Management Board's report on activities of PGE Polska Grupa Energetyczna S.A. and PGE Capital Group for year 2019

ended December 31, 2019

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LETTER OF THE CEO OF PGE POLSKA GRUPA ENERGETYCZNA S.A.

Dear All,

Both the market, our shareholders, as well as clients and business partners expect that the largest energy company in Poland not only analyses the environment on an ongoing basis and undertakes appropriate reactions, but also creates its own solutions and thus sets trends for the energy sector. Decision-making processes undertaken in the energy sector are characterized by high complexity. Therefore, apart from economic calculation, regulatory reasons and the needs of the Polish power system, I also see the need to maintain a constant dialogue with the society and take actions aimed at obtaining social acceptance for our activities. By assuming the position of the president of the Management Board, with the team of managers, I undertake the task of giving a management impulse to the PGE Capital Group.

The climate policy of the European Union and social expectations are elements that affect the energy sector. Activities related to the European Green Deal in the area of achieving the climate neutrality goal by 2050 and the review of the emission reduction target by 2030 will determine the work of the PGE Management Board. On the basis of a reasonable schedule, we intend to utilize financial mechanisms to achieve these goals.

I consider the attitude of employees of the entire Group and their cooperation-oriented approach to be a key element in the successful implementation of the tasks we are facing. I also count on constructive dialogue with financial markets, primarily with the environment of investors, banks and insurers. The green direction is achievable taking into consideration of a conventional basis that will allow balancing the growing number of renewable sources being created and will provide our economy and society with stable electricity and heat supplies.

Wojciech Dąbrowski
President of the Management Board
PGE Polska Grupa Energetyczna S.A.

LETTER OF THE VICE-PRESIDENT OF THE MANAGEMENT BOARD OF PGE POLSKA GRUPA ENERGETYCZNA S.A.

Dear All,

We are entering the next year marked by energy transformation. In 2019, we took a number of initiatives and decisions that will not only reduce the emission profile of the Group over the next few years, but also ensure the stability of electricity and heat supplies to Polish homes and businesses.

We follow the direction of transformation of the PGE Group primarily through investments in renewable energy sources. After winning a RES auction, we started building an onshore wind farm with almost 100 MW installed capacity. Therefore, in 2020 we will increase the total wind power of the PGE Group by 18 percent, up to 647 MW. We are consistently implementing the project to develop offshore wind farms. The plans of the Group are to reach 1 GW in 2026 and 2.5 GW by 2030. The next milestones of the investment process allow us to look at the progress of this project with optimism. We also started implementing an ambitious solar power plants' construction plan – our goal is photovoltaic installations with a total capacity of 2.5 GW by 2030 implemented on the land owned by the companies of the PGE Group and the land of our business partners. In 2019, we also made an important investment decision regarding the construction of new gas capacities at the Dolna Odra Power Plant. Two gas-steam units totaling 1 400 MW capacity will ensure the continuity of supply and will provide balancing support for renewable sources.

Last year, we put into operation new conventional units in Opole, and we are ahead of the completion of the investment in Turów. Thanks to high generation parameters and substantially lower emissivity compared to older units, the new conventional units operating in baseload will replace less efficient coal units in the power system. The units will also ensure the continuity of supply and guarantee the energy security of the country. On the basis of modern conventional generation, we will be able to seriously develop renewable energy and effectively change the energy mix in a low-carbon direction.

Ryszard Wasiłek
Vice-President of the Management Board for Operations
PGE Polska Grupa Energetyczna S.A.

KEY FINANCIAL RESULTS OF THE PGE CAPITAL GROUP

Key financial data	Unit	Year ended December 31, 2019	Year ended December 31, 2018	% change
Sales revenues	PLN million	37 627	25 946	45%
EBIT	**PLN million**	**-4 175**	**2 482**	**-**
EBITDA	**PLN million**	**7 141**	**6 375**	**12%**
EBITDA margin*	%	19%	25%	
Recurring EBITDA	**PLN million**	**6 637**	**6 712**	**-1%**
Recurring EBITDA margin	%	18%	26%	
Net profit/loss	**PLN million**	**-3 928**	**1 511**	**-**
Capital expenditures	**PLN million**	**7 009**	**6 856**	**2%**
Net cash from operating activities	PLN million	6 820	5 102	34%
Net cash from investing activities	PLN million	-6 865	-6 465	6%
Net cash from financial activities	PLN million	77	91	-15%
Working capital	PLN million	767	-3 395	-
Net debt/ LTM EBITDA	**x**	**1,60**	**1,51**	
One-offs affecting EBITDA	**Unit**			
Additional CO_2 emission rights	PLN million	1 446	0	-
Change in reclamation provision	PLN million	-835	-146	472%
Change in actuarial provision	PLN million	-99	-71	39%
LTC compensations	PLN million	-8	-120	-93%
Total	**PLN million**	**504**	**-337**	**-**

2019 CALENDAR

JANUARY	*6 CHP plants moved from PGE GiEK to PGE EC*		
FEBRUARY	*Fitch affirms credit rating*		
MARCH	*Annex at Turów power plant - new commissioning date*		
APRIL	*Investment in 4Mobility*		
MAY	*Issue of PGE bonds worth PLN 1.4 billion on domestic market*	*Unit no. 5 at Opole power plant commissioned*	
JULY	*FIZAN Ekoinwestycje (Eco-investments fund) established*		
SEPTEMBER	*Letters of intent on co-operation in PV and offshore projects*	*Unit no. 6 at Opole power plant commissioned*	
OCTOBER	*Commencement of talks with Ørsted regarding engagement in offshore project*		
NOVEMBER	*Agreement between PGE EO and PGE GiEK regarding PV investment at Bełchatów power plant*		
DECEMBER	*Results of the main capacity auction for 2024*	*Green facility agreement, intended for RES investments, signed with EIB*	*Moody's affirms credit rating*

1. PGE Capital Group

1.1. Characteristics of activities

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 organizes its activities in six business segments:

CONVENTIONAL GENERATION

Core business of the segment includes extraction of lignite, production of electricity and heat from conventional sources.

Rybnik power plant, formally being part of PGE Energia Ciepła S.A. holding until January 2, 2020, due to character of its operations, has been included in Conventional Generation.

DISTRICT HEATING

Core business of the segment includes production of electricity and heat from conventional sources as well as transmission and distribution of heat.

RENEWABLES

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

SUPPLY

Core business of the segment includes wholesale trading of electricity on domestic and international market, sale of electricity to final off-takers, trading of CO_2 allowances and energy certificates and fuels and provision of services of the Corporate Centre to companies from the PGE Group.

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 provision of services, through the subsidiaries, to PGE Group, which include organisation of capital raising in form of Eurobonds, provision of IT, payroll and HR services, transportation and car sharing services. Its activities also include subsidiaries formed to prepare and implement a project to build a nuclear power plant, to manage investment funds and to invest in start-ups.

The composition of the Capital Group is presented in note 1.3 to the consolidated financial statements.

1.2. Employment structure in PGE Capital Group

PGE Group is one of the largest employers in Poland, providing stable jobs to almost 42 000 people across over 200 locations throughout the country. It is thanks to their experience and involvement that we are able to build a values-based organisation that combines social responsibility with business targets. PGE Group is a place for people with passion and motivation to act. The Group's ambitious goal is to become the most efficient energy group in Poland. This also means the introduction of best practices in corporate governance as regards human capital management, support for business decisions and efficiency management as well as the standardisation of support processes.

Table: Employment level in PGE Capital Group.

FTEs	Number of employees December 31, 2019	Number of employees December 31, 2018*	% change
Total in PGE Group, including:	**41 934**	**41 442**	**1%**
Conventional Generation	21 530	21 492	0%
District Heating	4 248	4 133	3%
Renewables	595	529	12%
Distribution	10 272	10 257	0%
Supply	2 433	2 361	3%
Other operations	2 856	2 670	7%

* Presented data were restated for the sake of comparability - PGE Ekoserwis sp. z o.o. from 2019 is presented in District Heating segment; PGE Nowa Energia sp. z o.o. ("Nowa Energia") from 2019 is presented in Other operations; in 2018 District Heating segment was not separated.

1.3. Organisational structure

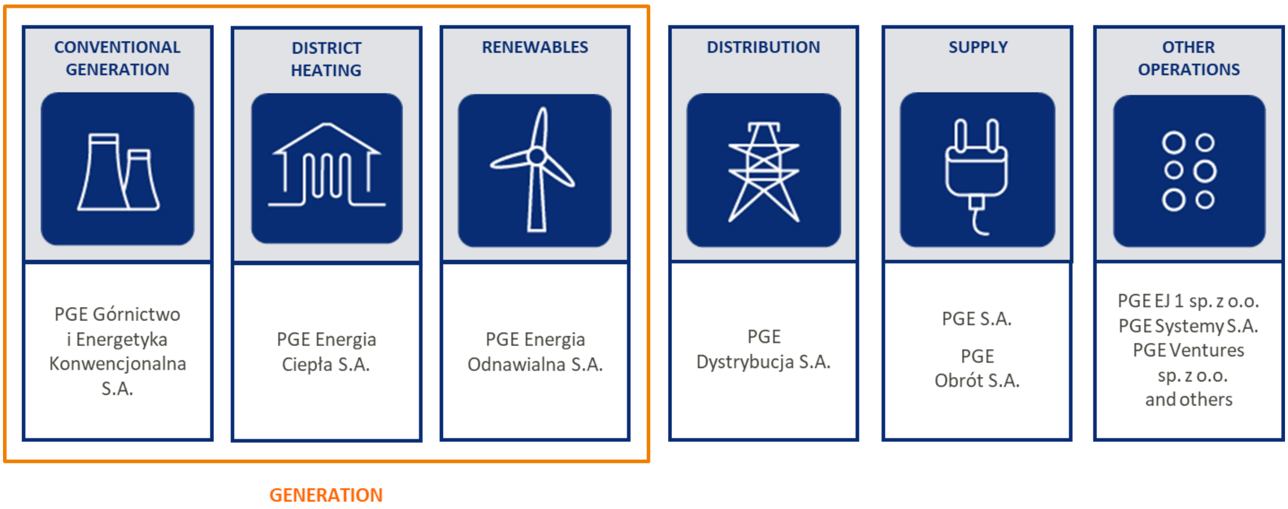
PGE Group as of the end of 2019 consisted of:

- PGE S.A. - the parent company,
- 66 subsidiaries subject to consolidation,
- 4 associates,
- 1 jointly controlled entity.

All of PGE Group's companies are organised in main operating segments that constitute business lines, i.e. Conventional Generation, District Heating, Renewables, Distribution, Supply, as well as Other operations.

Given its size, internal organisational changes and acquisitions, PGE Group is in the process of streamlining its structures and integration. The following diagram illustrates the Group's structure. A full composition of PGE Group, divided into segments as well as direct and indirect consolidated subsidiaries, is presented in note 1.3 to the Consolidated Financial Statements.

Diagram: Structure of PGE Capital Group*.

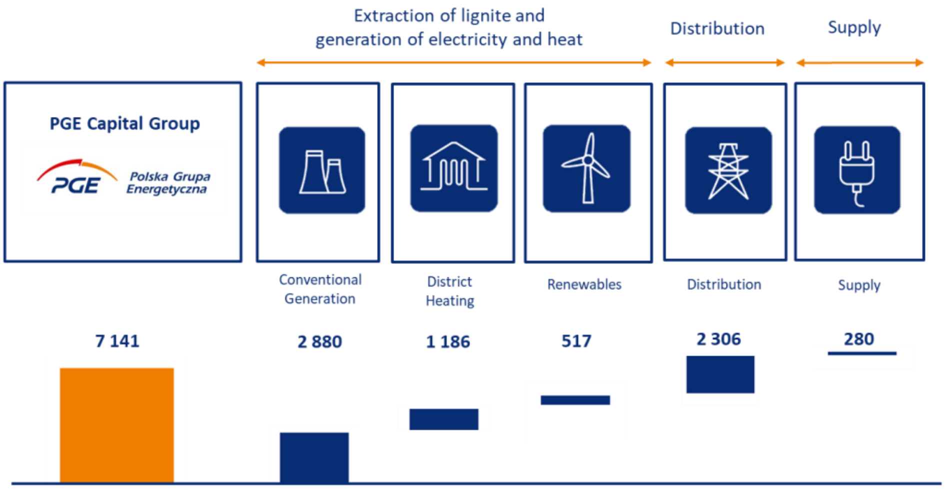


* Simplified structure – includes key entities.

In January 2019, PGE completed the integration process for its acquired district heating assets. Six combined heat-and-power ("CHP") plants previously owned by PGE Górnictwo i Energetyka Konwencjonalna ("PGE GiEK") were transferred to PGE Energia Ciepła S.A. ("PGE EC"), which owned eight CHP plants. PGE EC is the entity integrating PGE Group's district heating activities and the leader of this process, having after consolidation and with subsidiaries an approx. 19% share in domestic production of heat in cogeneration. For presentation purposes, Rybnik power plant is included in Conventional Generation segment. Heating assets consolidation is an element of PGE's consistently implemented District Heating Strategy, announced in December 2017, according to which the District Heating business line was separated from January 2019.

1.4. Business model

PGE Group is the largest vertically integrated producer and supplier of electricity and the largest producer of district heating in Poland. The Group's activities span the entire value chain: from lignite mining at own mines, through generation of electricity and heat, to distribution and sales.



	PGE Capital Group	Conventional Generation	District Heating	Renewables	Distribution	Supply
Share in EBITDA		40%	17%	7%	32%	4%
Sales revenues (PLN m)	37 627	19 245	6 058	1 039	6 155	17 312
EBIT (PLN m)	-4 175	-7 109	595	657	1 101	247
CAPEX (PLN m)	7 009	4 018	548	151	2 225	30
Market share		32% electricity	19% heat from cogeneration 6% electricity	10% renewables without co-combustion of biomass and biogas	25%*	33%*

* Estimated data concerning sales to end off-takers and distribution.

PGE Group's generating assets account for approx. 39% of electricity output (including Conventional Generation segment approx. 32% and District Heating segment approx. 6%) in Poland and use a variety of sources. Conventional installations are based on lignite from PGE Group's own mines as well as hard coal, gas and biomass from external suppliers. Renewable sources are also used in electricity generation: wind energy, hydro energy and solar energy.

Generating units belonging to District Heating segment produce approx. 19% of heat from co-generation in Poland.

Using its approx. 294 000 km of power lines, PGE Group distributes electricity to customers over an area encompassing approx. 40% of Poland's territory.

With a combination of own lignite resources, generation assets and distribution grids, PGE provides safe and reliable supplies of electricity to more than five million customers throughout Poland, including households, businesses and institutions. This means that it supplies a third of electricity consumers in Poland. PGE is also the leader in district heating production.

In 2019, the PGE Capital Group has achieved an EBITDA result of approximately 7.1 billion PLN.

The largest share of revenue and EBITDA was generated by the Conventional Generation segment, which is responsible for conventional power generation. The Conventional Generation segment is also responsible for the largest capital expenditures in the amount of about PLN 4.0 billion. PLN 1.4 billion of these capital expenditures were incurred in connection with the implementation of development investments - the construction of highly-efficient conventional power generation, which included a 1 800 MW power plant in Opole and 490 MW power plant in Turów. Other key investments included increasing the efficiency of existing power plants, as well as environmental upgrades.

The Distribution segment is the second business line in terms of share in the result of the PGE Group. This segment is responsible for providing electricity supply services. The segment's capital expenditures amounted to around PLN 2.2 billion, encompassing mainly upgrades and restoration of the power grid, as well as connecting new customers to the grid.

The District Heating segment, which is responsible for district heating, generates 17% of the PGE Group's EBITDA. In this segment, capital expenditures amounted to PLN 0.5 billion and were mainly related to modernisation and replacement, mostly concerning production assets and district heating networks.

The Renewables segment is responsible for generating electricity from renewable sources and managing the capacity of pumped-storage power plants. The Group is actively investing in the development of renewable energy sources. After winning the RES auction in 2018, the company is currently working on the construction of an onshore wind farm with an installed capacity of almost 100 MW. The PGE Group is implementing one of the strategic options for the development of the PGE Capital Group after 2020, which envisions the development of offshore wind farms. The Group plans to achieve a capacity of 1 GW by 2026 and 2.5 GW by 2030.

The activities of the Supply segment focus on trading in electricity and related products on the wholesale and retail market.

1.5. Competitive advantages of the Group

Assets	Strong financials	Strategy
▪ Leader in installed capacity and electricity production. ▪ Focused on baseload generation, absolute cost leader in Poland - approx. 57% of power generated from conventional sources based on own fuel (2 lignite mines). ▪ Highly diversified and youngest generation fleet in Poland. ▪ Regulated assets operator (Dolna Odra Power Plant and pumped-storage plants). ▪ RES leader: 550 MW in wind (further 97 MW in construction). ▪ 2020 Regulatory Asset Base in Distribution: PLN 17.6 billion.	▪ Stable and diversified revenues. ▪ EBITDA margin at 19% in 2019. ▪ Over 50% of EBITDA from regulated activities (distribution & co-generation). ▪ Strong investment grade credit ratings with stable outlook (Fitch and Moody's). ▪ Healthy leverage – net debt/LTM EBITDA at approx. 1.6x. ▪ Financing secured for financial and operational activities.	▪ Strategy for 2016-2020 aimed at keeping the leading position on Polish market. ▪ Ongoing works on new strategy. Strategic options include offshore wind farms and lignite deposits ▪ Developing modern conventional electricity. ▪ Developing new technologies and business models. ▪ Reduction of controllable costs and optimization of maintenance costs. ▪ Flexibility and efficiency of generation units. ▪ District heating strategy.

2. PGE Group's strategy and its implementation

2.1. Mission, vision and overall objectives

The updated Strategy of the PGE Capital Group until 2020, presented by the Management Board of the Company and approved by the Supervisory Board of PGE S.A. in September 2016, aims at adjusting the activities of the Group to the future shape of the energy market. The Group's mission is to ensure security and growth based on reliability of supply, technical excellence, modern services and partnership relations.

Diagram: PGE Group's mission.

The Group's vision defines the target position of the 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

According to the aforementioned document, the PGE Group will grow shareholder value and play a key role in ensuring energy security of the country.

VALUES OF PGE GROUP

PGE Group implements Strategy in accordance with values Partnership, Growth, Responsibility and ethics principles defined in the Code of Ethics of PGE Group.

At the same time, the PGE Group is monitoring changes in the market and regulatory environment, especially concerning CO_2 emission rights market, while working on updating its strategy. Given the need to ensure the compatibility of the new strategy with the directions of development of the Polish energy sector, it will be announced after the Polish Energy Policy is approved.

PGE Group is a socially responsible organization, thus in its operations focuses on reducing impact on natural environment, follows ethical principles and is involved in activities for the benefit of local communities.

On February 20, 2020 there's been a change in the Management Board of PGE S.A. New Management Board of the Company has undertaken activities related to the review of projects carried out in the Group and plans to present PGE Group activities within two months from the appointment date.

2.2. Realisation of strategic goals

LEADER IN ELECTRICITY GENERATION, ACTIVELY SEEKING DEVELOPMENT OPPORTUNITIES

The PGE Group's aspiration is to maintain its leading position in the generation sector and above 40% share in the domestic market beyond 2020. In order to achieve this objective, the Group implements a number of investments, while optimising investment decisions from the economic and technical point of view, taking into account the requirements of the National Power System ("NPS").

Power Generation segment

In 2019, the construction power generating units no. 5 and 6 in the Opole power plant was completed. The investment was carried out by a consortium, which comprised GE Power, Rafako S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A. The new units offer a total capacity of 1 800 MW, generating power with the efficiency of approximately 46%. The Opole investment was carried out in the EPC formula, including design, delivery and construction of turnkey power generation units. Each unit will operate as a monoblock. Thanks to their compact and modular construction, the new power units and their infrastructure occupy a relatively small area of about 45 hectares. These new units were designed for 35 years in operation, with an installed power utilisation factor of up to 8 000 hours annually. Additionally, they can be also used to produce heat in a cogenerated process in the amount of 300 MWt/h. The new power units meet the criteria set out in the BAT conclusions and will allow to reduce CO_2 emissions by about 25% per year, which - in addition to ensuring the energy security of the country - will also have a positive impact on reducing the environmental footprint of the power plant. The total cost of the investment amounted to nearly PLN 11.6 billion. Polish manufacturers and contractors were responsible for carrying out and supplying approximately 70% of the total value of all orders. The construction of new power generation units in Opole remains the largest infrastructural investment project carried out in the power sector after 1989.

The PGE Group also continued another investment with key importance for the country's energy security, namely the construction of unit no. 7 in the Turów Power Plant. By the end of 2019, the construction progress was at about 94%.

At the same time, advanced preparations concerning another key investment, namely the construction of two gas and steam power generation units at the Dolna Odra Power Plant, were ongoing. The estimated value of the investment amounts to approx. PLN 3.7 billion and encompasses, among other things, the design, delivery, construction and assembly, as well as commissioning of the power units, complete with full underground and ground infrastructure and staff training. Additionally, maintenance services for both gas turbines were valued at PLN 1 billion net for a period of 12 years. The planned units will reach a total capacity of 1 400 MW and will generate electricity with an efficiency of approximately 63%. The initial planned commissioning date was set for 2023. On January 3, 2020, PGE accepted the offer submitted by the consortium comprising General Electric International and Polimex Mostostal S.A. The contract for the construction of the power units was signed on January 30, 2020. At the same time, the PGE Group took steps to secure financing for the investment, which enabled it to obtain a 17-year power contract in the main capacity market auction in December 2019. The planned investment will enable the replacement of power units and ensure Poland's energy security - the Dolna Odra Power Plant is responsible for ensuring the stability of the power grid in north-western Poland, among other tasks. What is more, the use of gas technology will enable reducing unit emissions and ensure the PGE Group's competitiveness in the long term as well as contribute to the fulfilment of climate objectives.

The PGE Capital Group carries out various programmes aimed at adapting its individual power units to the new emission standards defined in the BAT conclusions. The inclusion of the power units in the modernisation programme corresponds to their importance in building the economic value of the PGE Group and their role in the National Power System. In the course of its work, the PGE Group actively uses aid funds, which allows it to optimise its financial outlays.

District Heating segment

As a result of the purchase of the assets of EDF Polska, the PGE Group became the largest heat supplier in Poland. The District Heating Strategy, presented on December 17, 2017, specified the Group's aspirations in this area, which include:

- the construction of new units offering the cogeneration capacity of 1 000 MWe;
- increase in the share of low-carbon fuels;
- increase the share of managed district heating networks in PGE EC locations to two-thirds.

The largest investment project in this sector is the construction of a gas and steam CHP plant in Siechnice. On July 26, 2019, a competitive dialogue tender procedure was launched for the selection of the General Contractor for the Investment, the scope of which will include the construction of CCGT unit with a total power generation capacity of 155-180 MWe and heating capacity of approx. 160 MWt, a heat accumulator and four water boilers with a total capacity of approx. 150 MWt. The project schedule assumes commissioning of the CCGT unit in 2023. The new unit is intended to replace the current coal-fired CHP plant and ensure the energy security of the residents of Wrocław, while reducing the environmental impact of the plant. At the same time, the investment plan is in line with the implementation of strategic objectives, which include expanding the cogeneration capacity by 1 000 MWe and increasing the share of low-emission fuels.

Simultaneously, upgrades were also carried out in order to adjust the power generating systems to the requirements set out by the BAT conclusions. These included inter alia:

- Conclusion of a contract for upgrading the gas turbine and the CCGT generator in the Gorzów CHP Plant.
- Announcement of a tender for the construction of a gas unit and peak load heat sources in the CHP plant Bydgoszcz branch. Plans drawn up as part of the investment plan to build a gas unit equipped with a turbine set with a capacity of approx. 52 MWe with a steam-water recovery boiler with a capacity of approx. 52 MWt as well as gas-oil reserve and peak load boilers with a capacity of approx. 60 MWt.
- Carrying out an investment programme in Pomorzany CHP plant, concerning the installation of systems reducing the emissions of nitrogen oxides.
- Conclusion of contracts enabling adjustment of the infrastructure for gas fuel supply in Kielce CHP plant and Zgierz CHP plant.
- Carrying out a comprehensive overhaul of the CCGT unit in Lublin Wrotków CHP plant.

The described investments ensure energy security both at the local level, in terms of heat supply, as well as national level, in terms of energy supply. What is more, said investments have a positive environmental impact, including reduced emissions of greenhouse gases and particulate matter, thus contributing to the implementation of climate policy.

Renewables segment

The PGE Group intends to strengthen its position in the segment of renewable energy sources and generate about 25% of domestic energy supply from renewable sources by 2030.

PV Programme

The continued reduction of the power generation cost using PV technology and the favourable regulatory environment have resulted in new business aspirations in this segment. By 2030, the PGE Group plans to achieve a total capacity of 2.5 GW with solar power, which would put it firmly on a leading position in the domestic PV plant market. To this end, the Group carried out a number of activities:

- On May 25, 2019, the Group signed a memorandum of understanding with Kopalnie i Zakłady Chemiczne Siarki „Siarkopol" - Grupa Azoty concerning co-operation on the construction of a PV power plant with a capacity of 5 MW and planned annual production of approx. 5 GWh, which will be located on Grupa Azoty's post-mining sites in Osiek. According to the schedule, the power plant will be commissioned in mid-2022. The generated power will be sold directly to Siarkopol on the basis of a corporate *Power Purchase Agreement.*
- On September 3, 2019, the Group signed a memorandum of understanding with KGHM Polska Miedź S.A. ("KGHM") regarding co-operation on projects concerning photovoltaics. The planned investments will be carried out in areas owned by KGHM, which will enable the purchase of energy directly from the PGE Group. The signatories of the memorandum of understanding are to carry out the projects in the form of a joint venture, covering the stages of preparation, construction and operation of PV plants. Eventually, the signatories are aiming at installing a capacity of about 500 MW. The projects are planned to be carried out between 2022 and 2023.
- On September 4, 2019, the Group signed a memorandum of understanding with Polskie Koleje Państwowe S.A., concerning co-operation on PV projects. The investments will be carried out on PKP properties, and the contract for the first project will be signed in the first half of 2020.

