.

Warsaw, March 6, 2018

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 Wojciech Kowalczyk**

**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.
deNOx	Environmental protection installation reducing the emission of nitrogen oxides to the air
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.
EEX	European Energy Exchange.
EPEX	European Power Exchange.
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).
Eurostat	European Statistical Office
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 = 10 ⁹ W.
GWe	one gigawatt of electric capacity.

GWt	one gigawatt of heat capacity.
HICP	Harmonised Index of Consumer Prices
High Voltage Network (HV)	a network with a nominal voltage of 110 kV.
Highly efficient co-generation	the generation of electric or mechanical power and useful heat through co-generation, in such a way as to ensure savings of primary energy used in: (i) a co-generation unit in the amount not lower than 10 per cent. as compared to generation of electric power and heat in separated systems with reference efficiency for separated generation; or (ii) co-generation unit with an installed capacity under 1 MW as compared to generation of electric power and heat in separated systems with reference efficiency for separated generation.
IED	Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions tightening the air pollution emission standards (sulphur oxides, nitrogen oxides, particulates)
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 = 10 ⁶ 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.
Operational Capacity Reserve (ORM)	ORM constitutes of generation capacities of active Production Scheduling Units (JGwa) in operation or layover, representing excess capacity over electricity demand available to the TSO under the Energy Sale Agreements and on the Balancing Market in unforced generation
OTC market	Over-the-counter, market, on which the transactions take place directly between the parties, without the intermediation of the exchange

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
PSCMI1	Polish Steam Coal Market Index
PTPIREE	Polish Power Transmission and Distribution Association
PXE	Power Exchange Central Europe
RAB	Regulatory Asset Base.
Red certificate	a certificate confirming generation of electricity in co-generation with heat.
Red energy	popular name for electricity co-generated with heat.
Regulator	the President of ERO, fulfilling the tasks assigned to him in the energy law. The regulator is responsible for, among others, giving out licenses for energy companies, approval of energy tariffs, appointing Transmission System Operators and Distribution System Operators.
Renewable Energy Source (RES)	a source of generation using wind power, solar radiation, geothermal energy, waves, sea currents and tides, flow of rivers and energy obtained from biomass, landfill biogas as well as biogas generated in sewage collection or treatment processes or the disintegration of stored plant or animal remains.
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 to breakdowns in the low (LV), medium (MV) and high voltage (HV), wherein SAIDI in quality tariff does not include interruptions on low voltage.
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 to breakdowns in the low (LV), medium (MV) and high voltage (HV), wherein SAIFI in quality tariff does not include interruptions on low voltage.
SCR	Selective catalytic reduction
SNCR	Selective non-catalytic reduction
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 10 ⁹ kWh.
Ultra-high-voltage network (UHV)	an energy network with a voltage equal to 220 kV or higher.

V (volt)	electrical potential unit, electric voltage and electromotive force in the International System of Units (SI), $1 \text{ V} = 1 \text{ J}/1 \text{ C} = (1 \text{ kg} \times \text{m}^2) / (\text{A} \times \text{s}^3)$.
W (watt)	a unit of power in the International Systems of Units (SI), $1 \text{ W} = 1 \text{ J}/1 \text{ s} = 1 \text{ kg} \times \text{m}^2 \times \text{s}^{-3}$.
Yellow certificate	a certificate confirming generation of energy in gas-fired power plants and CCGT power plants.
Yellow energy	popular name for energy generated in gas-fired power plants and CCGT power plants.