On November 20, 2019 PGE Energia Odnawialna ("PGE EO") and PGE GiEK signed a co-operation agreement for the construction of photovoltaic installations with a capacity of 60 MW, located in the area near the furnace waste landfill of the Bełchatów Power Plant. Additionally, areas belonging to the PGE Group and the signatories of the aforementioned memorandums of understanding, which will allow for the construction of photovoltaic power plants with a total capacity of about 750 MW, were identified.

These actions enable us not only to increase our energy production potential, but also to ensure sustainable development of local areas, as well as to take advantage of the areas unused for operational activities, which has a net positive impact on the economic efficiency of PGE Group companies.

Offshore Programme

In January 2019 PGE Baltica sp. z o.o. ("PGE Baltica") was established, responsible for the implementation of the Offshore Programme in the PGE Capital Group. The task of the new company is to prepare the construction of three wind farms with a total capacity of approx. 2.5 GW.

On September 5, 2019, PGE and PKN Orlen S.A. ("Orlen") signed a memorandum of understanding on co-operation on the development of offshore wind energy, which envisions inter alia:

- Exchange of information and joint acquisition of data necessary to build offshore wind farms.
- Collaboration on the design and construction of the grid infrastructure in agreement with the Transmission System Operator ("TSO"), i.e. company PSE S.A.
- Coordination of activities aimed at meeting the requirements for the supply of materials and services in the offshore wind energy sector.
- Coordination of public relations activities addressed to key stakeholder groups, including joint information and education activities on the importance of offshore wind farm projects for the national energy security and the benefits resulting from the implementation of these projects in economic, social and environmental terms.

On December 22, 2019, a preliminary agreement concerning the framework for cooperation in the transaction of acquisition of 50% of shares in two offshore wind farm construction projects in the Baltic Sea by Ørsted was concluded. On further stages, the companies plan to agree on:

- the scope of cooperation concerning the implementation of projects, pertaining to the construction, operation and maintenance of Elektrownia Wiatrowa Baltica-2 sp. z o.o. ("Baltica 2") and Elektrownia Wiatrowa Baltica-3 sp. z o.o. ("Baltica 3")
- the rules of operation of a joint project team made up of representatives of both companies, as well as their respective scopes of competence,
- framework for the sale of 50% of shares in two companies Baltica 2 i Baltica 3.

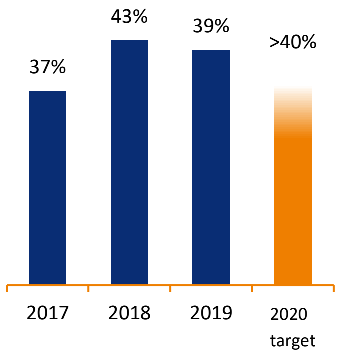
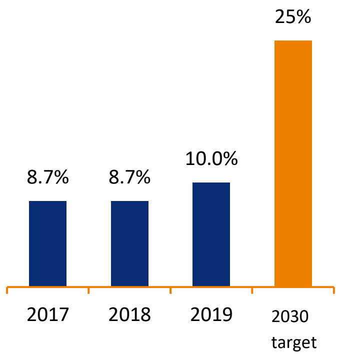
Eventually, the PGE Capital Group plans to sell 50% of shares in both companies, followed by the implementation of the project in a joint venture formula. According to the plan, the project should achieve a "ready to build" status at the turn of 2023/2024, while electricity generation is planned for 2026.

Simultaneously, throughout 2019, pre-investment works were carried out concerning the technical scope of projects, including wind measurements, planning activities, obtaining decisions on environmental conditions, as well as gathering geophysical data. A tender procedure was also launched for preparing a construction project together with obtaining a construction permit for power off-take infrastructure for Baltica 2 and Baltica 3 wind farms. Additionally, preparatory works for the tender for preliminary seabed testing were also carried out.

The implementation of the project will enable achieving the planned share of wind power in overall power generation, thus contributing to the reduction of the emission factor of the generated electricity in the context of the entire power generation operations of the PGE Group. What is more, due to external conditions, offshore wind farms are characterised by higher capacity utilisation rate compared to onshore wind farms, which should result in improved economic effects of operations.

Onshore Wind Farms

The positive outcome of the RES auction in November 2018 enabled us to move on to the implementation phase of the "Klaster" Complex. The project envisions the construction of three wind farms with a total capacity of 97.2 MW together with associated infrastructure and grid connection. In 2019, construction works were carried out, including installation of turbines and internal equipment. At the same time, there were some activities concerning securing the financing for wind farm construction, using external funds from the European Investment Bank. The loan agreement was signed on December 16, 2019.

<table>
<tr><th>Key indicators</th><th>Implementation 2017-2019</th><th>Progress and target</th><th>How we intend to achieve the target by 2020 and in later years</th></tr>
<tr><td colspan="4">LEADER IN GENERATION, ACTIVELY TAKING ADVANTAGE OF GROWTH OPPORTUNITIES</td></tr>
<tr><td>Share of the electricity generation market</td><td>
- Realisation of construction of 2 units at Opole power plant.
- Launch of the start-up phase during the construction of a new power unit at Turów Power Plant.
- Launch of preparatory phase for construction of new gas-fired unit at Dolna Odra plant.
- Implementation of upgrading investment in power plants and combined heat and power plants resulting in adapting the Group's assets to BAT conclusions.
- Implementation of the preparatory phase for the new Czechnica CHP plant project.</td><td>
</td><td>
- Continued adaptation of power plants and CHP plants to new industrial emission standards BAT.
- Construction of 1 000 MWe of new cogeneration capacities by 2030.
- Implementation of new low- and zero-carbon projects.</td></tr>
<tr><td>Share of the renewables market</td><td>
- Selecting Ørsted as a strategic partner in the Offshore Wind Energy Programme.
- Launching the PV Programme, implementation of the preparatory phase for the first photovoltaic farms.
- Implementation of the "Klaster" project (97.17 MW) - onshore wind farm complex.</td><td>
</td><td>
- The launch of a 1 045 MWe offshore wind farm half-way through the next decade, with potential expansion by 1 500 MWe by the end of the next decade.
- Expansion of the PV Programme to 2.5 GW, including using real estate not connected with the core operational areas.</td></tr>
</table>

RELIABLE AND ACTIVE UTILITY AND SERVICE SUPPLIER

Distribution

The process of the transition of the power sector requires changes in the functions that future distribution systems should perform. Six groups of key challenges have been identified, including:

- balancing, encompassing the management of regional and local balancing areas using available sources of flexibility and management of the flexibility services platform for the distribution network;
- network maintenance and development, encompassing planning of the maintenance and development of the network using available or emerging sources of flexibility, as well as ensuring adequate network capacity;
- coordination of services, which assumes cooperation with the TSO in order to support the operation of the NPS, including development and implementation of new products and services in this area;
- customer service, encompassing the use of new technologies for customer service, including the creation of new roles for system users;
- development of electromobility and energy storage, including the preparation of conditions for the development of EV charging stations, as well as creating conditions for the development and use of energy storage facilities in the operation of the network;
- data management, including managing the growing amount of data in the distribution network, taking advantage of data in current operation of the network and planning its development.

Addressing the challenges outlined above remains necessary in view of the long-term development of the field, as well as the optimisation of the allocated funds and resources.

Reinforced infrastructure remains one of the key elements of an efficient distribution system capable of meeting the emerging challenges. This was the aim of the activities carried out in 2019 as part of the Grid Earthing Programme, which was aimed at increasing the share of cable lines to 30% in the medium voltage network. The upgrades focus on the most vulnerable sectors of the network, whose failure rate has the greatest negative impact on the reliability of energy supply measured by SAIDI and SAIFI indicators. The programme is scheduled to end in 2023. The programme management structure envisions solutions, which enable flexible optimisation of the allocation of financial resources, depending on the administrative and legal permits obtained. The implementation of the programme will not only increase the energy security of local communities and prepare the distribution system for new challenges, but will also translate into lower operating costs of the networks.

Regardless of the aforementioned programme, other regular network projects resulting from the Development Plan were carried out, the aim of which was to reduce SAIDI and SAIFI indicators for 2020 by 56% compared to 2015 and to shorten the average customer connection time by 40%.

Given the need to carry out a comprehensive overhaul of the data exchange infrastructure, as well as the grid operation control and monitoring infrastructure, on September 2, 2019 the Management Board of PGE Dystrybucja signed an agreement with PGE Systemy and Enea Operator, concerning collaboration on the development of an LTE 450 network for the needs of the NPS. This agreement constitutes a part of the project to develop the so-called smart grids, which will improve the management of the NPS, enabling real-time control and reacting to the actions of all participants of the NPS - power producers, customers and network operators. The use of the LTE 450 network will improve Poland's energy security, while providing more robust power delivery for consumers who will receive on-line access to information on actual energy consumption and charges. Taking advantage of the smart grid will enable optimising the time of locating and repairing grid faults, ensure more effective balancing of the power system and enable more effective use of available power. The LTE 450 wireless network will facilitate the work of power network dispatchers, automate the operation of power switching stations, reduce the costs of locating grid faults and enable end users to take advantage of smart devices.

District Heating

Activities in the area of media development and district heating services are closely linked to the directions envisioned in the District Heating Strategy presented in December 2017, which specifies the main development trends in the sector, including:

- curbing low emissions and smog;
- promoting efficient district heating systems;
- promoting cogeneration and trigeneration.

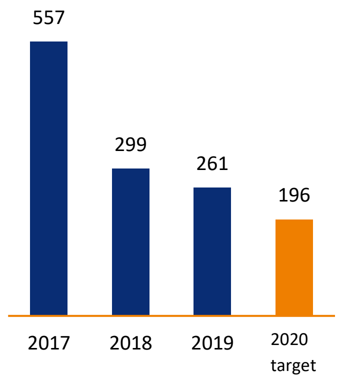
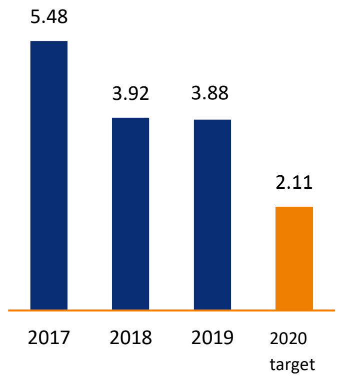
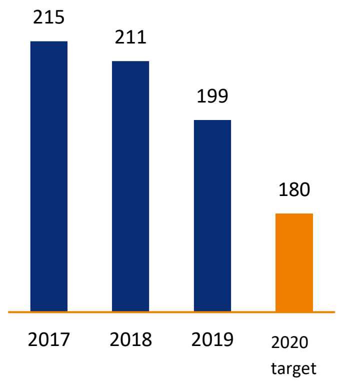
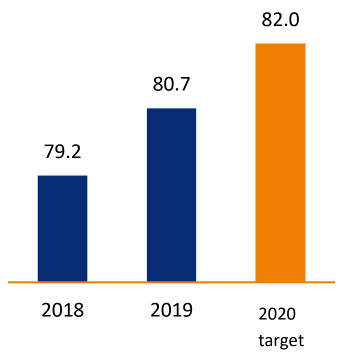
In 2019, PGE EC carried out activities allowing for the connection of new organised users, including buildings constituting parts of housing estates in large cities. Such new users were acquired in cities such as Kraków, Gorzów Wielkopolski, Toruń and Wrocław. In addition to its district heating services, PGE EC promoted the development of hot water supply systems, in place of removed individual water heating units, such as coal and gas-fired boilers, as well as local heating systems. This enabled reducing environmental footprint, which led to the improvement of the comfort of local communities, while increasing the volume of heat generated and making better use of the company's production assets.

The PGE Group was also active in shaping local policies for the development of towns and municipalities, signing memorandums of understanding and agreements regulating future cooperation between PGE EC and local government authorities in the area of ensuring heat supply. Such arrangements favour the optimisation of the company's investment policy and, at the same time, allow for the promotion of green heating sources by local government units. The agreements were concluded, among others, in Krakow, Gdynia and Kielce, as well as other cities.

At the same time, activities aimed at upgrades to local district heating network belonging to local government enterprises were carried out, which enabled them to achieve the status of efficient systems. Examples of such activities included a memorandum of understanding with MPEC in Chełm. Simultaneously operational activities aimed at conducting analyses, concepts and implementation projects resulting from the previously concluded contracts were also carried out. The construction and overhauls of local district heating assets is dictated by European and national environmental regulations, which will enter into force in the next few years. For local governments this means the time of responsible and necessary decisions in the field of overhauls of heat generation sources, including investments increasing the share of renewable energy sources and increasing energy efficiency. PGE EC has appropriate capital and technical potential to support local authorities and communities in achieving these objectives.

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

Achieving status of reliable, trustworthy and modern supplier will allow PGE Group to maintain low customer migration ratio in the mass segment and will contribute to the acquisition of new customers seeking customised offers.

Key indicators	Implementation 2017-2019	Progress and target	How we intend to achieve the target by 2020 and in later years
		RELIABLE AND ACTIVE UTILITY AND SERVICE SUPPLIER	
SAIDI (minutes)	▪ Launching the Medium Voltage Network Grid Grounding Programme to minimize the impact of atmospheric events on the stability of power delivery. ▪ Continuation of projects aimed at unifying operating activities in the Company ▪ Entering co-operation concerning the development of an LTE 450 network for the needs of the NPS.		▪ Further improvement in supply reliability and reduction in SAIDI and SAIFI by 2020. ▪ Increasing the level of network earthing. ▪ Development of integrated and automated system for managing LV distribution network infrastructure cooperating with diffuse energy sources. ▪ Construction of system for intelligent reconfiguration of LV grid to improve the quality of distribution services in normal and emergency work mode. ▪ Development of autonomous mechanisms for reducing the effects of MV line failures.
SAIFI (minutes per customer)			
New customer connection time (days)	▪ Development of connection infrastructure for both consumers and diffused electricity generators. ▪ Connection process simplified and shortened.		▪ Optimisation of process of connecting to the distribution network by enhancing online communication, increasing the functionalities of IT systems and streamlining procedures.
Customer satisfaction score (in points, PGE Obrót)	▪ Continuous monitoring of customer satisfaction indicators and reliability assessments. ▪ Regular expansion of the product offer in retail sales and new sales channels (PGE eSklep, mobile electronic Customer Service Centre, chatbot). ▪ Reaching the level of half a million customers served by e-invoice. ▪ New retail sales brand – Lumi.		▪ Development of product offering and communication channels using digital platforms and intelligent devices. ▪ Consistent enhancement of long-term relations with clients. ▪ Retention of low client migration rate in mass segment.

POLAND'S MOST EFFICIENT AND FLEXIBLE ENERGY GROUP

One of the key conditions enabling the implementation of the remaining strategic objectives is to ensure cost and operational efficiency. Thanks to flexibility, the PGE Group is able to quickly react to the emerging challenges in its environment.

The initiatives aimed at reducing the PGE Group's costs and ensuring stable financing, for example by taking advantage of the power market, support the maintenance of the net debt/EBITDA ratio at a level which guarantees the possibility of implementing the PGE Capital Group's ambitious investment strategy.

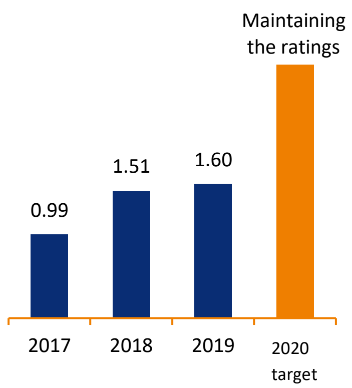
On January 2, 2019, the process of consolidation of generation assets in the District Heating segment was completed. On that day, PGE EC took over six generating plants previously owned by PGE GiEK. These include CHP plants in Rzeszów, Bydgoszcz, Gorzów, Lublin, Zgierz and Kielce. This led to the establishment of an entity which holds about 19% of market share in the domestic cogeneration. This consolidation constitutes a part of the District Heating Strategy. What is more, thanks to the economies of scale and unified management systems, the established company will be able to participate in the market on competitive terms, taking advantage of the growth potential of local heat markets.

On January 2, 2020, the process of moving the Rybnik Power Plant to the Conventional Energy segment was completed. This was a multifaceted process, which comprised the transfer of assets, as well as administrative and legal powers ensuring the continuity of the plant's operation. The power plant in Rybnik has eight power units with a total capacity of 1 800 MW. Consolidation of generation assets in PGE GiEK will enable unification of asset management systems, as well as taking advantage of the economies of scale to optimise the resulting economic effects.

Work was also ongoing on the detailed provisions of the Asset Management Policy, which encompassed the adoption of Strategic Asset Management Plans in individual Business Lines. The adopted solutions will unify the approach to expenditure planning and will allow for optimisation of the costs of asset maintenance, as well as upgrading and restoration expenses at levels that ensure satisfactory profitability. This will also lead to appropriate availability and security of power and heat supply.

Simultaneously, throughout 2019, a number of smaller-scale activities were carried out, which will translate into an increase in cost effectiveness. These included:

- activation of real estate not used in the company's core operations by using it for PV farms;
- PGE EC's active participation in programmes promoting hot water to intensify the use of generation assets and minimise fixed costs;
- successive replacement of PGE EC's generation fleet with gas units, leading to reduced maintenance costs;
- implementation of the Energy Distribution Network Grounding Programme, leading to reduced line operational costs.

Key indicators	Implementation 2017-2019	Progress and target	How we intend to achieve the target by 2020 and in later years
POLAND'S MOST EFFICIENT AND FLEXIBLE ENERGY GROUP			
Net debt / EBITDA	▪ Procedural initiatives aimed at increasing management efficiency and generating cost savings. ▪ Granting of capacity contracts for 2021-2024 ▪ Using investment, modernisation and R&D funding programmes. ▪ Continuation of implementation of integrated management system for production assets – development of strategic asset management plans.		▪ Further gradual replacement of the production fleet with gas-fired units. ▪ Use of undeveloped land to locate production assets, such as PV farms. ▪ Taking advantage of dedicated external assistance funds to fund energy transition.

LEADER IN DEVELOPMENT OF NEW BUSINESS MODELS AND OPERATING SEGMENTS

The PGE Group's strategy puts great focus on the development of new business models and areas of activity, which will lead to the diversification of the revenue structure and EBITDA growth. PGE Group's involvement in cooperation on the development and commercialisation of new technologies, in cooperation with reliable partners whose competences enable them to achieve a competitive advantage and synergy, will lead to the achievement of the objective described above. The potential areas of interest include car sharing, construction of EV charging stations, ICT technologies supporting the implementation of new business models such as ESCO, distributed energy, energy storage, smart grid and power-to-gas.

2019 saw the growing importance of the involvement in electromobility, understood both as the expansion of the charging infrastructure and the purchase of a company providing car rental services, including electric cars.

On April 24, 2019 Nowa Energia concluded a contract for the purchase of 51.47% of shares in 4Mobility S.A. ("4Mobility"). The purchased company operates on the car sharing services market - it is the third biggest company in Poland in terms of the number of shared vehicles. Car sharing services are based on short-term car rentals, and the cars are shared with other users. What is more, the company provides smart-rental services - short-term rental of vehicles for a period of one to several days, using electronic reservation systems. In accordance with the 4Mobility strategy, its activities will be focused on:

- dynamic development of the service infrastructure, including the launch of operations in new cities, as well as offering rental services in other categories, such as electric scooters, commercial vehicles, vans, as well as the expansion of the fleet to at least 1 500 vehicles;
- entering into strategic partnerships and creating an innovative service platform with stakeholders interested in developing innovative forms of mobility;
- dynamically growing the user base, which is to reach 50 000 customers by the end of 2021;

Funds from the new share issue, which were purchased by the PGE Group, were earmarked for the implementation of strategic objectives, including the preparation and launch of the geographical expansion to new cities and new service areas, including in the electric vehicle and van segment.

The capital transaction was complemented by the conclusion of an intra-group agreement with PGE Energia Odnawialna, under which PGE EO will provide electric car customers with green power generated using RES. Under the contract, Nowa Energia will purchase guarantees of origin for electricity from renewable energy sources.

Simultaneously, the charging infrastructure for electric vehicles has been expanded and can now be found in 19 cities and towns. Independently, subsequent actions have been taken, involving the representatives of local administration bodies, aimed at further increasing the number of charging stations. In September 2019, a memorandum of understanding was signed with the Social Insurance Institution (ZUS), which is to result in the construction of publicly available EV charging stations located at ZUS' branches.

As a result of these actions concerning the electromobility segment, the PGE Group will diversify its revenues and increase the efficiency of use of its production assets. The expansion of the EV fleet, enabled - among others - by the purchase of 4Mobility, will allow the PGE Group to effectively coordinate its activities in the area of electromobility. What is more, overnight charging of EVs in households promotes a more balanced and effective use of the Group's generation and distribution assets.

The PGE Group's activities involving capital investments in this area are carried out by PGE Ventures sp. z o.o. and Towarzystwo Funduszy Inwestycyjnych Energia S.A. (investment fund).

On July 30, 2019 PGE and its subsidiaries concluded an investment agreement with TFI Energia S.A. aimed at establishing and managing the assets of the "Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych Eko-Inwestycje" closed-end non-public assets investment fund. The fund's task will be to invest in entities operating in market areas linked with electromobility, increased flexibility and optimisation of energy systems, energy efficiency services, reduction of emissions related to power generation and improvement of its efficiency. The fund's area of interest also includes investments in highly efficient power sources, as well as digital technologies aimed at improving the cost efficiency of production and auxiliary processes in the power industry. The fund's capital will amount to no less than 1.5 billion PLN, to be raised within 3 years from the date of its registration. On August 23, 2019, the creation of the fund was registered in the Register of Investment Funds. The fund was established for an indefinite period.

PGE Ventures sp. z o.o. will continue to invest in innovative start-ups. Additionally, the company co-creates external Venture Investment Funds, under the Polish Development Fund ("PFR") Programme run by the National Centre for Research and

Development ("NCBiR"). The company carries out activities related to incubation and acceleration of start-ups at the earliest stage of their development, including projects in cooperation with the PGE Group Business Lines.

In 2019, the investment portfolio was expanded with:

- PySENSE - a company, which supplies autonomous communication devices for remote reading of metering data from smart electricity meters;
- Connectpoint - a company, which develops predictive maintenance, remote production control, as well as production and distribution optimisation algorithms;

Independently, the company also carried out initial works preceding investment in Prodio - a company, which offers tools to optimise production processes dedicated to small manufacturing companies with up to 20 employees. The investments were finalised in January 2020.

STRATEGIC OPTIONS

In order to maintain its position as the leader in generation in the long term - beyond 2020 - the PGE Group has three strategic options which enable it to make optimal choices in the context of energy and climate policy regulation. These include:

- construction of offshore wind farms with a total capacity of up to 2.5 GW;
- construction of the first Polish nuclear power plant, following the development of a model guaranteeing the economic efficiency of the investment and taking into account the investment possibilities of the PGE Capital Group;
- modern coal-fired power plants, including the development of new lignite deposits, in the event of significant relaxation of climate policy.

ACTIVITIES RELATED TO OFFSHORE WIND ENERGY

Offshore programme – background and work status

The programme aimed at building offshore wind farms is one of the strategic options set out in the 2016 update to the Capital Group's Strategy. Nevertheless, the programme itself was launched earlier - in 2009. In 2012, SPVs Baltica 1, 2 and 3 received permits to build and use artificial islands for installing offshore wind farms with total maximum capacity of 3.5 GW. Until now, mainly preparatory works have been carried out.

Offshore wind energy and Poland's energy policy

Offshore wind farms feature prominently in updated draft of the Energy Policy of Poland until 2040, sent out for consultations on November 8, 2019 and the draft National Energy and Climate Plan for the years 2021-2030, published on January 19, 2019. According to the updated draft energy policy, offshore wind capacities are to reach 3.8 GW by 2030, 5.7 GW by 2035 and 8.0 GW by 2040. The offshore energy will contribute to meeting the EU's renewables targets, lowers exposure to CO_2 emission costs and additionally has a positive impact on economic growth.

Regulatory environment

On January 15, 2020, the Ministry of State Assets published a draft of the Act on Promotion of Electricity Generation by Offshore Wind Farms for public consultation. The aim of the new law is to define the principles of investments and support mechanisms for electricity generated using the described sources.

Social acceptance

Given that PGE Group's offshore wind farms' location is beyond territorial waters, i.e. more than 12 nautical miles from the coast (over 22 km), no significant risk of a lack of social acceptance for the Offshore Programme is identified. The experience of western European countries shows that if other users of maritime areas are respected, especially the fishing community, then the development of offshore energy is accompanied by a positive social attitude, mainly thanks to development of the local value chain and new job creation.

ACTIVITIES RELATED TO NUCLEAR ENERGY

Business partnership

PGE EJ1 sp. z o.o. ("PGE EJ1") is PGE Group's entity directly responsible for preparing the investment process, consisting of conducting environmental and location surveys and obtaining all of the necessary decisions for the construction of the first Polish nuclear power plant, and implementing the investment. PGE EJ1 was established in 2010. In 2014, a shareholder agreement was signed, pursuant to which Enea S.A., KGHM Polska Miedź S.A. and TAURON Polska Energia S.A. (the "Shareholders") each purchased from PGE a 10% stake in PGE EJ1 (30% in total). The Shareholders agreement requires the parties to jointly finance, proportionately to the stakes held, activities related to implementing the investment.

Site characterisation and environmental surveys

Current scope of Program conducted by PGE EJ 1 assumes location and environmental surveys at two potential Lubiatowo-Kopalino, Żarnowiec and preparing an Environmental Impact Assessment Report and Site Report.

Selecting an appropriate location is one of the key aspects in ensuring nuclear safety and the efficient and reliable operation of a nuclear power plant. The results of these works are necessary in order to develop solutions that ensure the power plant's safe operation and minimise its impact on the natural environment and the everyday life of local residents.

Social acceptance

With a view toward ensuring social acceptance for the project to build the first Polish nuclear power plant, PGE Group is conducting activities aiming to maintain a high level of community support at the planned nuclear plant sites and to deliver knowledge about nuclear power. In 2019, works were continued within the Site Municipality Development Support Programme intended to reinforce partner relations with 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.

Prospects for the project implementation and financing capabilities

Decisions with regard to the continuation of the Programme will be made based on decisions by the government administration concerning a role of nuclear energy in Polish fuel mix, mode for the procurement of nuclear power plant technology, investment financing model and an updated Programme for Poland's Nuclear Power.

Compensations from WorleyParsons

WorleyParsons initiated a lawsuit for payment of PLN 59 million for due remuneration, according to the claimant, and return of an amount unduly collected, according to the claimant, by PGE EJ1 from a bank guarantee, and subsequently expanded its claim to PLN 104 million (i.e. by PLN 45 million). On March 31, 2018, the company filed a response to WorleyParsons' expanded claim. PGE Group does not accept the claim and regards its possible admission by the court as unlikely.

ACTIVITIES RELATED TO DEVELOPMENT OF ZŁOCZEW DEPOSIT

Development of new deposits near Złoczew is one of the strategic options indicated in the updated Strategy of PGE Capital Group in the perspective of 2020.

Development of Złoczew deposit – background and status

Work on the project "Obtaining a concession for mining coal from the Złoczew deposit" began in 2008. In 2008-2019, a range of studies and documentation were prepared, providing information on the deposit, including its structure, quality parameters, hydrogeology, technological conditions related to coal mining. Works aimed at obtaining a concession were conducted in parallel.

Upon PGE GiEK's request, on April 30, 2019 the Minister of the Environment initiated proceedings regarding the granting of a lignite mining concession from Złoczew deposit, while on May 14, 2019 the Minister of Energy issued a decision which approves the draft concession regarding the described deposit.

The process of securing the mining license for deposits in the vicinity of Złoczew is carried out, just as many other processes resulting from the strategic options of the PGE Capital Group. The implementation of the project will depend on the regulatory environment in the country and in the European Union.

Current development concept for Złoczew deposit

In recent years, work has also been carried out to determine the preferred method of developing the Złoczew lignite deposit.

Obtaining a concession does not mean launching works related to mine construction. The final shape of the Energy Policy of Poland, the climate and energy policy of the European Union, the needs of the power system or market model and the cost of financing of specific projects will affect the final investment decision.

The PGE analysis shows that lignite mining in the Bełchatów and Szczerców fields is currently around 40 million tonnes/year, while the mining potential of the Złoczew mine is around 18 million tonnes of lignite/year and will not allow full reconstruction of the current potential of the Bełchatów Energy Complex.

2.3. Prospects for the development in the short and medium term

	KEY DIRECTIONS OF CHANGES	POTENTIAL IMPACT ON PGE

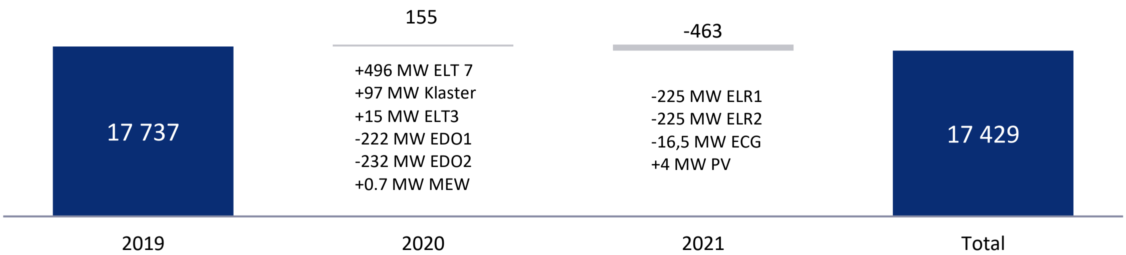
Macroeconomic environment - global	▪ In connection with the global pandemic SARS-CoV-2, which causes COVID-19 disease, the forecasts for the Eurozone's GDP dynamics for 2020 are subject to high uncertainty. The data before the outbreak of the pandemic, indicating a low level of growth in the range of 1.1%-1.2%, were reduced to 0.8%.
	  ▪ The negative dynamics of industrial production is expected to deepen.
	  ▪ The expected deterioration of the situation on the labour market due to the pandemic will have a negative impact on the level of private consumption.
	  ▪ The decrease in the dynamics of expenditure on fixed assets may be deeper than previously expected.
	  ▪ Negative outlook for trade balance and the economic situation in the services sector (decline in PMI in March to only 28.4 points).
	  ▪ The interest rates of central banks in most developed economies were very low or negative before the outbreak of the pandemic, which in the event of the recession significantly limits the availability of conventional monetary stimulation tools.
	▪ New programs of, inter alia, the European Central Bank assume the purchase of government bonds and corporate debt. Simultaneously, anti-crisis fiscal packages aimed at maintaining liquidity of enterprises are announced.
		▪ The slowdown in growth in the Eurozone and the restrictions on the side of producers and carriers will have a negative impact on the level of net exports of goods from Poland. The weakening effect of the national currency, which in times of crisis supported exporters, may not be sufficient this time. For this reason, the domestic demand for electricity in the NPS and the load on conventional units will remain under downward pressure..
		▪ Should the slowdown in the industrial sector in the euro area continue, the demand for fossil fuels will continue to fall, which may result in a further drop in fuel prices for the PGE Group. In this case, however, both non-European and local factors may be decisive.
		▪ A economic downturn in European industry and technological changes might also mean lower CO2 emissions, which might limit the prices for emission allowances in EU ETS, thus lower costs of redemption of CO2 allowances in PGE Group.

Macroeconomic environment - Poland	▪ The real GDP growth rate in 2019 was 4.1% compared to 5.1% in 2018, with a significant drop in Q4 2019. ▪ Individual consumption in 2019 remained the decisive factor for GDP growth, but its growth of 3.9% y/y was lower than in 2018. The dynamics of fixed asset investment outlays also dropped, which was however partly compensated by the positive impact of net export. ▪ The drop in the dynamics of added value was significantly influenced by the slowdown in industry and construction, where the sold generation grew at a much lower rate, compared to previous years. ▪ The forecasts of the EC and NBP before the SARS-CoV-2 pandemic outbreak assumed a further decline in GDP growth to levels in the range of 3.2% - 3.6% in subsequent years. The scale of the actual slowdown will depend on the persistence of disturbances in the supply chains and in retail sales. Long-term maintenance of restrictions resulting from the pandemic threat announced in March will negatively affect the level of industrial production and investment, leading to a periodic decrease in the level of employment and changes in the dynamics and structure of private consumption. ▪ Due to increased cost pressures of various origin in 2019, price indices soared, with inflation excluding energy and food prices reaching 3.1% in December, and 3.4% in the case of consumer price index (CPI). NBP forecast from March 2019 assumes growth of CPI to 3.7% in 2020. ▪ The numerous warning signals include: ▪ the industrial PMI index remaining well below 50 points throughout 2019, indicating a sustained slowdown in industry. It remains at the lowest level since 2013. This trend is also confirmed by the indicator of the general economic climate in	▪ The Polish economy at the beginning of 2020 was in a phase of late growth, in which the structure of decreasing GDP dynamics results in a decrease in the growth of energy demand, which - given unfavourable weather conditions - may lead to its decrease, which took place in 2019. The decrease in total energy demand has a negative impact on the load on conventional generation units and the volumes of electricity distribution and sales. ▪ Lower demand level and other structural factors may translate into lower electricity prices on the wholesale market. ▪ The long-term credit risk rating of Poland in PLN and foreign currencies is not expected to change, which, with other factors unchanged, should remain neutral to the cost of financing investment programmes. In connection with the anti-crisis measures taken by central banks, the availability of debt financing should be maintained. ▪ Growth in indicators for construction and assembly works prices and cost pressure in the specialised construction segment might result in growth in actual investment expenditures for realisation of planned investment program or higher costs of third-party services. Structural shortage of qualified employees, as well as periodic downtime resulting from the state of epidemic threat, will be visible, may result in delays in pursuing investment and repair projects.

	KEY DIRECTIONS OF CHANGES	POTENTIAL IMPACT ON PGE
	industrial processing published by Statistics Poland. The effects of the pandemic will be noticeable in the macroeconomic indicator readings in March and April. ▪ Loss of liquidity by a significant number of enterprises due to reduced consumer activity, production stoppages and interrupted supply chains will occur. ▪ Increase in the price dynamics of consumer goods and services above the inflation target. ▪ The continuing slowdown in the growth of the euro area, as well as the uncertainty surrounding the UK leaving the EU. ▪ Expected slowdown in growth of public investment and use of EU funding.	
Trendy na rynkach energii elektrycznej i paliw	▪ Hard coal in global markets in a slight down trend due to high inventory, weak growth and technological changes in power generation. ▪ On-going investments in the hard coal mining area in the country should end up stopping the decline in this raw material production. ▪ At the same time, the use of this fuel for electricity production purposes is expected to decrease due to structural changes in the manufacturing sector (new high-efficiency power units, forgoing older sources)). ▪ Systematic growth in demand for natural gas in Poland and in the region is expected due to new investments in gas-fired units and highly-efficient cogeneration units as well as a gradual shift in Germany's fuel mix. ▪ Expansion of capacity for natural gas supply to Poland (expansion of LNG terminal, Baltic Pipe project, infrastructure projects by LNG exporters. ▪ Increasing trading capacity on interconnectors with Germany following completion of grid investments contributed to increasing net imports of electricity to 10.4 TWh in 2019 . ▪ Changes in the energy market model: ▪ implementation of capacity market, ▪ starting preparations for changes in the functioning of the balancing market, ▪ changes in energy pricing for end users, ▪ implementation of regulatory solutions dedicated to distributed energy.	▪ Lower risk of domestic coal non-availability for PGE Group's production purposes and potential decline in price over the long term. ▪ New potential natural gas supply will make it possible to develop the Dolna Odra power plant using CCGT technology. ▪ Higher capacity for natural gas imports will make room for investments in high-efficiency gas-based cogeneration in the new support system. ▪ Profitability of Supply segment depending on level of compensations available due to regulated prices and pressure on liquidity until the payment of first compensations payment. ▪ Increased commercial availability of electricity in neighbouring markets will continue to have a significant impact on electricity import levels to Poland, thus limiting increase of wholesale electricity prices and load factors of the Group's units. ▪ Capacity market is a chance for gradual transformation of capacity structure in NPS directing towards construction of highly-efficient generation units working in base-load, flexible peak units and reduction of units not meeting the environmental requirements. ▪ The changes in the balancing market are intended to enable the market valuation of reserves and system services, strengthen price signals and provide a stimulus for investment in flexibility on the part of generators and customers. ▪ Activation of end users will allow the PGE Group to develop its product offer involving new cooperation models.
Development of new technologies	▪ We are observing rising competitiveness of wind (including offshore) and PV technologies, as confirmed by prices obtained in RES auctions and dynamics of growing number of micro installations. ▪ In certain countries, full-scale new energy storage technologies are dynamically developing, providing regulatory services for electricity systems, including those aimed at enhancing local energy security, among others. ▪ Systematic development of prosumer energy and dynamic growth in number of micro-installations. ▪ Development of electromobility. ▪ Development of ICT technologies for new applications in the energy sector.	▪ Increasing the competitiveness of new renewable energy sources has impact on their development and changes the working conditions for older conventional units. ▪ Decreasing costs of the offshore technology will enable its use, which will help the PGE Group maintain its leading position in generation with a significantly reduced average level of the portfolio's carbon footprint. ▪ The commercialisation of energy storage on an industrial scale will make it possible to better use renewables, supplementing conventional capacities in the system balancing role, while improving local energy security. ▪ Along with the development of prosumer energy, grid operations at local level are becoming more volatile, which necessitates investments in infrastructure (connections, modernisations), while

	KEY DIRECTIONS OF CHANGES	POTENTIAL IMPACT ON PGE
		limiting the electricity distribution volumes. In Conventional Generation there's a higher demand for highly flexible generation units in order to balance dispersed sources. ▪ The development of electromobility will increase demand for electricity and change its daily profile, which may slightly alter the operating conditions of some conventional units. This development requires investments in the development of grid infrastructure and charging stations, as well as charging management system. It is also possible to use cars' batteries as energy storage for RES production. ▪ PGE Group's use of new technologies and data potential might create development opportunities in new roles and business areas, as well as improve operational efficiency.

PROSPECTS FOR GROWTH OF ACHIEVABLE CAPACITIES IN YEARS 2019-2021 (MW GROSS)



Explanation:

ELT – Turów power plant	EDO – Dolna Odra power plant	ECG – Gorzów CHP plant
ELR – Rybnik power plant	MEW – Small hydro power plants	PV – photovoltaic projects

Project Klaster – wind farms Karnice II, Starza, Rybice

Chart presenting the growth of capacity illustrates commissioning and decommissioning of capacity of the PGE Capital Group as at the preparation date of this report. 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.

ASSESMENT OF INVESTMENT CAPACITIES

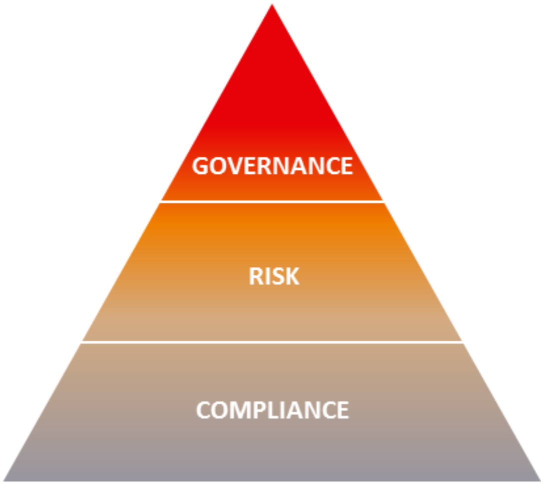
On-going and future investments are and will be financed from funds generated by the core activity of the PGE Group, funds obtained from the issue of bonds, both on domestic and international markets, and from other types of external financing, e.g. bank loans. Some future investments may be made with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

3. Risks in the Group's operations

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 their levels.

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 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.

The PGE Capital Group has consequently developed a comprehensive risk management system. We measure and assess risks 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 presented cycle.

3.2. 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.

<table>
<tr><td>Risk level</td><td>▮▯▯
low</td><td>▮▮▯
medium</td><td>▮▮▮
high</td><td rowspan="2">Mitigating actions
and main tools used for the management of the risk</td></tr>
<tr><td>Risk outlook</td><td>↘
decrease</td><td>↗
growth</td><td>↔
stable</td></tr>
<tr><td>Low level</td><td colspan="4">Risk does not pose a threat and may be tolerated</td></tr>
<tr><td>Medium level</td><td colspan="4">Risk which needs preparation of the proper reaction based on analysis of costs and benefits</td></tr>
<tr><td>High level</td><td colspan="4">Intolerable risk, which needs immediate and active reaction, leading simultaneously to limitation of possible consequences and of probability of occurrence thereof</td></tr>
</table>

<table>
<tr><td rowspan="3">Market and product risks
Related to prices and volumes of offered products and services</td><td>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).</td><td>▮▮▮</td><td>↗</td><td rowspan="3">Actions:
▪ Using consistent guidance in respect of process organisation in the context of commercial strategy and mid-term planning (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).
▪ Establishing position hedging levels with consideration given to the results of analysing pricing risk in respect of electricity and related products, VaR-based. Target hedging levels are specified taking into consideration the Group's financial standing, including in particular its strategic objectives.
▪ Securing margin on sales by purchasing the missing CO_2 emission rights.
▪ Research, monitoring and analysing the electricity and related products markets in order to optimally use generation and selling capacities.
▪ Acquiring new customers - diversification of channels to reach final off-takers and diversification of target groups by maintaining an extensive product portfolio and adapting offering to market.
▪ Current clients retention - a diversified portfolio of customer loyalty schemes and client-acquisition activities and special offers dedicated to former clients who moved over to the competitors.
▪ Care for a high level of customer service by developing employees' competences and building relations with business and retail clients.
▪ Use of tools to supporting customer relations processes allows the Group better sales planning and organisation of sales.</td></tr>
<tr><td>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.</td><td>▮▮▮</td><td>↗</td></tr>
<tr><td>Tariffs (regulated prices) – resulting from the requirement to approve rates for distribution services and electricity and heat prices for particular groups of entities.</td><td>▮▮▮</td><td>↔</td></tr>
</table>

Property risks Related to development and maintenance of the assets	**Failures and damage to property** – connected with the operation and degradation over time of energy equipment and facilities and protection of energy equipment and facilities against destructive external factors (including fire, effects of weather phenomena, intentional damage).	▮▮▯	↔	**Actions:** ▪ Active pursuing of a strategy for building up and modernization of the production capacities. ▪ Performing maintenance repairs in line with the highest sector standards. ▪ Diversification of the current structure of the production sources due to energy generation technology. ▪ Our main generation assets were insured against failure and damage to property . ▪ Assets are insured based on an analysis of insurance costs, capabilities of insurance markets for particular risks or for particular types of assets, costs related to asset replacement and potential lost revenue ▪ The reliability of the power supply to the end users has been systematically improved through modernization of the distribution grid.
	Investment and development – connected with strategic plans for expanding the generation, distribution and sales potential as well as on-going investments.	▮▮▮	↗	
Operational risks Related to pursuing of ongoing economic processes	**Electricity and heat production** – connected with production planning and impact of the factors that determine production capacities.	▮▮▯	↗	**Actions:** ▪ Optimisation of costs inter alia through monitoring of fuel prices and reserves and securing supply through long-term contracts with suppliers and through price fixing formulas . ▪ Optimisation of equipment lifecycles and the availability of key assets. ▪ Inspections, repairs and modernisation of the existing assets ▪ PGE's active participation in internship programmes and cooperation with educational institutions in order to secure a pipeline of qualified personnel ▪ Assessment and training of personnel in order to make optimal use of it within the Group's structures ▪ Conducting an intensive and effective dialogue 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.
	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 personnel with the relevant experience, competences and ability to perform specific tasks.	▮▮▯	↗	
	Social dialogue – connected with a failure in achieving agreement between the Group's management and employees, what could lead to strikes/collective labour disputes.	▮▮▯	↗	

Regulatory and legal risks Related to compliance with external and internal legal provisions	**Legal changes in support systems –** connected with uncertainty as to the future shape of the support system for production of certified energy.	■□□	↔	**Actions:** ▪ 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 ▪ Active participation of PGE S.A. as the member of the Polish Electricity Committee that opened its office in Brussels. Through the Committee's operations, the Company actively influences proceeding and shaping of EU law and engages a dialogue with the EU institutions. ▪ Adaptation of internal regulations and practices to make sure that the activities are in compliance with the power sector regulations and binding law. ▪ Improvement of 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.
	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.	■■□	↔	
	Concessions – resulting from the statutory requirement to hold concessions with regard to conducted operations.	■■□	↘	
	Taxes – related to uncertainty surrounding the future shape of tax regulations and their interpretation.	■■□	↔	

Financial risks Related to finance management	**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).	■■■	↗	**Actions:** ▪ 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. The level of utilisation of limits is monitored on a regular basis, payment of receivables is monitored on an ongoing basis and early recovery procedures are in place. ▪ Applying a central financing model, which assumes – as a rule – that external capital is raised by PGE S.A. 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. Regulations in force at the PGE Group do not allow, with regard to derivative transactions based on interest rates and currencies, to enter into speculative transactions, i.e. transactions which would be aimed at generating additional gains resulting from changes in the level of interest rates and changes in exchange rates, while exposing the Company to the risk of incurring a potential loss on this account.
	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.	■■□	↗	

3.3. Strategic risks

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 (approx. 10 years) 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. Their identification is the key to ensuring PGE Group's sustainability.

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 generation and distribution assets and IT systems used at PGE Group.
▲	**Forces of nature** Risk associated with more frequent extreme weather events having impact on ability to generate and distribute electricity, as well as prices of generation and distribution costs of electricity and heat.
▲	**Legal** Risk associated with the changes of national legislation governing PGE Group's activities and an increase in the volume and scope of EU regulations having impact on the Group
▲	**Environmental restrictions** Risk connected with stricter environmental restrictions applicable to PGE Group's electricity and heat production and mining activities
◀▶	**Energy policy** Risk associated with changes in the concept for the energy sector in Poland and PGE Group's role in it
◀▶	**Human resources** Risk associated with restricted availability of employees who are of key importance to PGE Group's processes
▼	**Employee and client safety** Risk associated with unexpected events connected with use of PGE Group's assets that generate irreversible material losses and heavy injuries or deaths
◀▶	**Competition** Risk associated with the development by competition of a product offering that would decrease PGE Group's share of the energy market
◀▶	**Technological revolution** Risk of technological change causing a limited competitiveness of electricity and heat production in baseload assets owned by the Group and their distribution using grid assets owned by PGE Group
▲	**Macroeconomics and geopolitics** Risk associated with changes in economic and geopolitical situation, causing swings in macroeconomic indicators and commodity prices that have impact on PGE Group's activities

In analysing these risks as threats for PGE, the Company tries at the same time to identify any opportunities that such changes might bring about. Countering risks becomes an opportunity for the Group's development if we manage to adapt to a changing world in advance.

4. Electricity market in 2019 and regulatory and business environment

4.1. Macroeconomic environment

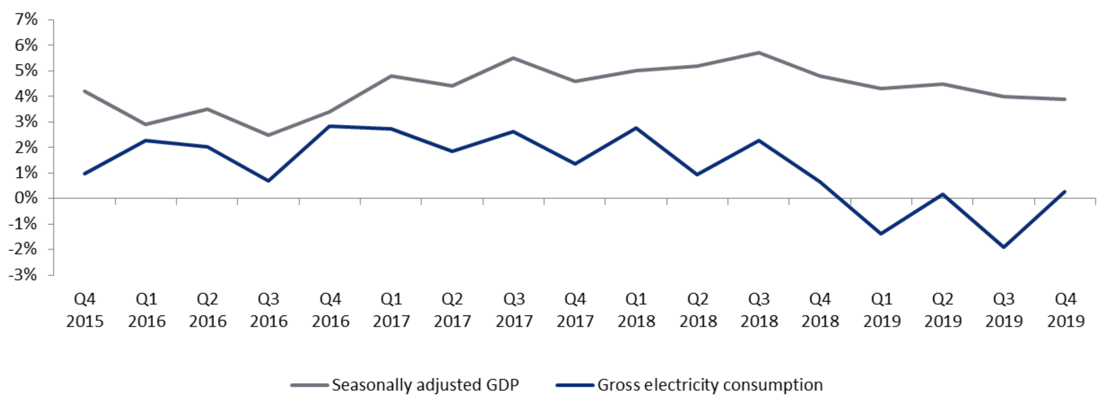
PGE Group's main operating area is Poland, and the domestic macroeconomic backdrop has a substantial impact on Group's results. At the same time, the condition of Poland's economy remains largely tied to the situation across the European Union and in global markets. The Group's financial results are 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 change in electricity demand and change in the rate of 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 2019, gross electricity consumption went down by 0.9% y/y. In the preceding year the electricity consumption increased by 1.7% y/y. The decrease in consumption in 2019 was due to higher temperatures recorded in Poland in comparison to 2018. In 2019 the highest average daily temperature reached 11.5°C and was by 0.3°C higher than in 2018. Also the lowest average daily temperature in 2019 was higher by 0.5°C y/y.

Economic trends in 2019 remained positive in general. According to quick estimate by the Central Statistical Office of Poland, the gross domestic product (seasonally adjusted) in the fourth quarter of 2019 grew by approx. 3.5% y/y (by 0.2 p.p. lower than in the third quarter of 2019) vs 4.8% in the analogical period of 2018. In full year 2019 Polish economy grew by 4%, against a 5.1% increase a year earlier.

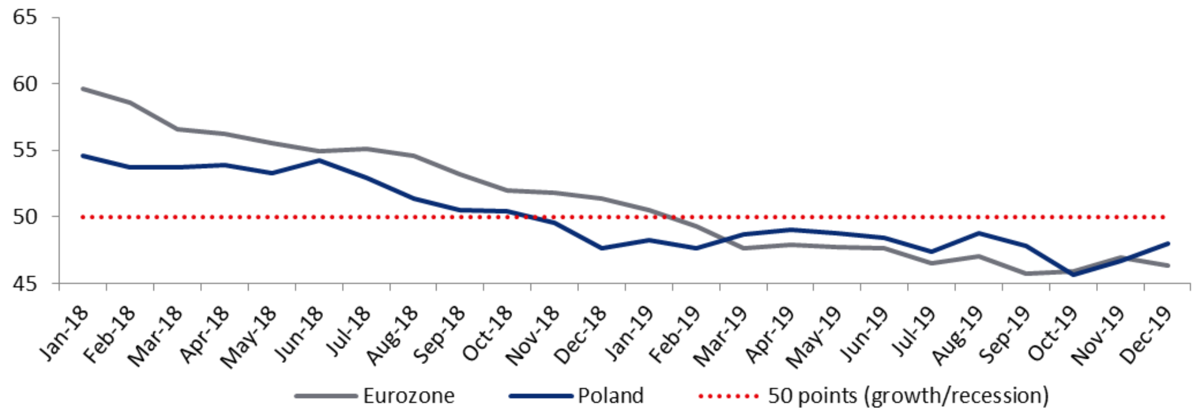
Diagram: Seasonally adjusted GDP change vs. change in domestic gross electricity consumption.



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

In 2019, the average Purchasing Managers' Index ("PMI") reading for the industry was 47.9 points on average (average 52.1 points in 2018). A result below 50.0 points means that the questioned managers expect a deterioration in the sector's situation. In October 2019, Poland's PMI index hit the lowest level since 2011, as it dropped to 45.6 points. After a temporary decline in October 2019, PMI continued to rise through the end of 2019, reaching 48.0 points in December 2019 and indicating an improvement in the Polish manufacturing sector and an optimistic outlook for 2020. The increase in the index in December 2019 resulted mainly from improved situation in the new orders and production segments. Industry in Poland performed better than in the Eurozone, where the PMI index stood at 47.4 points on average in 2019, down from 54.9 points last year (a drop by nearly 14% y/y). The assessment of the Eurozone industry's condition weakened in 2019, from 50.5 points in January 2019, to 46.3 points in December 2019. Of the five sub-indexes making up the main index, the fall in new orders was the main source of poor PMI readings for the Eurozone industry. The sub-index assessing the condition of production in the Eurozone also dropped, with the highest rate of decline since 2012.

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



Source: Markit Economics

Development in the Polish economy is reflected by inter alia dynamics in overall industrial production. In 2019, industrial output sold increased by 4.0% as compared to 2018, when the rate of increase was 5.8%. The CPI in 2019 grew by 2.3% on average. In December 2019, consumer prices increased by 3.4% y/y.

4.2. Market environment

SITUATION IN NPS

Table: Domestic electricity consumption (GWh).

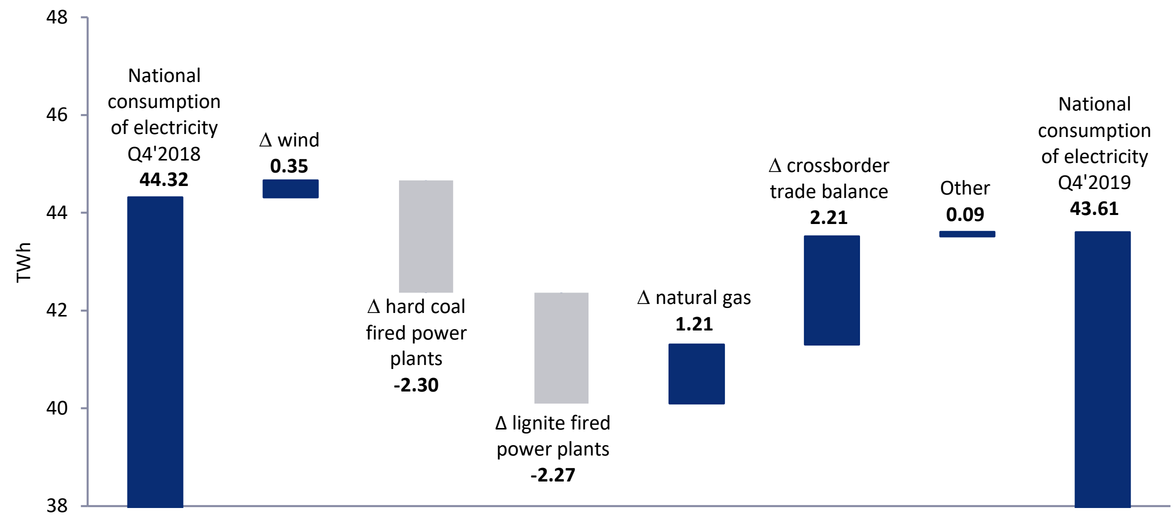
	Q4 2019	Q4 2018	% change	2019	2018	% change
Domestic electricity consumption	**43 606**	**44 318**	**-2%**	**169 391**	**170 932**	**-1%**
Wind farms	4 040	3 695	9%	13 903	11 678	19%
Industrial thermal hard-coal fired power plants	19 583	21 881	-11%	78 190	82 375	-5%
Industrial thermal lignite fired power plants	9 792	12 060	-19%	41 502	49 072	-15%
Industrial gas-fired power plants	3 584	2 378	51%	12 099	9 590	26%
International trading balance	3 191	979	226%	10 624	5 718	86%
Other (industrial plants, hydro power plants, other RES)	3 416	3 325	3%	13 073	12 499	5%

Source: data from PSE S.A.

Q4 2019

Compared to the base period, in the fourth quarter of 2019 domestic energy consumption decreased by 0.7 TWh. At the same time, as a result of price spreads and increased capacity of trans-border exchange, net energy imports increased by more than 2 TWh y/y. As a result, the demand for energy generated by conventional coal and lignite fired power plants has decreased.

Chart: Energy balance in the NPS in the fourth quarter of 2019 y/y (TWh).



Source: own work based on data from PSE S.A.

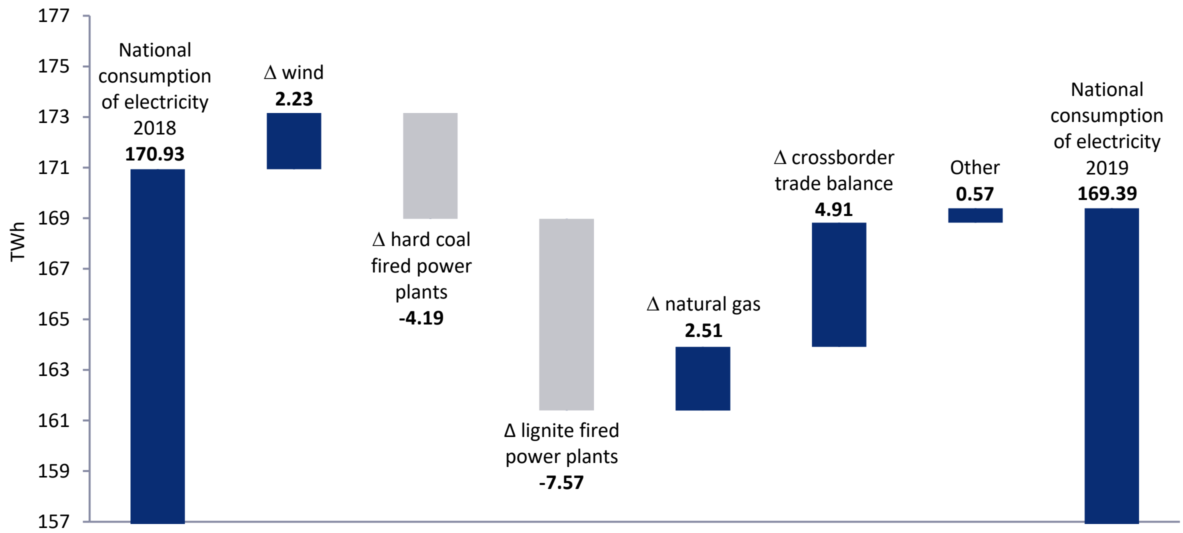
2019

On a cumulative basis, domestic demand for electricity decreased by 1.5 TWh compared to the base year. Owing to stronger winds, the wind-based generation increased by 2.2 TWh y/y. In addition, due to the price difference on cross-border connections, net imports increased by 4.9 TWh year-on-year. As a result, less energy produced in utility hard coal-fired power plants (-4.2 TWh) and lignite-fired power plants (-7.6 TWh) was needed to balance the power system.

The fall in demand in the NPS (defined as gross consumption, including own needs of the electricity generation sector) was affected by a set of factors: weather, technical and economic.

- Cooler summer and warmer summer translated into lower energy demand related to air conditioning and heating.
- Changes on the supply side (i.e. in the production mix) - a lower share of production in hard coal and lignite power plants with higher (than average) own needs. In particular, energy imports for national statistics have zero own needs.
- Change in the structure of industrial production - reduction of exports due to the cooling of the German economy (in particular producers from the automotive industry) and possible relocation of production from Poland to countries with a lower electricity cost.

Chart: Energy balance in the NPS in 2019 (TWh).



Source: own work based on data from PSE S.A.

ELECTRICITY PRICES – DOMESTIC MARKET

Day-ahead market (RDN)

Market/measure	Unit	Q4 2019	Q4 2018	% change	2019	2018	% change
RDN – average price	PLN/MWh	211	245	-14%	230	223	3%
RDN – trading volume	TWh	7.50	6.74	11%	28.32	23.55	20%

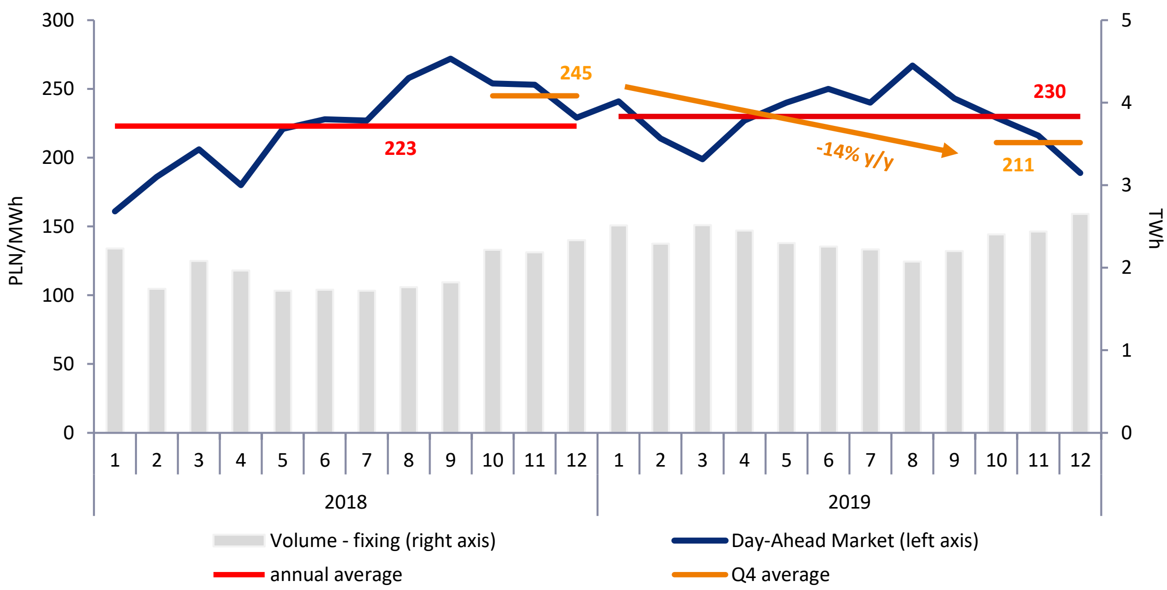
Analysis – selected price factors affecting RDN quotations

Factor	Unit	Q4 2019	Q4 2018	% change	2019	2018	% change
CO_2 emission rights	EUR/t	25	20	25%	25	17	47%
Polish Steam Coal Market Index PSCMI1	PLN/GJ	12	11	9%	12	11	9%
Wind generation NPS	TWh	4.04	3.70	9%	13.90	11.68	19%
Ratio: wind generation/ NPS consumption	%	9%	8%		8%	7%	
Ratio: international trading/ NPS consumption	%	7%	2%		6%	3%	

In the fourth quarter of 2019, the average electricity price on the day-ahead market was PLN 211/MWh and was higher by 14% than average price (PLN 245/MWh) in same period in the preceding year. The decrease in energy prices was mainly attributable to the increase in transmission capacities for cross-border exchange, which resulted in a 226% increase in net imports compared to the fourth quarter of 2018. The drop in prices was also driven by a 0.7 TWh year-on-year decrease in demand for electricity and 9% increase in generation from NPS wind sources.

In full year 2019, the average price on the day-ahead market was PLN 230/MWh, which is 3% higher than the price recorded in the preceding year (PLN 223/MWh). The increase in price on the day-ahead market was connected with the situation on related markets – prices of CO_2 emission rights in 2019 was by 47% higher than in the base year and amounted to EUR 25/t. The PSCMI1 index in 2019 averaged PLN 12/GJ - up by 9% y/y. On the other hand, price decrease pressure was exerted by the net import volume higher by 86% y/y and wind generation volume higher by 19% y/y. The prices were also affected by a decrease in demand by 1.5 TWh y/y.

Chart: Average monthly prices at the day-ahead market in 2018–2019 (TGE).*



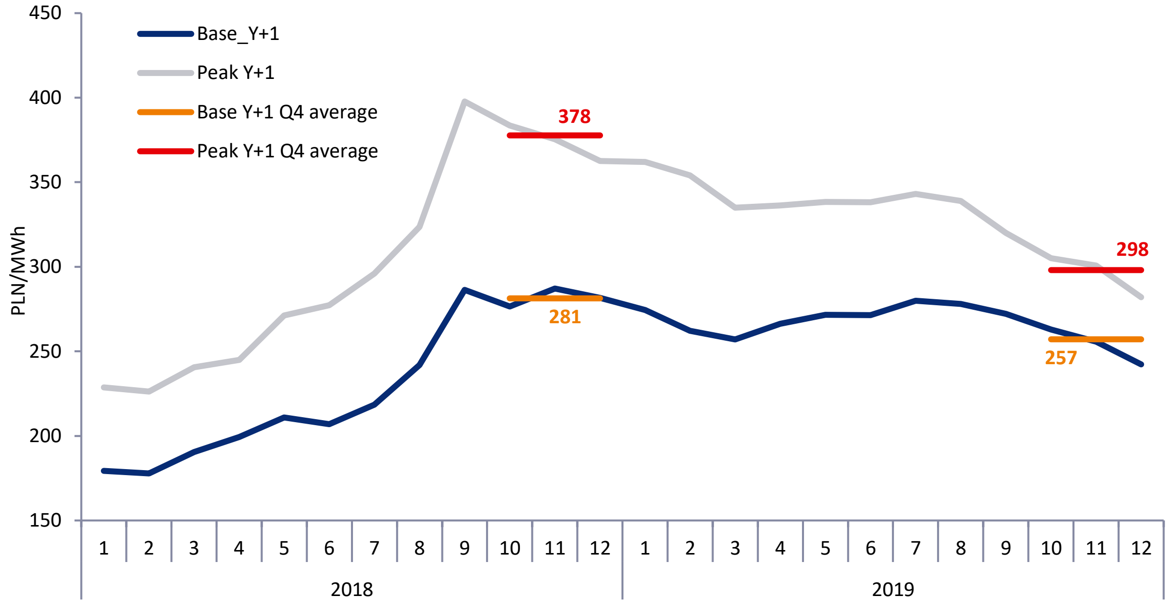
* Average monthly RDN prices calculated on the base of hourly quotations (fixing))

Forward market

Market/measure	Unit	Q4 2019	Q4 2018	% change	2019	2018	% change
BASE Y+1 – average price	PLN/MWh	257	281	-9%	266	243	9%
BASE Y+1 – trading volume	TWh	34.33	38.70	-11%	118.04	125.80	-6%
PEAK5 Y+1 – average price	PLN/MWh	298	378	-21%	324	348	-7%
PEAK5 Y+1 – trading volume	TWh	5.26	5.28	0%	16.41	10.00	64%

Electricity prices on forward market are shaped by the similar fundamental factors, as the prices on the Day-Ahead Market described in the previous paragraph. Observed forward market increase (y/y) for BASE_Y+1 are related to the y/y increases on the related markets: CO2 emission rights and hard coal. On the other hand, the fall in prices in the fourth quarter of 2019 results from increased cross-border transmission capacities and the inclusion of the supply of cheaper energy from abroad into the domestic market. the drop in PEAK5_Y+1 contract price indicates a flattening of the supply curve and less optimistic demand forecasts, after taking increasing imports into account.

Chart: Average monthly prices on the forward market in 2018–2019 (TGE).*

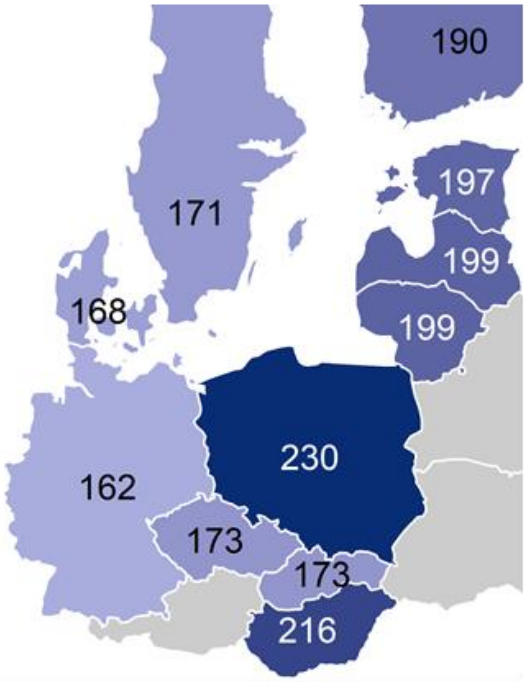


* Monthly average index level for forward contracts for the next year (Y+1), baseload and peak, weighted by the trading volume.

International market

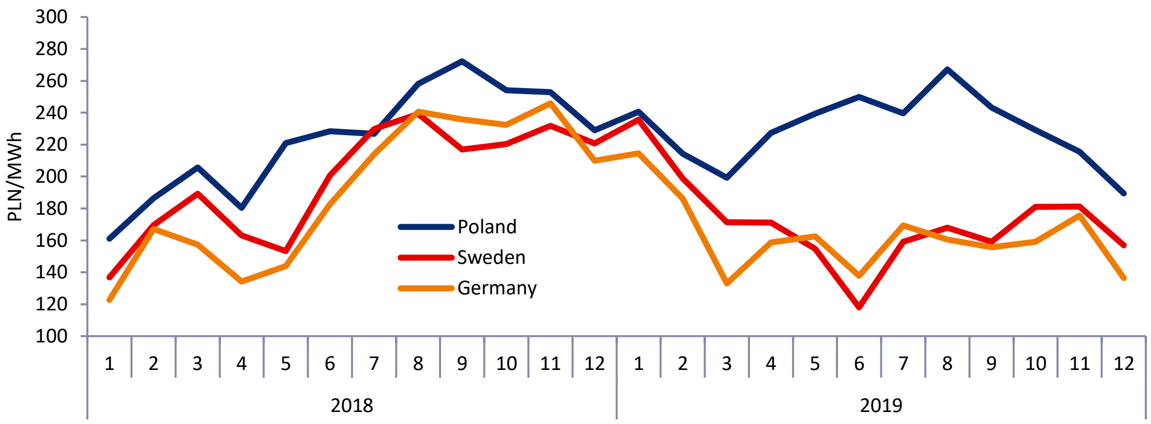
Wholesale market (comparison of day-ahead markets)

Chart: Comparison of average electricity prices on Polish market and on European markets in 2019 (prices in PLN/MWh, average exchange rate EUR/PLN 4.30).



Source: TGE, EEX, Nordpool

Chart: Evolution of spot market prices.

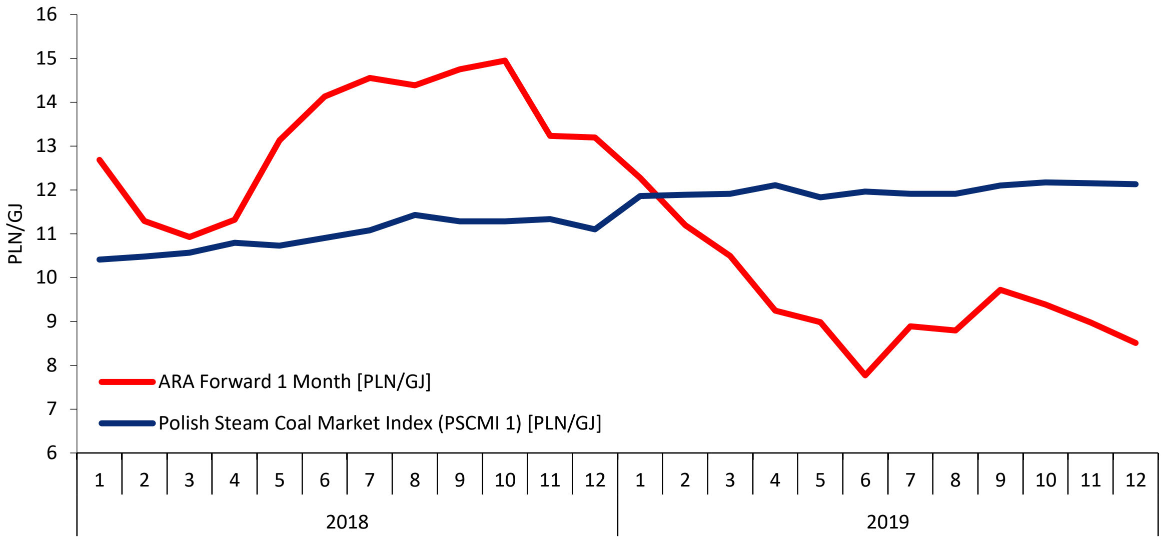


Source: TGE, EEX, Nordpool

In the fourth quarter of 2019, the y/y drop in prices on neighbouring markets ranged between PLN 51 and PLN 72/MWh (i.e. approx. 23-32%), whereas in Poland the average prices were lower by PLN 34/MWh y/y (approx. 14%). The low correlation of energy prices results from differences in the technological mix (share of renewable energy sources) and the situation on the markets for related products. The price of hard coal in ARA ports fell by 35% y/y, while the domestic pulverised coal price index, PSCMI-1, increased by 8% over the same period.

On an annual basis, average energy prices on neighbouring markets dropped by PLN 24-28/MWh y/y (i.e. by approx. 12-15%), while the average price in Poland increased by PLN 7/MWh y/y (approx. 3%). The price differential between Poland and neighbouring countries, which deepened in the first half of 2019, was largely attributable to differences in coal prices at home and abroad. In the second half of the year, increased transmission capacities on cross-border connections enabled the import of higher volumes of cheaper energy which contributed to reducing differences in average wholesale prices observed.

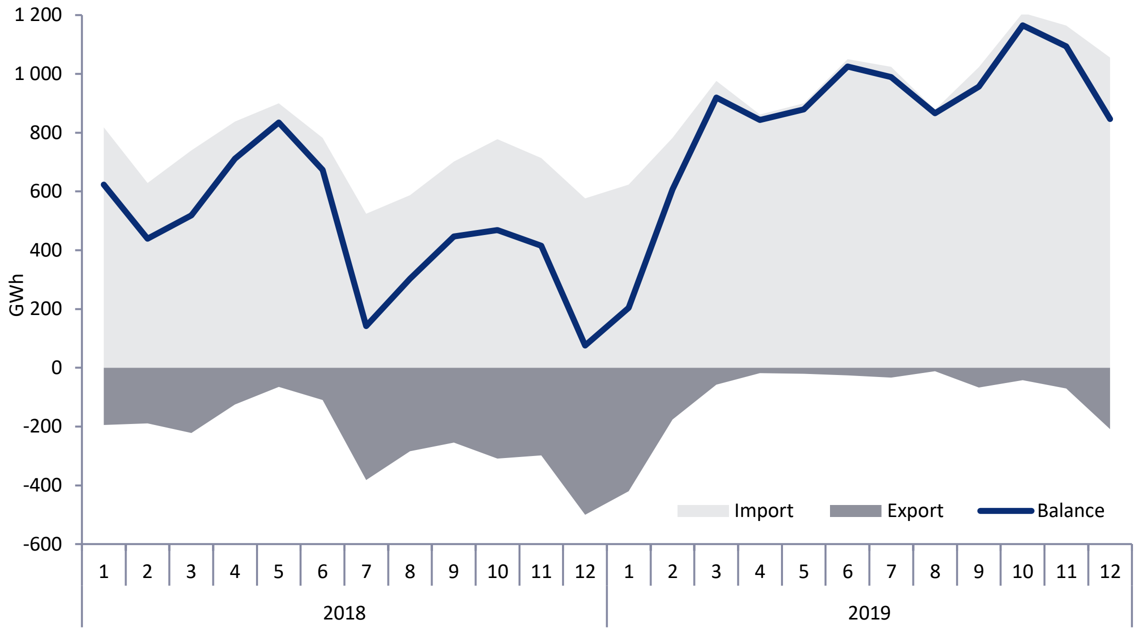
Chart: Hard coal indices - ARA vs PSCMI 1[1].



Source: ARP, Bloomberg (API21MON OECM Index), own work.

International trading

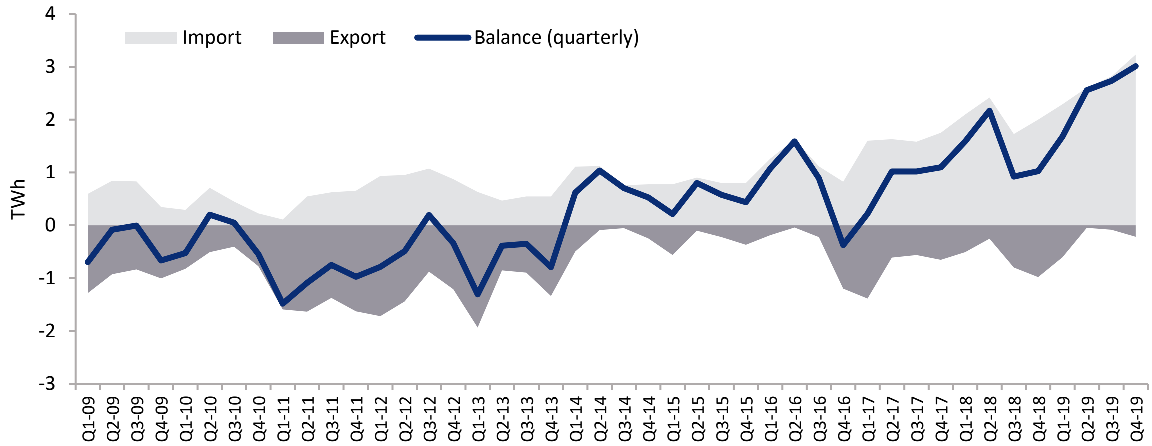
Chart: Monthly imports, exports and cross-border exchange balance in 2018-2019 (in GWh).



Source: own work based on PSE S.A. data.

[1] The comparison is illustrative only. Methodologies of counting the ARA and PSCMI1 indexes are different. Among other things, the ARA index includes insurance and delivery costs. The PSCMI1 is an ex-mine index without insurance and delivery costs. Standards for calculating the caloric values are also different (ARA – 25.12 GJ/t vs. PSCMI1 caloric value - range from 20 to 24 GJ/t). The aim is to compare the trend and not the absolute level. For illustration purposes ARA index is recalculated from USD/t to PLN/GJ.

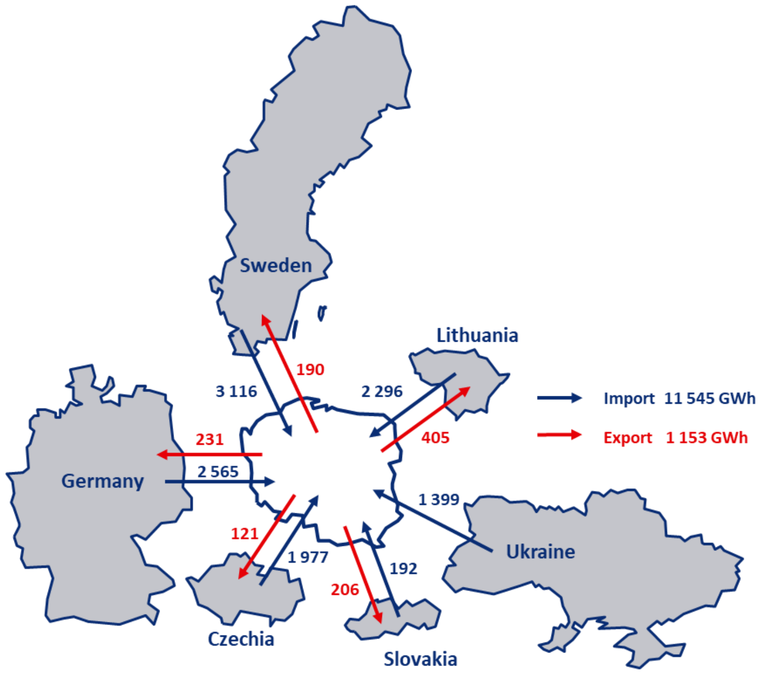
Chart: Quarterly trading volumes – import, export and international trading balance in years 2009-2019.



Source: own work based on PSE S.A. data.

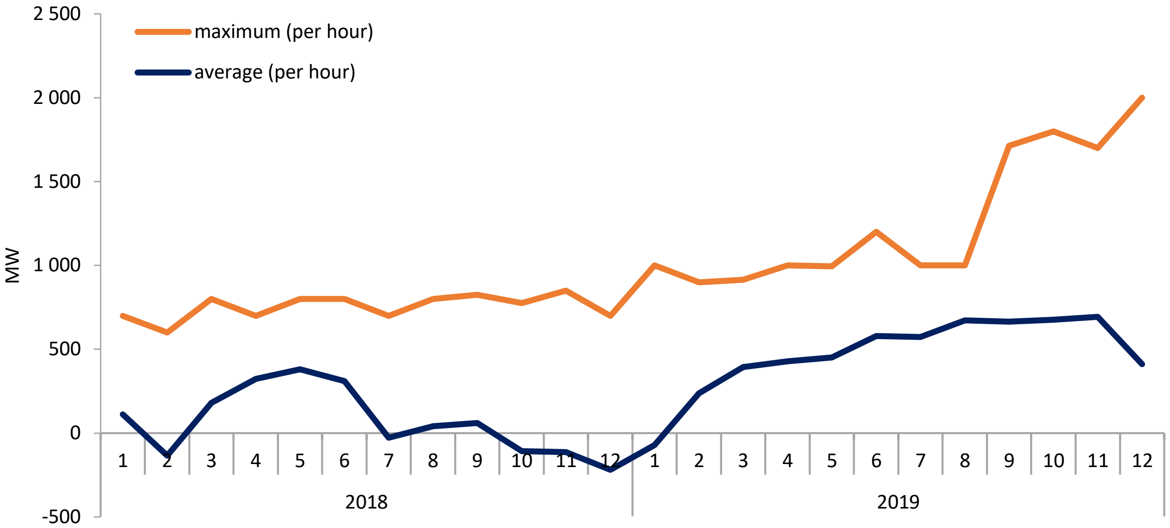
In the fourth quarter of 2019, Poland remained a net importer of electricity, and the trade balance (-3.1 TWh) was the highest in the current decade (import 3.4 TWh, export 0.3 TWh). The international trading balance was impacted mostly by import from Sweden (0.9 TWh), Germany (0.7 TWh) and Czechia (0.6 TWh). In full year 2019 net import amounted to 10.4 TWh (import 11.6 TWh, export 1.2 TWh), what in comparison with the preceding year (5.7 TWh) means growth by 4.7 TWh (84% y/y).

Diagram: Geographical structure of commercial exchange in 2019 (in GWh).



Source: own work based on PSE S.A. data

Chart: Parallel exchange[2] balance: average vs. maximum hourly flow in particular months.

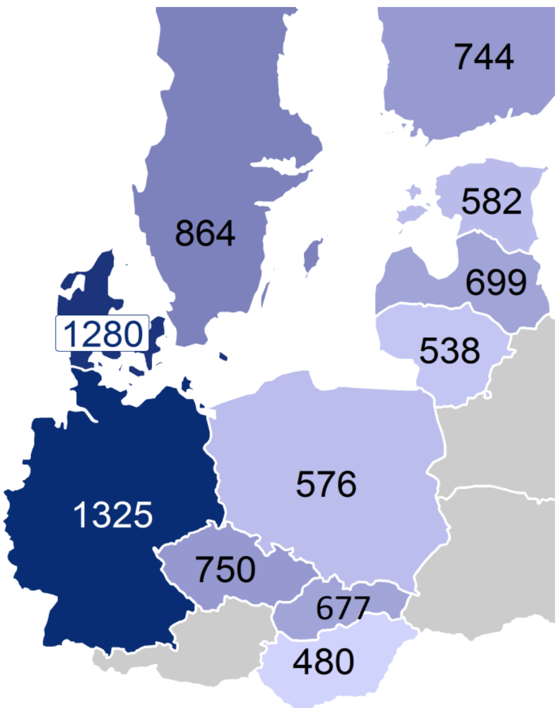


Source: own work based on PSE S.A. data.

Retail market

The diversity of electricity prices for retail customers in the European Union depends both on the level of the wholesale prices of electricity and fiscal system, regulatory mechanism and support schemes in particular. In Poland in the first half of 2019[3] an additional burden (over sale price and cost of electricity distribution) for individual customers accounted for 34% of the electricity price and in comparison to EU average of 37%. In Denmark and Germany the proportion of additional charges in the price of electricity exceeded 50%.

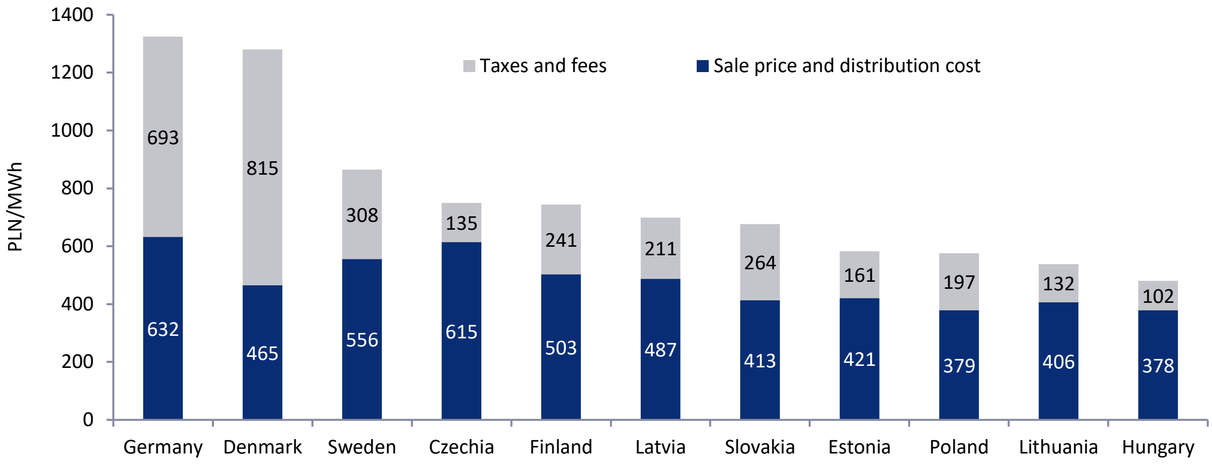
Chart: Comparison of average prices for individual customers in selected EU countries in the first half of 2019 (prices in PLN/MWh, average exchange rate EUR/PLN 4.29).



Source: own work based on Eurostat data.

[2] Parallel exchange – exchange between synchronised system on borders with Germany, Czechia and Slovakia
[3] Eurostat data on retail market are published in semi-annual intervals.

Diagram: The share of additional charges in electricity prices for the individual customers in selected EU countries in the first half of 2019 (prices in PLN/MWh, average exchange rate EUR/PLN 4.29).

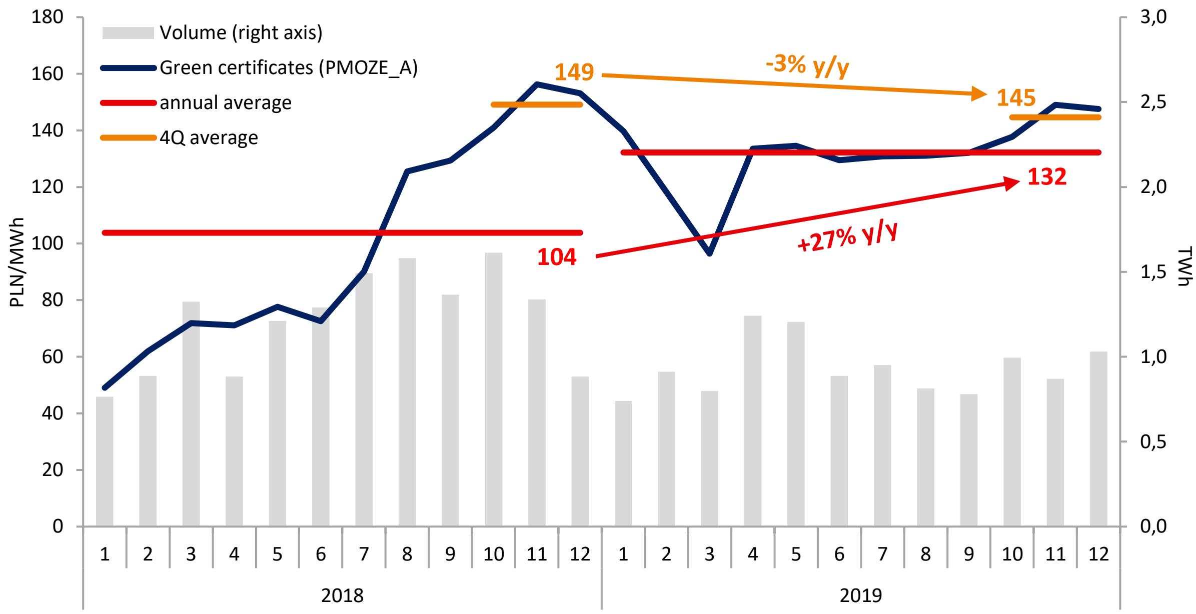


Source: own work based on Eurostat data.

4.3. Prices of certificates

In the fourth quarter of 2019 the average price of green certificates (index TGEozea) reached PLN 145 PLN/MWh and was lower by 3% compared to the analogical period of the previous year. An obligation to redeem green certificates increased from 18% in 2018 to 19% in 2019 – as a result the demand for the certificates increased. On the other hand, the wind generation in NPS in the fourth quarter of 2019 was by 9% higher y/y. Moreover, the prices of certificates were affected by the awareness of limited supply thereof in future connected with the closure of a certification system for new units and the upcoming end of a 15-year support period for first installations that had entered the system in 2005. The average price of green certificates in the fourth quarter of 2019 was at PLN 132/MWh reaching a level higher than the substitute fee, which is PLN 130/MWh in 2019.

Chart: Average quarterly prices of green certificates (OZEX_A/TGEozea).



Source: Own work based on TGE quotations.

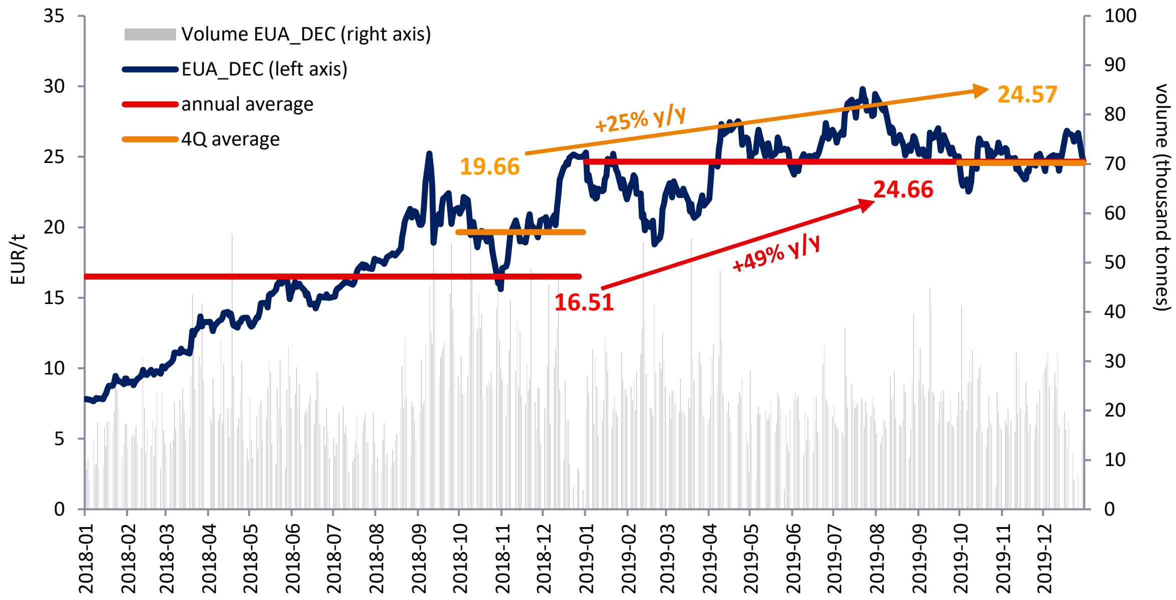
4.4. Prices of CO2 emission rights

EUA (European Union Allowances) prices are one of the key factors determining wholesale energy prices and PGE Group's financial results. Installations emitting CO_2 in the process of electricity or heat production bear the expenses for purchasing EUA allowances to cover the deficit (i.e. the difference between CO_2 emissions at PGE Group's generating units and the free-of-charge allowances received under derogation in accordance with the National Investment Plan). Wherein, last allocations granted free of charge are planned for realisation of investment tasks for 2019. It means that the free allocations in accordance with the currently used method will end in 2020.

In the fourth quarter of 2019, the weighted average price of EUA DEC 19 reached EUR 24.57/t and was 25% y/y higher than the average price for EUA DEC 18 (EUR 19.66/t) in the similar period of the previous year. In the full year 2019 the weighted average price of EUA DEC 19 reached EUR 24.66/t and was by 49% y/y higher than the average price of EUR 16.51/t of EUA DEC 18 in the previous year. Lower y/y growth in the fourth quarter compared to the annual dynamics indicates a stabilization of prices (at a relatively high level).

The increase in CO_2 emission prices, lasting from 2017, is a result of market perception of the EU ETS reform.

Chart: Prices of CO_2 emission rights.



Source: own work based on ICE quotations.

CO_2 EMISSION RIGHTS GRANTED FREE OF CHARGE FOR YEARS 2013-2020

PGE Group's installations accounts were credited with free allowances for heat and energy for 2018, while free allowances for electricity for 2019 will be received by the Group by the end of April 2020, after verification of reports from investments submitted to the National Investment Plan.

At the same time, redemption of emission rights resulting from CO_2 emissions in 2018 was completed in April 2019.

Table: Emission of CO_2 broken down into electricity and heat production in relation to allocation of CO_2 emission rights for 2019 (in tonnes).

Product	CO_2 emissions in Q4 2019*	CO_2 emissions in 2019*	Allocation of CO_2 emission rights for 2019 **
Electricity	13 755 236	55 892 164	10 623 187
Heat	1 617 102	4 774 110	1 265 990
TOTAL	**15 372 338**	**60 666 274**	**11 889 177**

* Estimates, emissions not verified - the data will be settled and certified by the authorised verifier of CO_2 emission on the ground of yearly reports of volume of CO_2 emissions.

** Amount of granted CO_2 emission rights are to be confirmed in the Regulation of the Council of Ministers in the first quarter of 2020.

4.5. Competitive environment

The electricity sector in Poland comprises four operating segments:

- generation of electricity,
- transmission, responsibility of the TSO – PSE S.A.,
- 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.

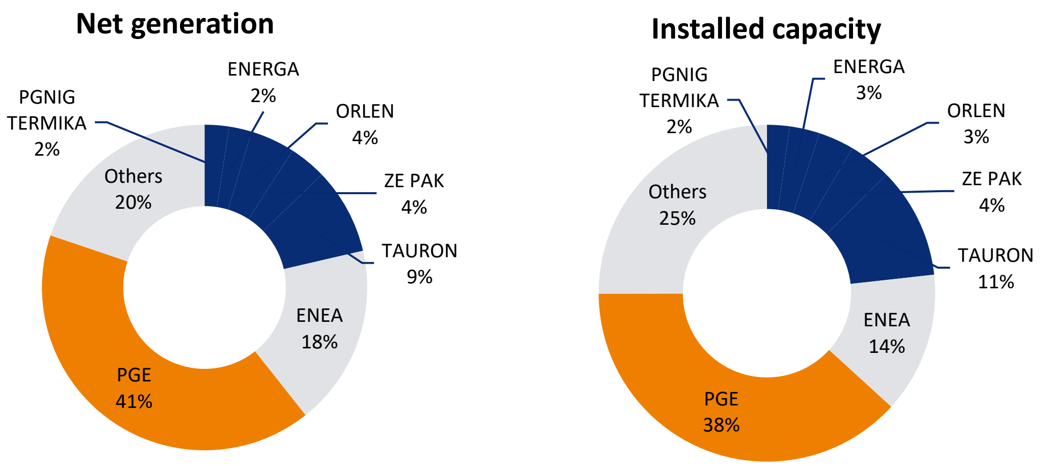
After the acquisition of EDF Polska assets, PGE Group strengthened its position in the generation segment and is the undisputed leader, with a 39% market share. The Group produces more electricity than all of the competitors on the consolidated market combined, whilst having the largest achievable capacities, both conventional and renewable. Aside from integrated energy groups, significant producers on the market include Zespół Elektrowni Pątnów Adamów Konin S.A. ("ZE PAK"), PKN Orlen S.A. and

PGNiG TERMIKA S.A. ("PGNiG"). Although ZE PAK's production is based on industrial plants, Orlen's and PGNiG's production is based on CHPs, the output of which depends on demand for district heating. ZE PAK's market share declined due to the shut-down of the Adamów plant from 2018, while Orlen's share significantly grew with the launch of gas-and-steam units in Włocławek and Płock.

Nearly half of the electricity produced in the country is hard coal-based - and this is a key fuel for PGE Group's competitors.

One-third of the electricity produced in Poland is lignite-based. Aside from PGE Group, ZE PAK also bases its electricity production on lignite. The use of other fuels is of relatively low significance from the viewpoint of the NPS, although it should be noted that an increase in gas-based production is related to Orlen's new assets.

Chart: Estimated share of largest Polish electricity generators in installed capacity and net generation after three quarters of 2019.



Source: own work based on information published by the companies and Agencja Rynku Energii S.A. ("ARE"). PGE's volume including Energy from start-up phase of units no. 5 and 6 at Opole power plant.

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 with a share at a level of 18%. 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 (focused on production mainly in the Warsaw agglomeration) and Veolia Group (Poznań agglomeration, Łódź).

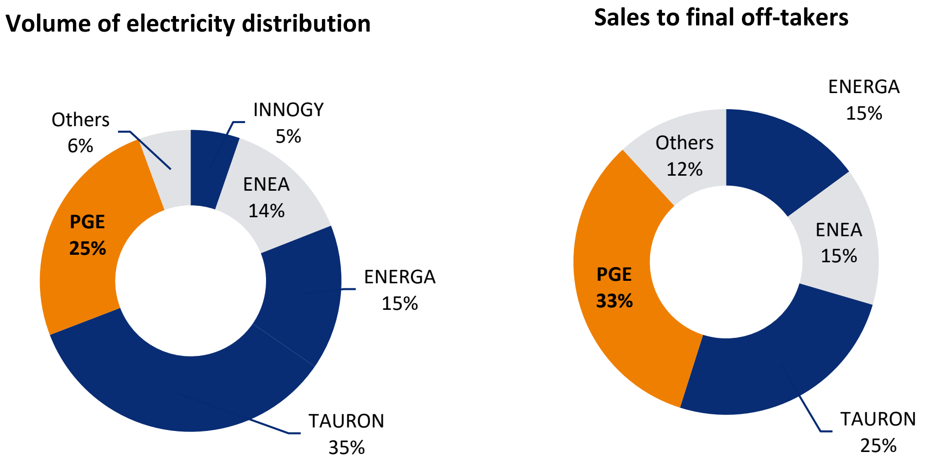
Energy production from renewable sources is much more dispersed than the conventional generation market. In previous years wind power sector was the most dynamically developing sector, with PGE Group's leading role. Having delivered four new wind projects in 2015, PGE Group became an entity with the largest installed wind capacity – 550 MW (through PGE EO S.A.). PGE Group has approximately 9% share of total wind capacity in Poland, which reached 5.9 GW. 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., ENGIE Zielona Góra sp. z o.o. Competition among the existing wind assets covers competition on the electricity market (given that as of January 1, 2018 the obligation to purchase electricity from renewable energy sources of 500 kW or more was cancelled) and competition related to 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, as well as PKP Energetyka S.A. managing the railway electric network throughout the country. 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 5.5 million clients throughout an area of 123 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: Areas of operation of Polish distribution system operators.

Source: own work.

Chart: Share of particular energy groups in volume of energy distributed in 2018 and sales of electricity to final off-takers after three quarters of 2019.



Source: own work based on information published by the companies 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.). PGE Group and TAURON remain the leaders, having almost 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, as well as PKP Energetyka S.A.

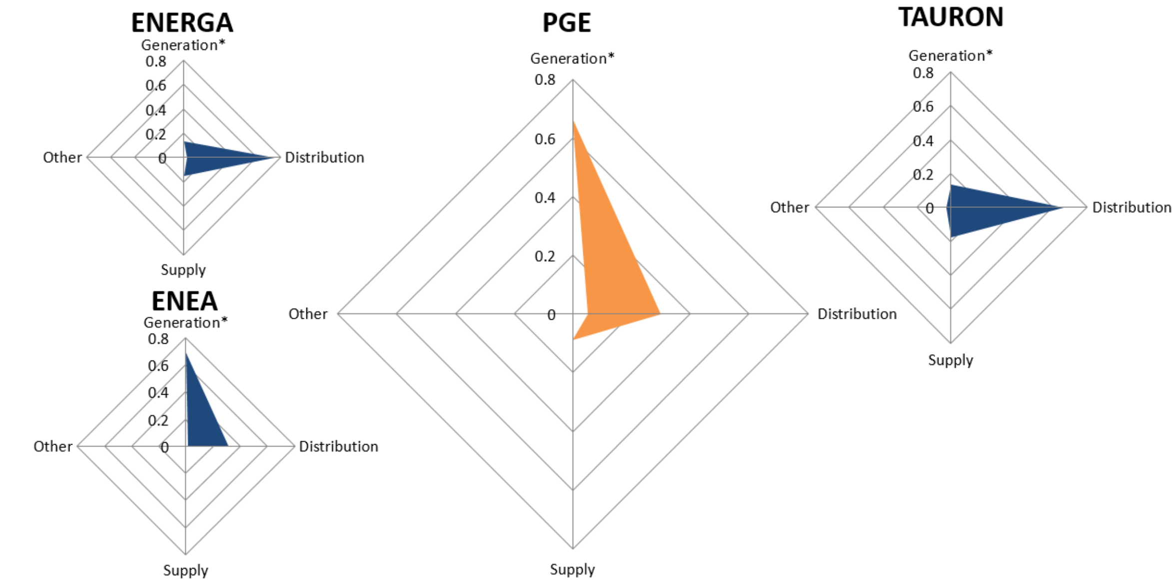
ENERGY GROUP PROFILES

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.

With acquisitions of the Bogdanka mine and Połaniec power plant and the launch of a new unit at the Kozienice power plant, Enea increased its share of EBITDA from the generation segment. This brought Enea's profile closer to that of PGE Group.

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 the 9M 2019 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.

4.6. Regulatory environment

DOMESTIC REGULATORY ENVIRONMENT

PGE Group operates in an environment with a significant impact of domestic and foreign regulations. Presented below is a summary of the most significant decisions, which took place in 2019 and which could have an impact on PGE's operations in the coming years.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
	Act on promoting of electricity produced in highly-efficient cogeneration .	This act intends to **support units producing electricity in highly-efficient cogeneration** in as far as the costs of such production exceed the market price of energy: ▪ units <50MW - existing and modernised: guaranteed bonus, the level of which is set by the Minister of Energy; new and significantly modernised: bonus set in auctions, ▪ units >50MW - existing and modernised: guaranteed bonus, the level of which is set annually by the ERO President; new and significantly modernised: bonus set in selection.	The law was voted through in **December 2018.** It entered into force on **January 1, 2019**. On April 15, 2019, the European Commission approved the support mechanism resulting from the Act. all ordinances mentioned in the Act are in force from **October 15, 2019**.	The President of ERO accepts applications for payment of an individual guaranteed bonus by 30 September preceding the year of payment of the bonus. Admission for the individual co-generation bonus is organised at least once a year.	The Act will secure stable revenue (for up to 15 years) covering the costs of substantial modernisations of existing cogeneration units and the construction of new ones.
	Amendment to the act on renewable energy sources .	▪ Indication of volumes for auctions in 2019 – allowing auction organisation in 2019. ▪ Change in the method of settling the support - limitation of positive balance reimbursement only to the amount of repaid negative balance. ▪ Broadening of the category of prosumer entitled to make settlements with discounts on introduction into the grid of generated and unused energy also to entrepreneurs . ▪ Covering energy cooperatives with support in the form of discounts. ▪ form of premiums obtained outside of an auction to producers of energy from biomass and biogas in units with the capacity of up to 2.5 MW . ▪ Extension of the age of devices that can be installed in units applying for support and the time of first generation of energy and its introduction into the grid from the date of obtaining support. ▪ Extension of the validity of connection agreements until the end of May 2021 – generally for grid connection agreements of RES installations, which did not bring electricity to the grid within the time limits provided In specific articles of the Energy Law Act.	The amended las was voted through by the parliament on **July 19, 2019**. It entered onto force on **August 29, 2019.**		The designed solutions affect the PGE Capital Group. ▪ The organisation of auctions for large volumes will enable participation of the PGE CG's projects, but also increase the RES capacity and can worsen the economics of operation of the PGE Group's conventional assets. ▪ The broadening of using discounts for prosumers to entrepreneurs introducing into the grid the energy unused by them will increase the loss of the Supply segment of PGE Group's on providing service to those entities. ▪ Creation of conditions for development of PV installations will have an adverse impact on generation in conventional sources and on volume of distributed electricity .

		▪ Determination of the value of the duty to redeem certificates of origin of energy from renewable energy sources for 2020 to 19.50% (PM OZE A) and 0.5% (PM OZE BIO).			
	Act regulating electricity prices in 2019. "Act on electricity prices".	▪ Reduction in excise duty rates for electricity. ▪ Reduction in transition fee rates. ▪ Introduction of maximum sale prices for electricity in 2019 (in both trade and distribution) and introduction of compensation for trading companies. ▪ The amendment introduced various conditions of using allowances for the lowered price in the first and second half of 2019. ▪ In the first half of 2019, end recipients were entitled for compensation, whereas in the second half – the selected end recipients are entitled to request price lowering i.e. households, hospitals, one-man businesses, micro- and small enterprises. ▪ Large and medium enterprises can apply for compensation as part of *de minimis* support.	Voted through in November 2018, **entered into force on January 1, 2019, significantly amended in February 2019 and in June 2019. The latest amendment entered into force on June 29, 2019.** **On August 14, 2019,** the executive regulations to the aforementioned Act entered into force, i.e. ordinance of the Minister of Energy on the method of calculating the difference in price and financial compensation as well as the method of specifying the reference price.	-	The act has an impact on Supply segment companies due to the obligation to specify electricity sales prices in 2019 at the level from 2018 (specific method of determining the prices for particular cases is provided in the Act and ordinance). Enterprises were obliged to adapt to the Act's regulations no later than within 30 days from the date entry into force of the ordinance of the minister of Energy on compensations (i.e. by September 13, 2019), effective January 1, 2019. Supply segment companies are entitled to claim compensation.
	Draft act on compensation for the increase in electricity prices in 2020.	The draft assumes : ▪ Introduction of compensation for the increase in electricity prices in 2020 as compared to prices in 2019. ▪ The compensation would be available to end customers in households whose taxable income did not exceed the first tax bracket in 2019 and who will consume at least 63kWh of electricity in 2020. ▪ The compensation would be paid in 2021 by trading companies at the request of the customer, through appropriate corrections to the invoices. ▪ The act provides for 4 compensation thresholds depending on the amount of energy consumption. ▪ The costs of compensation payments (an amount equal to the sum of the compensation paid to end customers) are to be financed with funds from the sale of 25 million emission allowances which form part of the national auction pool for the new EU ETS trading period starting on January 1, 2021. ▪ Trading companies will be reimbursed upon an application submitted to Zarządca Rozliczeń S.A. For applications involving more than 4 million power take-off points, reimbursement would be made within 6 months of the date of application.	The draft act was published on February 24, 2020 on the GLC's website .	At present, public consultations are being held. Upon completion of consultations, the draft will be sent to the Standing Committee of the Council of Ministers.	To the greatest extent, the draft affects the operation of the Supply segment. It entails additional obligations imposed on trading companies, such as: notifying customers of their right to compensation, accepting and verifying requests, payment of compensation, and inspection activities in consultation with the competent head of the tax office. The draft stipulates that electricity distribution companies qualify end customers to one of the four groups eligible for compensation, and this compensation is to depend on the consumption of electricity at a given power take-off point.

Regulation on the Low-Carbon Transport Fund.	The drafts set forth detailed rules for the functioning of the Low-Carbon Transport Fund established under the Act on Biocomponents and Liquid Biofuels. The draft regulation on the **detailed conditions for the granting and settlement of support granted under the Fund** determines, in particular, the maximum amount of support, the list of eligible costs and the intensity of support. The draft regulation on **the detailed criteria for selection of projects to be granted support under the Fund**, specifies the following key criteria: (i) significance of the project for purposes of market development, (ii) appropriateness and relevance of the activities planned and their implementation, (iii) assessment of the planned costs of the project in relation to the scope of works, (iv) organisational capacities of the applicant to complete the project and institutional arrangements for its implementation.	The regulations were published in the Journal of Laws on December 23, 2019 and entered into force on December 24, 2019.	The announcement of the first call for applications for funding from the Low Emission Transport Fund is scheduled for the first half of 2020.	The support granted under the Fund can be used, in particular, for the construction of the infrastructure for charging electrical vehicles and for the production of biomethane used in transport .
Amendment to the Energy Law.	The updated energy law contains a number of changes, including: ▪ comprehensive regulation for energy storage; ▪ introduction of mandatory remote readings at metering installations ; ▪ establishment of an energy market information operator, responsible for establishing and developing a central market information system .	Public consultations on the draft act ended in November 2018. Another (significantly revised) draft was published on December 23, 2019.	The draft is scheduled to be submitted to the Council of Ministers for approval in the first half of 2020.	The proposed solutions will affect all segments of the PGE Group's operations, especially the Supply and Distribution segments .
Draft act on promoting electricity generation in offshore wind farms	The draft act provides for enabling the development of offshore wind power generation. Offshore wind farms are important for the fulfilment of international commitments in the field of renewable energy in the long term. The key to these is to create legal regulations that will stimulate the growth of this sector. The draft provides for: ▪ A separate support system dedicated to the offshore technology, adjusted to its technical and economic conditions, consisting in granting the so-called right to cover the negative balance to be calculated on the basis of the offshore installation's LCOE, including the connection construction costs that will be incurred by the investor in the initial phase. ▪ Numerous modifications of administrative procedures related to the investment process, taking into account the specificity of the project to construct offshore wind farms .	Public deliberations and consultation lasted till January 15, 2020.	Currently, comments submitted in public consultations are being analysed. Then, the draft will be sent to the Standing Committee of the Council of Ministers.	The Act is of key importance for the development of offshore wind farms and thus for PGE Baltica, a company responsible for the implementation of the Offshore Programme at the PGE Group and coordinating preparations for the construction of three wind farms.

INTERNATIONAL REGULATORY ENVIRONMENT

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
			Regulations determining within the power sector the methods to achieve greenhouse gas emission reduction targets by 2030		
	EU ETS directive and implementing and delegated acts, decision on MSR	Combating climate change and performance of obligations resulting from the Paris Agreement. Development of investment incentives through a CO_2 price signal to develop low-emission sources.	On **February 26, 2019** a delegated act was adopted on the Innovation Fund. **On August 28, 2019**, a delegated act regarding the schedule, administrative issues and other aspects of auctioning of emission allowances has been adopted, including the manner of selling allowances dedicated to the Innovation Fund and the Modernisation Fund and the principle of voluntary cancellation of allowances by Member States. **On December 11, 2019**, the European Commission presented the "European Green Deal" which announced an increase in the CO2 reduction target for 2030 from the current 40% to at least 50-55% by 2030, which will also entail a revision of the EU ETS, RED and EED Directives **On December 12, 2019**,the European Council adopted conclusions indicating that, apart from one Member State, it endorses the objective of EU climate neutrality by 2050. **On January 15, 2020**, the European Parliament passed a resolution on the European Green Deal in which it called for the EU to adopt higher climate and environmental goals, including to increase the 2030 emissions reduction target to 55%. On **March 4, 2020** the European Commission presented a legislative proposal for a Regulation establishing a framework for achieving climate neutrality.	Adoption of the **implementing act** on the functioning of the Modernisation Fund expected **in Q2 or Q3 of 2020.** The first draft implementing act was presented to members of the Climate Change Committee on **November 21, 2019**. A comprehensive plan to increase the EU climate target for 2030 to at least 50-55% is to be presented by the end of September **2020**, whereas proposals for the next revision of the ETS directive and MSR decision are expected in **June 2021.**	Improvement in the competitiveness of renewable sources and – in short-term- gas units to the detriment of generation assets using high-emission fuels. Increase in operating costs for conventional generation of electricity. Option to obtain direct investment support from 2021 from the Modernisation Fund or Innovation Fund. Another revision of the ETS Directive is likely to cause a further increase in prices of emission allowances.
			"Clean energy for all Europeans"		
	RED Directive	Promoting the development of renewable energy sources in the power, district heating and transport sectors, intended for the EU to reach at least **32% renewables target** in overall	The directive was published in the EU's Official Journal on **December 21, 2018** and entered into force on **December 24, 2018.** **On December 11, 2019**, the European Commission presented the European Green Deal which announced a revision of the RED Directive in **June 2021**.	Mandatory transposition of the directive to national law - **by June 30, 2021.**	Increase in share of renewables with zero variable cost will cause a change in conventional units' operation profile. Impact on investment programme in generation segment (including renewables) and district heating by necessity to take into account development of renewables units. Impact on Supply segment through development of prosumer segment, constituting an alternative for end users to buying energy.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
		consumption by **2030.**			Impact on the Distribution segment through the need to integrate in the network increased generation from dispersed sources.
	EED Directive	Promoting improvements in energy efficiency as regards both primary energy consumption and final energy consumption, intended for the EU to reach its target of at least **32.5% improvement in energy efficiency** by 2030.	The directive was published in the EU's Official Journal on **December 21, 2018** and entered into force on **December 24, 2018**. **On December 11, 2019**, the European Commission presented the European Green Deal which announced a revision of the EED Directive in **June 2021**	Mandatory transposition of the directive to national law - by **June 25, 2020.**	Impact on all segments, i.e. reduction of growth in energy consumption by taking energy efficiency actions. Impact on Supply segment resulting from costs of white certificate system.
	Governance regulation	Introduction of framework for implementation of the EU's energy and climate targets by establishing a system for setting and monitoring targets by member states.	The regulation was published in the EU's Official Journal on **December 21, 2018,** and provisions went into force on **December 24, 2018**. **On December 30, 2019**, in response to the comments made by the EC **in June 2019** on the draft Integrated National Plan for Energy and Climate, Poland submitted the final version of this Plan to the EC. This plan sets out climate and energy targets for 2030.	**In June 2020,** the EC is expected to assess these final Plans.	Regulation's impact is the same as Directives RED and EED. This results from the fact that the regulation's key provisions introduce mechanisms intended to achieve the EU's targets specified in these directives, collectively by EU member states. The most important duty resulting from the Ordinance is the duty of developing and submitting to the EC of a National Energy and Climate Plan – a document with the scope similar to the energy policy.
	EMR regulation	Establishment of legal framework for further integration of internal electricity market.	The Directive was published in the EU Official Journal on **June 14, 2019** and **it entered into force on July 4, 2019.** Most of the provisions of the Regulation have been in force since **January 1, 2020.** **On December 17, 2019**,the European Agency for the Cooperation of Energy Regulators (ACER) published an opinion containing technical guidelines for calculating the EPS 550/CB 350. **On December 17, 2019**,the Committee for European Affairs adopted an Action Plan to enable Poland to fulfil its obligation to make 70% of cross-border transmission capacity available	In accordance with the schedule provided in the regulation, by **July 5, 2020**, ENTSO-E is to submit to ACER a draft methodology for the calculation of the share of foreign power in the Capacity Remuneration Mechanism (CRM). **By July 5, 2021,** ENTSO-E will establish a register of foreign	Capacity contracts executed by PGE Group in auctions won on the capacity market in 2018 and 2019 will have vested rights protected throughout their entire term. In case of other capacity contracts: ▪ New units which exceed the emissions standard 550 g CO_2/kWh (EPS 550) will not be eligible to receive any payments from the capacity market from the entry into force of the regulation (July 4, 2019).

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
			to the market by the end of 2025, assuming year-on-year increases in the volumes made available. **On December 30, 2019**, the President of the Energy Regulatory Office issued a decision approving for 2020 a derogation for the Polish market area from the obligation to make available a certain level of cross-border transmission capacity. **By January 5, 2020**, the European Network of Transmission System Operators for Electricity (ENTSO-E) was obliged to submit to the Electricity Coordination Group (ECG) and ACER a draft methodology for European Resource Adequacy Assessment (ERAA), and only to ACER a draft methodology for calculating the Value of Lost Load (VoLL), the Cost of New Entry (CONE) and the reliability standards. Due to the delay, the mandatory public consultation process, launched by ENTSO-E on **December 5, 2019**, continued until **January 30, 2020**.	capacity providers.	▪ Existing units that exceed the emissions standard 550 g CO_2/kWh (EPS 550 and 350 kg CO_2/kW/year (CB 350) will not be entitled to capacity payments from July 1, 2025. Need to include lack of support for existing generating assets from July 1, 2025 in assessments of capacity sufficiency. A potential drop in volume of and price for electricity sold on the wholesale market by domestic units due to increased import, gradual replacement of existing generation units by new, ones, which meet emission requirements. Further business consequences will also result from the way in which the solutions included in the EMR Regulation are implemented wherever there is room to act by national authorities.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
	EMD directive	Key goals of EMD directive revision: ▪ Strengthen the consumer's role on the electricity market. ▪ Protect sensitive customers. ▪ New solutions in the scope of, among others, electrical car charging, energy storage and demand activation.	The Directive was published in the EU Official Journal on **June 14, 2019** and **it entered into force on July 4, 2019**.	Mandatory transposition of the directive to national law - **by December 31, 2020.**	Impact on the Distribution segment, especially as regards restricting activity related to energy storage and operating EV charging stations and development of flexibility services as well as realisation of obligation to implement intelligent metering, according to EMD Directive requirements. Impact on Supply segment, mainly through imposition of additional information requirements for consumers, reduction of time to replace seller, no fees for switching sellers, development of contracts with dynamic pricing. Further business effects will also result from the implementation of the measures adopted in the EMD Directive.
The regulations concerning the EU's Multiannual Financial Framework and financing for sustainable economic growth					

	EU's Multiannual Financial Framework	EU's financial framework (income and expenditures) established for 2021-2027.	**In March 2019,** the European Parliament adopted its position on the regulation on the European Regional Development Fund and the Cohesion Fund, and **in February 2019** it adopted its position on the regulation on common rules for European funds. At the same time, **in February 2019**, the Council adopted a general approach on the both aforementioned regulations.
			
			Some key issues that are included in the aforementioned positions and approach, respectively, of the European Parliament and the Council, are as follows:
			▪ Exclude the following from this funding:
			    ▪ investments in emission reductions at units subject to EU ETS,
			    ▪ investments in generation, processing, transport, distribution, storage and combustion
				Trilogues regarding the regulation on the European Regional Development Fund and the Cohesion Fund and the regulation on common rules for European funds – **H1 or H2 2020.**
				
				Work at the Council on adoption of a general approach to financial issues of MFF and the related specific legislative acts – **H1 2020.**
				The legislative process for the regulation establishing the Just Transition Fund, involving the Council and the European Parliament, is expected to
					Impact of regulation on decrease in funding that can be secured by PGE Group companies for investments.
					
					Impact of the Just Transition Fund regulation on the availability of funds to be raised by PGE Group companies.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
			of fossil fuels, ▪ funding for the construction of nuclear power plants and scrapping costs. ▪ Funds are not available under these funds for any investments in renewables unless the national renewables target for 2020 has been achieved. Once the target is achieved, the funds are available. **On January 14, 2020**, the EC adopted a proposal for a regulation to create the Just Transition Fund (JTF). The aim of the Fund is to support areas facing significant socio-economic challenges resulting from the transition to a climate-neutral economy by 2050. Key information on the JTF (draft): ▪ The JTF budget is expected to be EUR 7.5 billion in fresh funding, of which Poland would receive EUR 2 billion. ▪ Per each EUR of JTF funding, the Member State concerned should contribute between EUR 1.5 and EUR 3 from the Structural Funds (European Regional Development Fund and European Social Fund Plus). ▪ The JTF can be used to finance, among others, RES projects, energy efficiency, new employment for employees, circular economy (including waste recycling), reclamation of post-mining areas or additional education of employees. ▪ A prerequisite for obtaining funding from the FST is the preparation of territorial plans for just transition to be submitted by Member States to the EC. These plans must be consistent with the National Plan for Climate and Energy.	continue **in 2020**.	
	EU package for funding sustainable economic growth	Implementation of regulations intended to **facilitate funding** for sustainable economic growth in EU.	**In March 2019**, the European Parliament adopted its position on the regulation on criteria for assessment of economic activities in terms of their environmental sustainability. **In June 2019**, the Technical Expert Group, as part of support for the EC's work, published the report concerning technical screening criteria applied to the evaluation of economic activity to determine whether the given activity is conducted in an environmentally-sustainable manner. The Permanent Representatives Committee (Coreper) adopted a negotiating position on a regulation **in September 2019**. **In December 2019,** the European Parliament and the Council reached an agreement in the trilogues on this regulation. Key issues addressed in this agreement: ▪ recognition of gas and nuclear energy as a transitional activity. The assessment of whether this activity is	Expected entry into force of the regulation for criteria based on which economic activities will be assessed to determine whether they are environmentally sustainable – **H1 or H2 2020.**	Possible impact of regulation on availability and cost of funding obtained by PGE Group companies for investments.

Segments	Regulation	Regulation objectives	Latest conclusions	Next stage	Impact on PGE
			environmentally sustainable will be made on the basis of technical criteria to be established by the EC in a delegated act. The EC is to prepare this delegated act by December 31, 2020, to become effective on December 31, 2021. ▪ imposing an obligation on large businesses (with more than 500 employees) to include information on the share of turnover, CAPEX and OPEX of environmentally sustainable activities in the non-financial report or consolidated non-financial report. **In February 2020** the EU Economic and Financial Affairs Council ("ECOFIN") approved the above agreement. **In March 2020** the Technical Expert Group published a final report. In the report, the Technical Experts Group: ▪ did not recommend, at this stage, that nuclear energy should be considered sustainable because it did not meet the criterion of "causing no significant damage", while recommending further work on this issue in the future by a group with in-depth technical knowledge on this subject; ▪ indicates in the case of gas-based generation sources that those activities where life cycle emissions are below 100g CO_2e/kWh are considered sustainable, this threshold is to be reduced to 0g CO_2e/kWh by 2050. **In December 2019,** the Regulation on disclosure obligations and the Benchmark Regulation entered into force.		

ADDITIONAL INFORMATION WITH REGARD TO INTERNATIONAL REGULATORY ENVIRONMENT

ACTION BROUGHT AGAINST THE EUROPEAN COMMISSION'S DECISION NOT TO RAISE OBJECTIONS TO THE POLISH CAPACITY MARKET

Segments	Proceeding	Objective of the action brought	Key events	Next stage	Impact on PGE Group
Action brought against the European Commission's decision not to raise objections to the Polish capacity market (SA. 46100), case file no. T-167/19					
	Proceedings brought by Tempus Energy Germany and T Energy Sweden against the European Commission (case file no. T-167/19)	The objective of the action is to annul the European Commission's Decision not to raise objections to the Polish capacity market (SA. 46100).	▪ On **February 7, 2018** the European Commission issued a decision not to raise objections to the Polish capacity market (case file no. VI 46100). The declassified text was published on the website of the European Commission on April 18, 2018 and the decision was published in the Official Journal only on December 21, 2018. ▪ On **November 15, 2018** the General Court of the EU in its judgement on the case Tempus Energy and Tempus Energy Technology versus the European Commission (case T-793/14) annulled the decision C (2014) 5083 final of July 23, 2014 not to raise objections to the aid scheme for the capacity market proposed by the UK. ▪ On **March 14, 2019** Tempus Energy Germany and T Energy Sweden brought an action against the EC decision concerning the Polish capacity market (case T-167/19). The summary of main reproaches and arguments brought up in the complaint was published in the EU Official Journal on May 6, 2019. From the published abstract it results, that in their action brought they argue that the EC failed, in particular, to initiate formal investigation proceedings (the second stage of the capacity evaluation mechanism) and that the demand side response (DSR) suffered alleged discriminatory treatment within the Polish capacity market.	It is difficult to estimate the duration of the proceedings before the General Court of the EU, but the British experience shows that they may even take several years. The proceedings pending before the European Court of Justice concerning the appeal in the case Tempus Energy and Tempus Energy Technology versus the EC (case file no. C-57/19 P) may have an impact on the action brought.	Depending on the outcome of the dispute, the case may have an impact on the conditions for the performance of and entering into the capacity contracts.

4.7. Supply markets - fuels

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 Conventional Generation segment and from July 1, 2018 to District Heating segment.

Lignite supplies to Bełchatów power plant and Turów power plant are carried out within a framework of regular cooperation between branches operating in the structure of Conventional Generation segment.

Lignite supplies to Zgierz CHP are provided under the framework agreement with KWB Bełchatów lignite mine and transport agreement with PTS Betrans sp. z o.o. (company belonging to PGE Capital Group).

The main supplier of the hard coal for the electricity and heat production needs in Conventional Generation and District Heating segments was Polska Grupa Górnicza S.A.

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

As regards fuel supplies at PGE Group in 2019, no threats were identified such as could have disrupted continuity of the production process.

5. Activities of PGE Capital Group in 2019

5.1. Business segments

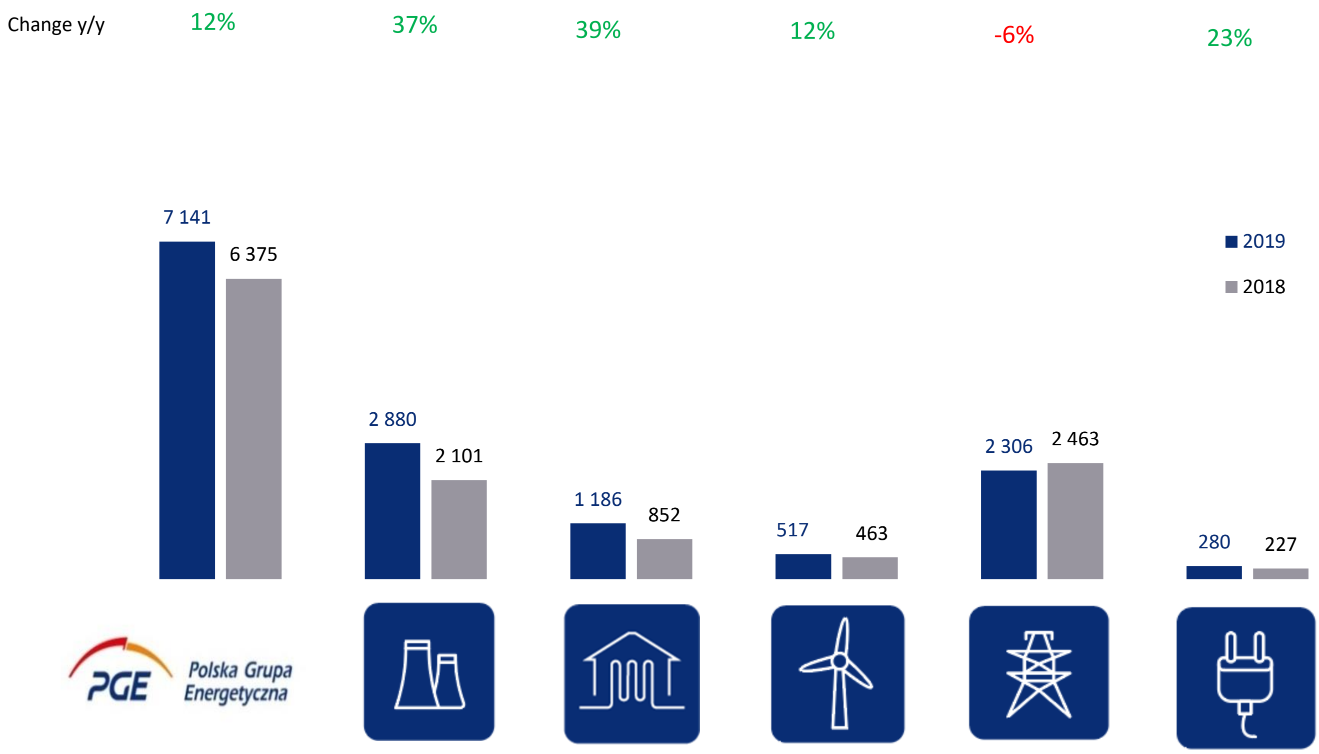
	Conventional Generation	District Heating	Renewables	Distribution	Supply
Key assets of the segment	5 conventional power plants 2 CHP plants 2 lignite mines	14 CHP plants	14 wind farms 1 photovoltaic power plant 29 run-of-river hydro power plants 4 pumped-storage power plants, including 2 with natural flow	293 686 kms of distribution lines	-
Electricity volumes	Net electricity generation 47.61 TWh	Net electricity generation 8.42 TWh	Net electricity generation 2.29 TWh	Electricity distribution 36.38 TWh	Sales to final off-takers 42.91 TWh
Heat volumes	Heat production 5.61 PJ	Heat production 44.72 PJ			
Market position	PGE Group is the leader of lignite mining in Poland (approx. 87%) PGE Group is also a national leader in electricity and heat generation		PGE Group is the largest electricity producer from RES with market share of approx. 10% (excluding biomass co-combustion and bio-gas)	Second domestic electricity distributor with regard to number of customers	Leader in wholesale and retail trading in Poland

5.2. PGE Group's key financial results

The best way to measure the profitability of energy companies is EBITDA[4]. This is a result before depreciation, amortization, income tax and interest from drawn debt. It approximately reflects cash flows from operating activities and makes it possible to compare the results of companies regardless of the value of their assets, level of debt and existing income tax rates.

PGE Group's consolidated results are composed of the financial results of each of its operating segments. The Conventional Generation segment and Distribution segment made the largest contribution to the Group's result for 2019, participating respectively in 40% and 32% of the Group's EBITDA. District Heating segments accounts for 17% of EBITDA, while Renewables segment generated 7% of the EBITDA and Supply segment contributed 4% to the Group's EBITDA.

EBITDA of the Capital Group by segments (PLN million)



[4] EBITDA is calculated with the following formula: operating profit + depreciation & amortisation, liquidation and impairments (property, plant and equipment, intangible assets, Right-of-Use assets, investment property and goodwill) recognized in the financial result.

Chart: Key factors affecting recurring EBITDA in PGE Capital Group (in PLN million) – managerial perspective.

	EBITDA 2018	Result on the sale of electricity *	CO_2 costs	Personnel costs	Result on the sale of electricity to final customers	Fuel costs	Revenues from certificates**	Result on distribution	Other	EBITDA 2019
Change		**2 930**	**-1 641**	**-554**	**-448**	**-349**	**-311**	**164**	**134**	
Reported EBITDA 2018	**6 375**									
One-offs 2018	**-337**									
Recurring EBITDA 2018	**6 712**	11 541	1 773	4 811	489	3 854	558	4 407		
Recurring EBITDA 2019		14 471	3 414	5 365	41	4 203	247	4 571		**6 637**
One-offs 2019										**504**
Reported EBITDA 2019										**7 141**

* Revenue from the sale of electricity reduced by the purchase cost of electricity.

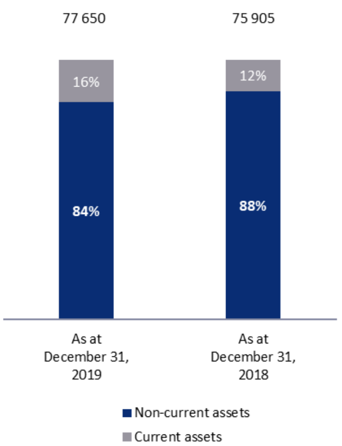
** Decrease as a result of lower support for highly-efficient co-generation.

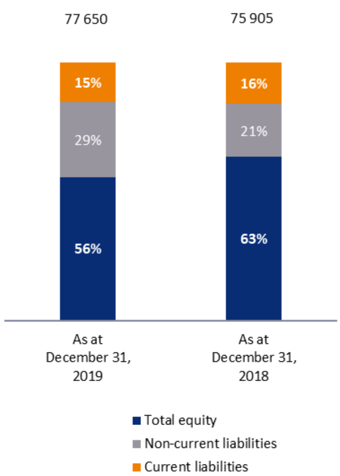
Reversal of impact of total one-offs reducing the reported result .

Reversal of impact of total one-offs increasing the reported result .

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

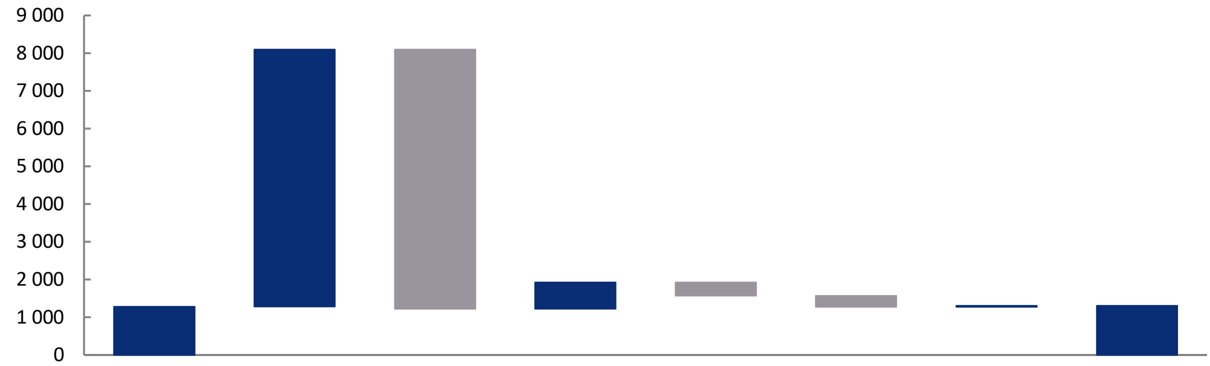
Chart: Structure of assets and equity and liabilities (in PLN million).





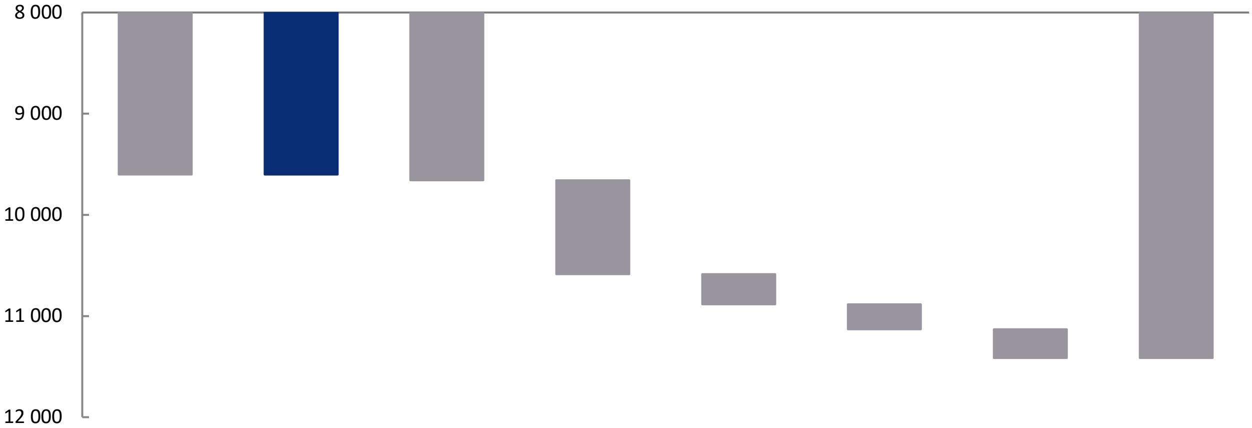
CONSOLIDATED STATEMENT OF CASH FLOWS

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



	Cash and cash equivalents at January 1, 2019	Net cash from operating activities	Sale/purchase of property, plant and equipment and intangible assets	Balance of repayments/ inflows of loans, borrowings, bonds and finance lease	Interest paid loans, borrowings, bonds and financial instruments	Purchase of financial assets and increase of stake in Capital Group companies	Other	Cash and cash equivalents at December 31, 2019
Impact on level of cash		**6 820**	**-6 877**	**704**	**-358**	**-297**	**40**	
Cash and cash equivalents	**1 279**							**1 311**

Chart: Net debt (in PLN million).



	Net financial debt December 31, 2018	Net cash from operating activities	Sale/ purchase of property, plant and equipment and intangible assets	Increase in liabilities due to the entry into force of IFRS 16 from January 1, 2019*	Purchase of financial assets and increase of stake in Capital Group companies	Change in restricted cash	Other	Net financial debt December 31, 2019
Impact on level of net debt		**-6 820**	**6 877**	**921**	**297**	**248**	**292**	
Financial net debt	**9 600**							**11 415**

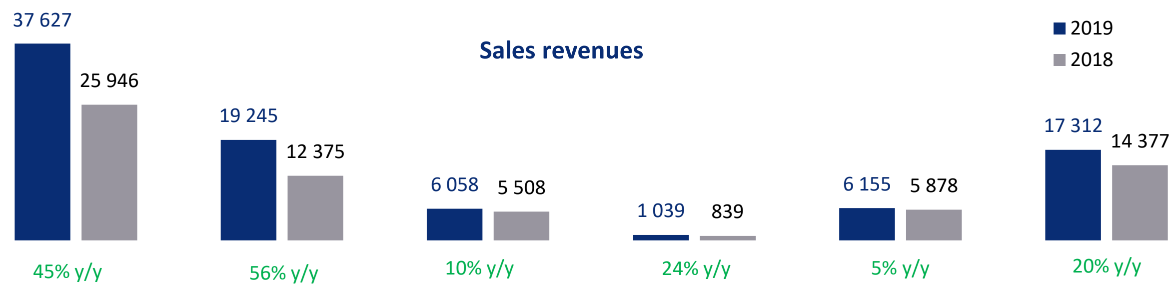
* See note 5 to the consolidated financial statements.

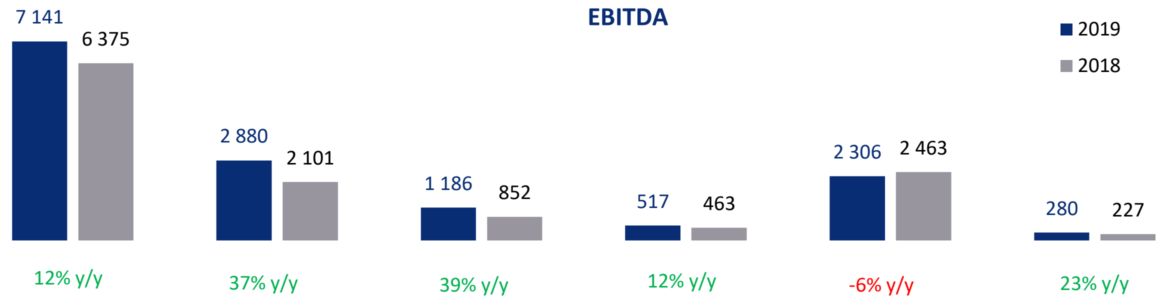
GEOGRAPHICAL AREAS

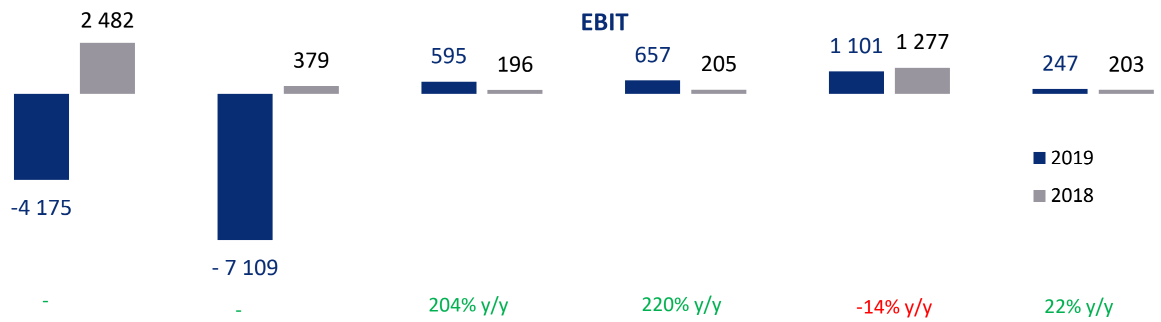
The Group earns income mainly in the domestic market. Detailed information on income breakdown by geographic area is presented in note 6.2 to the consolidated financial statements.

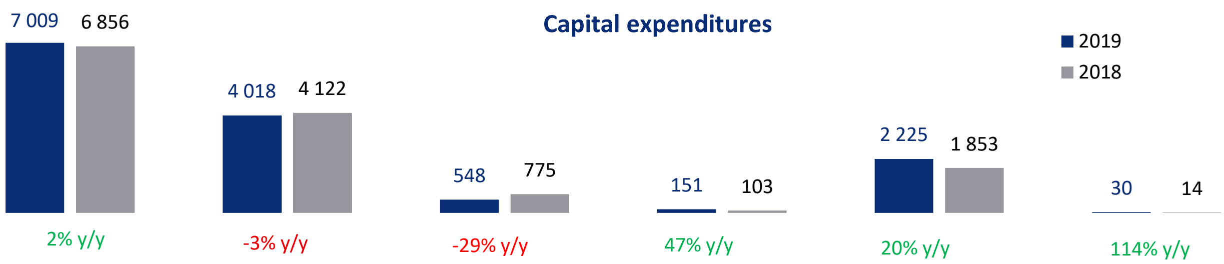
KEY RESULTS IN BUSINESS SEGMENTS (IN PLN MILLION)

Conventional Generation | **District Heating** | **Renewables** | **Distribution** | **Supply**









BALANCE OF ENERGY OF PGE CAPITAL GROUP

Balance of electricity

Table: Sales, purchase, production and consumption of electricity in the PGE Capital Group (in TWh).

Volume	2019	2018	% change
A. Sales of electricity outside the PGE Capital Group:	**105.36**	**76.78**	**37%**
*Sales to end-users **	*44.01*	*42.57*	*3%*
Sales on the wholesale and balancing market	*61.35*	*34.21*	*79%*
B. Purchases of electricity from outside of PGE Group (wholesale and balancing market)	51.50	15.17	239%
C. Net production of electricity in units of PGE Capital Group	58.32	65.91	-12%
D. Own consumption DSO, lignite mines, pumped-storage power plants (D=C+B-A)	**4.46**	**4.30**	**4%**

* Sale mainly by PGE Obrót S.A. and PGE EC.

The total volume of purchased and generated electricity is higher than the volume of electricity sold. The difference presented in point D results from the necessity to cover grid losses in the distribution business (Distribution System Operator), consumption of energy at lignite mines and consumption of energy at pumped-storage power plants.

An increase in the volume of electricity sales and in the volume of electricity purchases result from the higher trading in electricity on the power exchange, which has been caused by the introduction of the 100% power exchange obligation.

Part of the increased volume of sales to end customers in 2019 compared to 2018 is a consequence of difficult situation on retail market in 2018 resulting in bankruptcy of some companies that sold electricity to end customers and fulfilling the reserve seller by PGE Group companies. In addition absence of an active sales market is reflected in a smaller migration of customers between the retail sale companies.

Production of electricity

Table: Electricity production (TWh).

Electricity generation volume*	2019	2018	% change
ELECTRICITY PRODUCTION IN TWh, including:	**58.32**	**65.91**	**-12%**
Lignite-fired power plants	32.12	38.90	-17%
Coal-fired power plants	*14.86*	*16.61*	-11%
including co-combustion of biomass	0.04	0.14	*-71%*
Coal-fired CHP plants	4.20	4.27	-2%
Gas-fired CHP plants	4.49	4.12	9%
Biomass-fired CHP plants	0.32	0.18	78%
CHP plants communal waste	0.04	0.01	300%
Pumped-storage power plants	0.65	0.39	67%
Hydroelectric plants	0.37	0.37	-
Wind power plants	1.27	1.06	20%
including RES generation	*2.04*	*1.76*	*16%*

*Presented volume does not include start-up phase of units no. 5 and 6 at Opole power plant.

The level of electricity generated y/y, was affected mainly by lower generation at lignite-fired power plants (a decrease by 6.8 TWh) and at hard coal-fired power plants (a decrease by 1.8 TWh). This is primarily a result of lower load factors and longer downtime of reserve units, mostly due to higher electricity import, higher generation of wind energy and lower demand from the national power grid. In addition, lower production results from the modernisation of units in the Opole power plant and the Bełchatów power plant.

Lower generation at lignite-fired power plants results from lower average load factors at the Bełchatów power plant (by 32 MW, i.e. by 9%) and at Turów power plant (by 37 MW, i.e. by 21%). Furthermore, lower generation results from the longer repair-related downtime of units. Units no. 2-14 in Bełchatów power plant were in overhauls longer by 6 335 h (unit no. 2 was in modernisation since February 28, 2019 till the end of January 2020) while units in Turów power plant were in overhauls longer by 755 h (unit no. 1 has been in renovation since May 2018 and unit no. 3 has been in renovation since April 2019).

Lower generation at hard coal-fired power plants results mainly from lower generation at the Dolna Odra power plant which was caused by the longer (by 11 509 h) reserve downtime of units (including longer by 5 458 h reserve downtime of units 1 and 2 used by PSE S.A. as cold reserve). Lower generation at Rybnik power plant is a result of longer (by 4 703 h) reserve downtime of units 3-8 and lower load factor (by 3 MW). Higher production at Opole power plant results from work of units no. 5 and 6, which generated 3.3 TWh of electricity in 2019. The above effect was lowered by longer (by 3 707 h) repair-related downtime of units 1-4 (unit no. 1 has been in renovation since December 29, 2018 till July 26, 2019), longer by 4 021 h reserve downtime of units 1-4 and lower load factor of units 1-4 by 50 MW, i.e. by 19%.

Generation at hard coal-fired CHP plants and hydro power plants remained at similar level as in the base period.

Higher generation from biomass CHP plants is a consequence of higher generation in Szczecin CHP Plant as a result of higher profitability of biomass-based electricity generation.

Higher production at gas-fired CHP plants is a result of higher generation of electricity in cogeneration at Lublin Wrotków CHP due to increased heat production.

Higher generation at wind farms results from better wind conditions in 2019. Load factor at wind farms in 2019 was higher by more than 4 p.p. on average.

Higher production in pumped-storage power plants results from the nature of these generation units which were used more extensively by PSE S.A. in 2019.

Increased generation from municipal waste is a result of commissioning of thermal waste processing installation with energy recovery in Rzeszów on October 26, 2018.

Table: Production of heat (PJ).

Heat production volume	2019	2018	% change
Heat production in PJ, including:	**50.34**	**51.18**	**-2%**
Lignite-fired power plants	2.65	2.68	-1%
Coal-fired power plants	0.85	0.73	16%
Coal-fired CHP plants	36.23	37.13	-2%
Gas-fired CHP plants	9.47	9.35	1%
Biomass-fired CHP plants	0.83	1.03	-19%
CHP plants fuelled by municipal waste	0.14	0.05	180%
Other CHP plants	0.17	0.21	-19%

External temperatures and increased contracted capacity contributed more than any other factors to lower generation of heat in 2019 (y/y). As compared to 2018, the average temperatures for 2019 were by 0.3°C higher, which translated into lower production of heat, what was partly compensated by market development, i.e. increase of contracted capacities in heat.

Sales of heat

In 2019 the heat sales volume in PGE Capital Group totalled 50.34 PJ and were lower by 0.48 PJ y/y. The above result was caused mainly by lower demand for heat due to the higher average outside temperatures in 2019.

5.3. Operational segments

CONVENTIONAL GENERATION

Segment description and its business model

This segment includes lignite mining and generation of electricity in conventional sources.

Conventional Generation

Main revenue items	PLN m
Sale of electricity *	12 001
Regulatory system services	361
Sale of heat Including contracted capacity and distribution of heat	159

Electricity generation	47.61 TWh
Heat generation	5.61 PJ

Main cost items	PLN m
Fees for CO_2 emissions	3 029
Personnel expenses	2 880
Cost of production fuels used	2 333
Depreciation and amortisation, liquidation, write-offs including capitalised amortisation	10 083 94
External services	1 499

Main result items	PLN m
EBIT**	- 7 109
EBITDA	2 880

* managerial perspective

** including impairment loss of assets in amount of PLN 7.5 billion, that lowers EBIT (see note 3.1 to the consolidated financial statements).

The main source of revenue in the Conventional Generation segment is revenue from the **sale of electricity** on the wholesale market, based on electricity prices that are shaped by supply and demand mechanisms, taking into account the variable costs of generation. At the same time, the segment's key cost items, given their size and volatility, and thus their impact on operating results, are the **cost of production fuels**, mainly hard coal and natural gas, as well as **fees for CO_2 emissions**. Lignite-based production, which is of key significance for the Group, is based on own mines, therefore its cost is relatively stable and reflected mainly in fixed-cost items, i.e. personnel costs, third-party services and depreciation.

A significant item in the segment's revenue constitutes **revenues from the provision of regulatory system services** based on an agreement with PSE S.A. This revenue is in parallel to revenue generated on the electricity market and is related to the need to ensure stable operations for the NPS. Regulatory system services are provided by power plants of PGE GiEK, including Rybnik power plant.

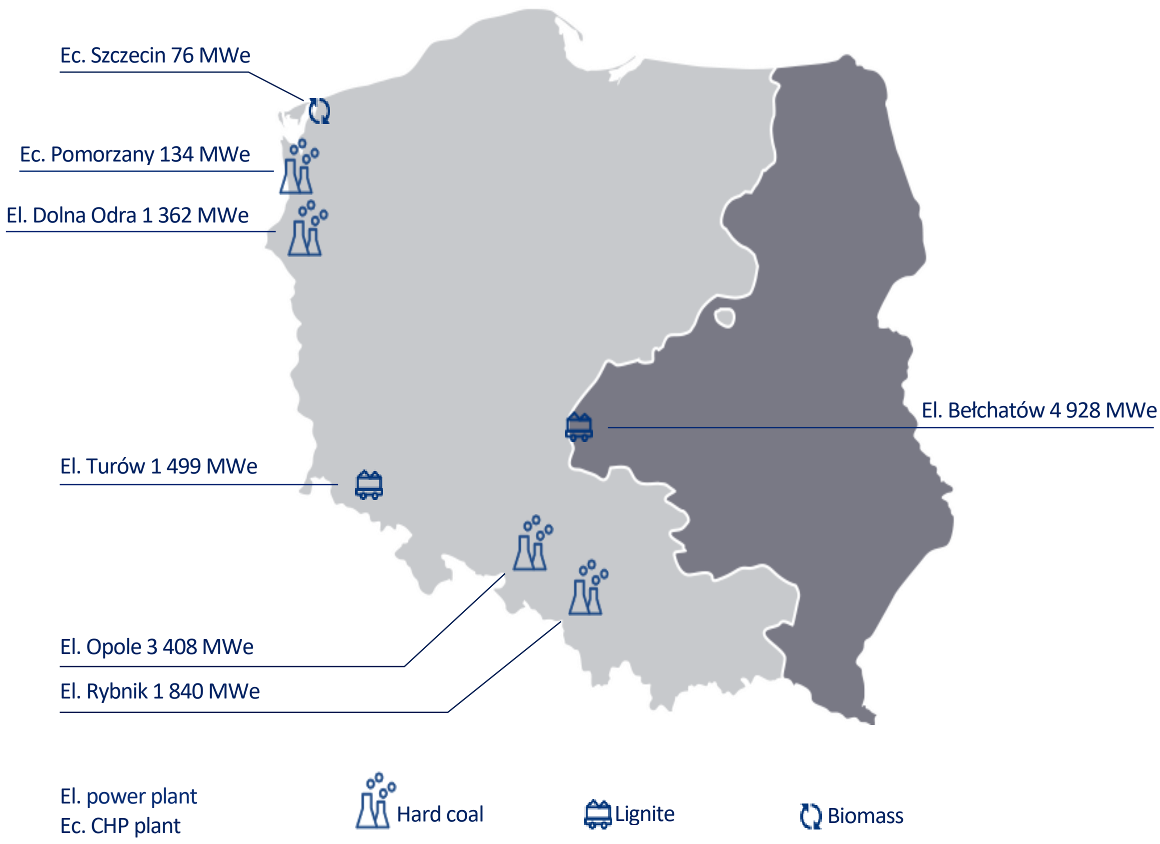
In addition, this segment generates **revenues from sales of heat** produced both at industrial plants and at the Szczecin CHP plant and Pomorzany CHP plant which form part of ZEDO.

ASSETS

Conventional Generation segment consists of: 2 lignite mines, 5 conventional power plants and 2 CHP plants.

Conventional Generation is the leader of lignite mining (its share in the extraction market of this raw material accounting for 87%[5] of domestic extraction), it is also the largest generator of electricity as it generates approx. 32%[6] of domestic gross electricity production. The generation is based on lignite extracted from mines owned by the company as well as hard coal and biomass.

Diagram: Main assets of the Conventional Generation segment with their installed capacity.

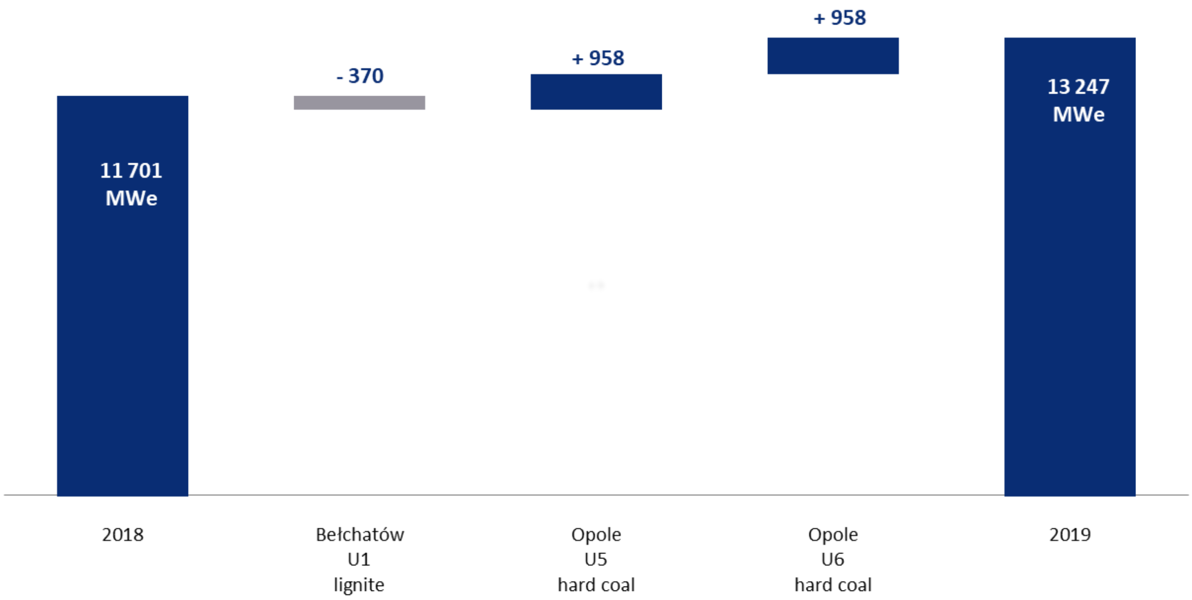


[5] Own calculations based on data from ARE
[6] Own calculations based on data from PSE S.A.

Table: Installed capacity and production in Conventional Generation segment.

Main fuel types	Annual electricity generation (TWh)		Annual heat generation (TJ)		Installed capacity (MWe)	Installed capacity (MWt)
	2019	2018	2019	2018	2019	2019
Hard coal	15.18	16.77	2.42	2.38	6 744	584
Lignite	32.12	38.90	2.65	2.68	6 427	593
Biomass	0.31	0.26	0.54	0.76	76	162
TOTAL	**47.61**	**55.93**	**5.61**	**5.82**	**13 247**	**1 339**

Diagram: Change of installed capacity in Conventional Generation.



LIGNITE MINING

Lignite resources

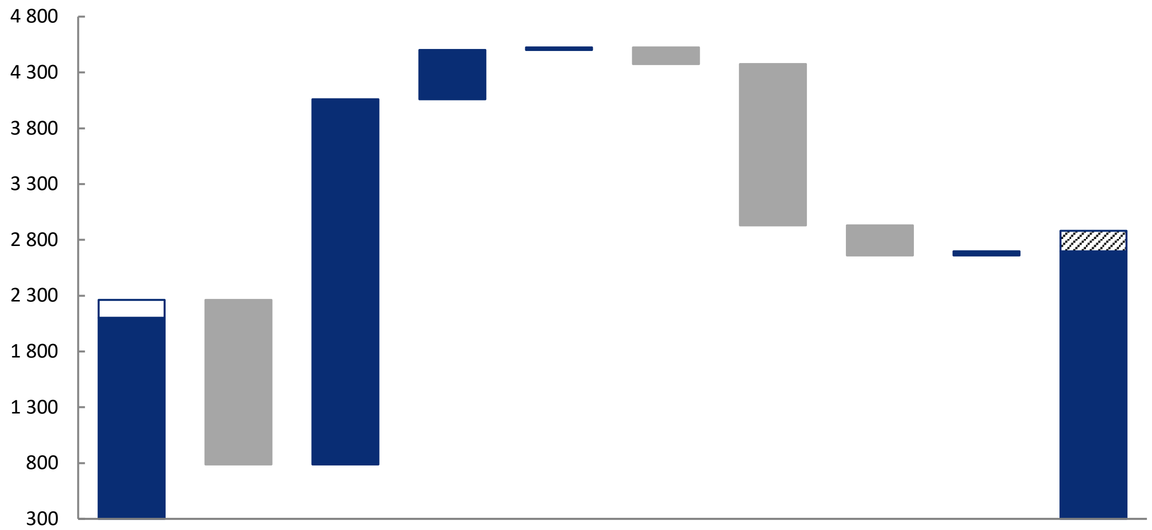
Lignite deposit reserves are determined based on a reserves inventory maintained in the reserves register for a given year up to February 28 as at December 31 of a preceding year (art. 101 p. 3 of the Geological and Mining Act). The following table presents lignite reserves as of the end of 2019, together with volumes extracted in 2019.

Table: Lignite resources data as at the end of 2018 and lignite output in 2019.

Deposit		Resources - as at the end of 2019 (Mg million)	Output in 2019 (Mg million)
Bełchatów – Field Bełchatów	Industrial	20.02	4.11
Bełchatów – Field Szczerców	Industrial	624.08	34.21
Turów	Industrial	289.20	4.97

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of recurring EBITDA in Conventional Generation (in PLN million) – managerial perspective.



	EBITDA 2018	Electricity production difference in volume	Electricity production difference in price	Result on the optimization of the electricity trade	Revenues from agreement with TSO	Costs of fuel	Costs of CO_2	Personnel expenses*	Other	EBITDA 2019
Change		**-1 475**	**3 271**	**442**	**24**	**-149**	**-1 445**	**-270**	**38**	
Reported EBITDA 2018	**2 101**									
One-offs 2018	**-161**									
Recurring EBITDA 2018	**2 262**	9 790		-27	337	2 184	1 584	2 556		
Recurring EBITDA 2019		11 586		415	361	2 333	3 029	2 826		**2 698**
One-offs 2019										**182**
Reported EBITDA 2019										**2 880**

Reversal of the impact of the sum of one-off events reducing the reported result.

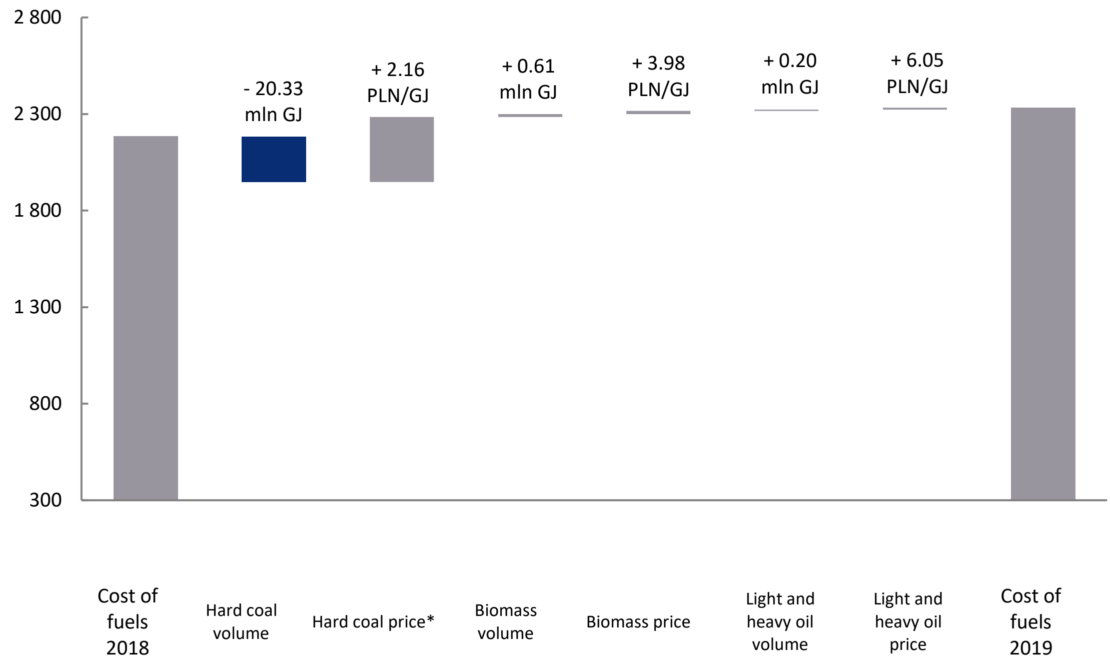
Reversal of the impact of the sum of one-off events improving the reported result.

*Personnel expenses do not include impact of change in actuarial provision (one-off).

Key factors affecting the recurring EBITDA result of Conventional Generation segment on y/y basis included:

- **Lower electricity production volume** in PGE GiEK by 8.3 TWh due to lower degree of use of units by PSE S.A. resulting from decreased demand in NPS and higher wind generation (see p. 4.2 of this report).
- **Increase in electricity sales prices** (see p. 4.2 of this report).
- **Higher result on optimisation of electricity portfolio** due to higher volume of electricity trading by 17.0 TWh, with higher margin realized on electricity trading .
- **Higher revenues from ancillary control services**, mainly lower revenues from Operational Capacity Reserve ("OCR") due to higher volume of OCR in Opole power plant and Dolna Odra power plant due to lower trading factor of those power plants.
- **Higher fuel consumption costs**, mainly hard coal, due to higher realised prices of hard coal. The above effect was limited due to lower production based on this fuel. Main changes on different types of fuel are presented on the chart below.
- **Higher CO_2 costs** as a result of higher price of allowances and lower allocation of allowances granted free of charge. The above effect was reduced as a result of lower emissions of CO_2 due to lower electricity production. Main changes are shown in the chart below.
- **Higher personnel expenses** mainly due to ongoing process to optimise salaries.

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



	Cost of fuels 2018	Hard coal volume	Hard coal price*	Biomass volume	Biomass price	Light and heavy oil volume	Light and heavy oil price	Cost of fuels 2019
Change		**-236**	**337**	**14**	**17**	**8**	**9**	
Cost of fuels 2018	**2 184**	2 046		84		54		
Cost of fuels 2019		2 147		115		71		**2 333**

* Hard coal costs including transport.

Table: Data on use of production fuels consumption in Conventional Generation.

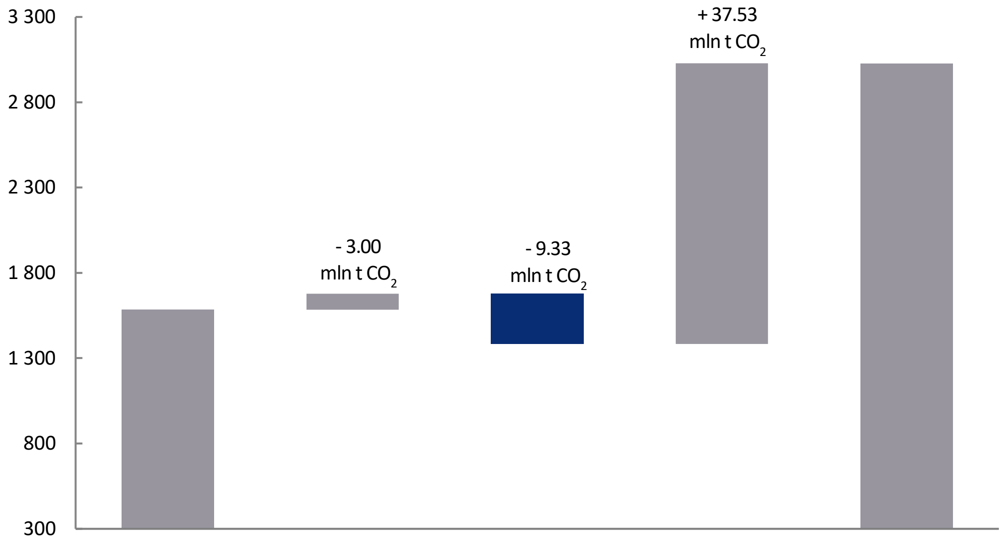
Fuel type	2019 Volume (tons ths)	2019 Cost (PLN million)	2018 Volume (tons ths)	2018 Cost (PLN million)
Hard coal	7 019	2 147	8 114	2 046
Biomass	433	115	345	84
Fuel oil – light and heavy	40	71	35	54
TOTAL		**2 333**		**2 184**

Table: Availability and capacity factors in Conventional Generation.

	2019	2018	2017	2016	2015
Availability*					
Power plants - lignite	78.4%	82.9%	86.9%	85.6%	85.0%
Power plants – hard coal	81.4%	84.8%	81.0%	87.7%	81.3%
Capacity factor*					
Power plants - lignite	62.4%	75.5%	75.3%	71.8%	71.8%
Power plants – hard coal	38.2%	52.0%	47.4%	50.5%	47.8%

* Without units no. 1-2 in Dolna Odra power plant (cold reserve) and unit no. 1 in Bełchatów power plant in 2016-19 and units no. 1-2 in Rybnik power plant in 2018-19 (peak reserve units).

Chart: CO_2 costs in Conventional Generation segment(in PLN million).



	CO₂ costs 2018	Allocation of free allowances for CO₂ emissions	CO₂ emission	Average CO₂ costs	CO₂ costs 2019
Change		**95**	**-295**	**1 645**	
CO₂ costs 2018	**1 584**				
CO₂ costs 2019					**3 029**

CAPITAL ENPENDITURES

Table: Capital expenditures incurred in Conventional Generation segment in 2019 and 2018.

PLN million	2019	2018	% change
Investments in generating capacities, including:	3 252	3 601	-10%
▪ Development	1 665	2 159	-23%
▪ Modernisation and replacement	1 587	1 442	10%
Other	179	123	46%
Rybnik power plant, including:	147	129	14%
▪ Development	0	19	-
▪ Modernisation and replacement	146	108	35%
Other	1	2	-50%
TOTAL	**3 578**	**3 853**	**-7%**
Capitalised costs of overburden removal in mines	440	269	64%
TOTAL with capitalized costs of overburden removal	**4 018**	**4 122**	**-3%**

KEY DEVELOPMENTS IN 2019 IN THE CONVENTIONAL GENERATION SEGMENT

Key development investments:

- On January 15, 2019 the generator in unit no. 5 at the Opole power plant was initially synchronised with the NPS.
- On May 14, 2019 unit no. 6 at the Opole power plant was synchronised with the NPS for the first time.
- On May 31, 2019 unit no. 5 at the Opole power plant was commissioned.
- On June 12, 2019, a contract notice in a tender for the selection of the General Contractor for the construction of two gas-steam units in PGE GiEK S.A. Branch Zespół Elektrowni Dolna Odra was published.
- On August 6, 2019, PSE S.A. issued conditions for the connection of power units 9 and 10 of the Dolna Odra power plant to the transmission grid.
- On September 30, 2019, power unit no. 6 of Opole power plant was commissioned and the investment completed.
- On October 2, 2019, the Marshal of the Lower Silesian Province amended the decision of the integrated permit for the operation of fuel combustion plants on units 1-6 in Turów power plant. The decision amending the IP became final on October 8, 2019.
- On October 22, 2019, a decision was obtained determining the environmental conditions for the planned project entitled: "Construction of two CCGT units with the class of 700 each in Dolna Odra Power Plant".
- On January 3, 2020, a decision was made to accept the offer of the consortium consisting of General Electric Global Services GmbH (Consortium leader), Polimex Mostostal S.A. and General Electric International Inc. submitted in the proceeding "Construction of two CCGT units in PGE GiEK S.A. Branch Zespół Elektrowni Dolna Odra". The planned CCGT units were among the generating units that obtained a 17-year contract in the main Capacity market auction for delivery until 2024.
- On January 30, 2020 a contract was signed for construction of two CCGT units with a capacity of approx. 1 400 MW in Dolna Odra power plant.

Key modernisation investments related to emission reductions:

- On January 26, 2019 the trial run of unit no. 2 at the Turów power plant was performed after its modernisation.
- On January 31, 2019 the SCR installation of boiler B was put into operation in the Pomorzany power plant.
- In February 2019, commissioning reports were signed for the AKPiA island, generator and electro-filter island and boiler island in unit no. 2 at the Turów power plant after their modernisation.
- On July 19, 2019, a final decision on the amendment of the Integrated Permit pursuant to Article 204 sec. 2 of the Environmental Protection Act (POŚ) with a derogation regarding NOx, dust and HCl emissions for Szczecin CHP Plant has been obtained.
- On September 15, 2019, the regulatory movement of the electrostatic precipitator of power unit no. 1 of the Opole Power Plant has been completed. Finished all assembly works requiring the shutdown of this unit.
- In December 2019, the upgrade FGD systems at units 8 at Bełchatów Power Plant were completed.
- On December 16, 2019, the electrostatic precipitator at unit 1 in the Opole Power Plant was commissioned after upgrade.
- On December 18, 2019, the SNCR unit at unit 1 in the Opole Power Plant was commissioned after upgrade.
- On December 22, 2019, a trial run (720-hour long) of the Flue Gas Desulphurisation System in the Pomorzany Power Plant was commenced.

KEY PROJECTS IN 2019

Aim of the project	Budget (net, without costs of financing)	Capital expenditures incurred so far (net, without costs of financing)	Capital expenditures in 2019 (net, without costs of financing)	Fuel/ Net efficiency	Contractor	Expected date of completion	Status
Construction of new units in Opole power plant							
Construction of two power units of 900 MW each	PLN 10.94 billion	PLN 10.10 billion	PLN 910 million	Hard coal/ 45.5%	Syndicate of companies: Rafako, Polimex-Mostostal and Mostostal Warszawa with co-operation of GE as Project manager on behalf of the syndicate	unit 5 – **June 15, 2019;** unit 6 – **September 30, 2019**	On May 31, 2019 unit no. 5 was placed into commercial operations. Thus, the commissioning of unit no. 5 took place before scheduled date of June 15, 2019, which was set by the annex to the agreement. On September 30, 2019 unit no. 6 was placed into commercial operations, according to the schedule. Therefore, the implementation of the investment considering the construction of new power units in Opole Power Plant was completed.
Construction of new unit in Turów power plant							
Construction of power unit with a capacity of 490 MW	PLN 4.26 billion	PLN 3.11 billion	PLN 527 million	Lignite / 43.1%	Syndicate of companies: MHPSE, Budimex and Tecnicas Reunidas	**October 2020**	On the building site, construction and assembly works are in progress and start-up phase of individual installations is in progress. In the fourth quarter of 2019, voltage was fed to the DCS system in the main switchgear building and installation of the block control system on the target servers was launched. Acceptances were carried out and a closed cooling water system was put into operation. The installation of the main pipelines was completed in the engine room. Cables are being laid and individual devices are being connected. At the end of December 2019 the overall work progress on the project was approx. 94%.

DISTRICT HEATING

Segment description and its business model

Core business of the segment includes production of heat and electricity from conventional sources as well as distribution of heat.

Heat Generation

Main revenue items	PLN m
Sale of electricity*	2 115
Sale of heat Including contracted capacity and distribution of heat	1 864

Heat generation **44.72** PJ

Electricity generation **8.42** TWh

Main cost items	PLN m
Cost of production fuels used	1 877
Depreciation and amortisation, liquidation, write-offs	591
Personnel expenses	548
Fees for CO_2 emissions	385
External services	356

Main result items	PLN m
EBIT	595
EBITDA	1 186

* managerial perspective

As in the case of Conventional Generation, this segment's revenues are primarily revenues from electricity sales, however, they are usually directly related to generation of heat which in turn depends on demand that is highly seasonal and depends on external temperatures. This is why, in contrast to industrial power plants in Conventional Generation, as a rule, CHP plants do not have any considerable impact on the development of prices for electricity on the wholesale market.

Revenues from the sale and distribution of heat are regulated revenues. Energy companies independently set tariffs and present them to the President of the Energy Regulatory Office (the "ERO President") for approval. Heat production at PGE Group takes place in cogeneration units, which tariffs for heat are calculated using a simplified approach (compared to tariffs based on a full cost structure), based on reference prices, which are mainly based on the average sales prices for heat generated in units with specific fuel other than cogeneration units. They are published each year by the ERO President. Tariffs for heat production for cogeneration units in a given tariff year thus reflect changes in the costs of heat-generation units (not co-generation units) in the previous calendar year. The cost approach is applied in the case of tariffs for heat distribution, which allows to cover justified costs (mainly the costs of heat losses and property tax) and a return on invested capital, in line with guidelines from the ERO President. Distribution tariffs for heat are in place at branches in Gorzów and Zgierz, as well as by Kogeneracja S.A., PGE Toruń and Zielona Góra CHP.

Generation of heat and electricity is directly related to key variable costs of the segment, i.e. **the cost of production fuel used** (in particular, hard coal and gas) and **the cost of fees for CO_2 emissions**.

Electricity production in high-efficiency cogeneration is additionally remunerated. Until 2018, CHPs generated revenue from the **sale of energy origin certificates**, i.e. cogeneration certificates (yellow and red). From 2019, due to a change in support model, they receive support at a level covering increased operating costs related to production. For large units, this are set on an individual basis. The support mechanism in the form of certificates is in place also for biomass-fired generating assets. This type of production is additionally remunerated by awarding origin certificates, i.e. green certificates, the sale of which generates additional revenue, within the segment obtained in biomass unit in Kielce CHP.

ASSETS

District Heating within PGE Capital Group combines CHP plants separated from the EDF assets acquired on November 14, 2017 and CHP plants separated from PGE GIEK. Since January 2, 2019 the segment's composition has been as follows: PGE EC, Kogeneracja S.A., PGE Toruń S.A. and Elektrociepłownia Zielona Góra S.A.

District Heating is the largest heat producer in Poland. Generation is based mainly on hard coal and gas.

Diagram: Main assets of the District Heating segment and their installed capacity.

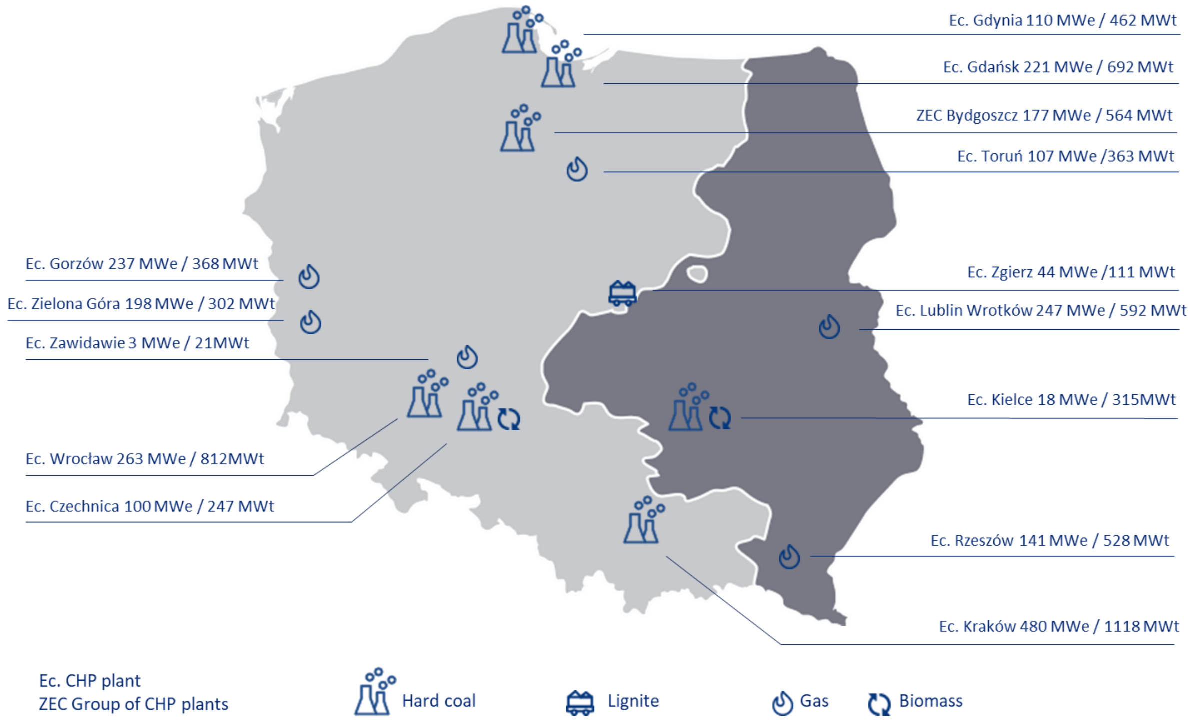


Table: Installed capacity and production in District Heating segment.

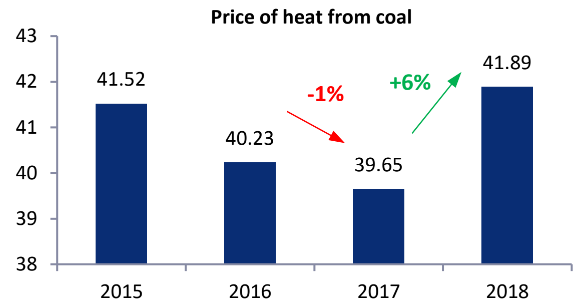
Main fuel types	Annual electricity generation (TWh)		Annual heat generation (PJ)		Installed capacity (MWe)	Installed capacity (MWt)
	2019	2018	2019	2018	2019	2019
Hard coal	3.75	3.90	34.20	35.02	1 393	4 193
Lignite	0.08	0.08	0.45	0.46	44	111
Gas	4.49	4.12	9.47	9.35	891	2 154
Biomass	0.06	0.05	0.29	0.27	7	16
Other	0.04	0.01	0.31	0.27	9	21
TOTAL	**8.42**	**8.16**	**44.72**	**45.37**	**2 344**	**6 495**

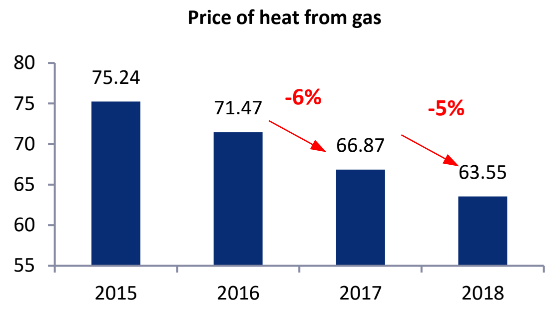
TARIFFS IN DISTRICT HEATING

Description of tariffs in the segment

Due to the fact that the income on heat sales for CHP plant are tariffed as part of the so-called simplified method, they are characterised by a relative delay in the transfer of costs (annual or two-year). They are based on the year-to-year dynamics of average costs (taking into consideration the fuels used) incurred by entities that are not co-generation entities for the year preceding the time of tariff establishment.

Charts: Changes in the reference price of heat for hard coal and natural gas (PLN/GJ)*.

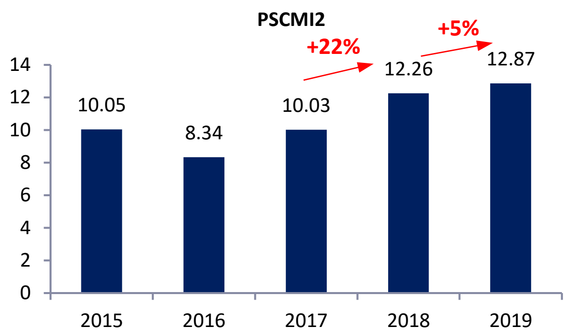


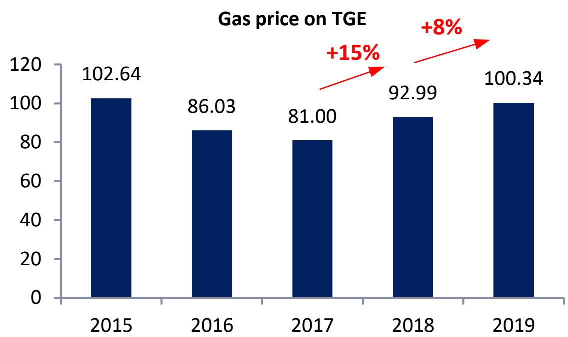


Source: ERO.

*As at the publication date of this report, the data for 2019 were not available.

Charts: Changes in costs of fuels – hard coal (PLN/GJ) and gas (PLN/MWh).

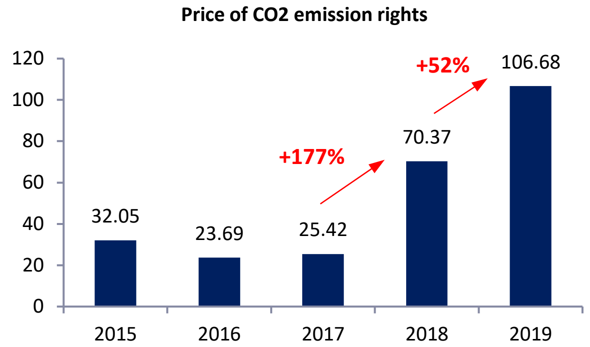




Source: ARP, TGE

* Weighted average from forward contracts, RDN and RDB contracted on TGE for a given period.

Chart: Changes in price of CO_2 emission rights (PLN/t).



Source: ICE

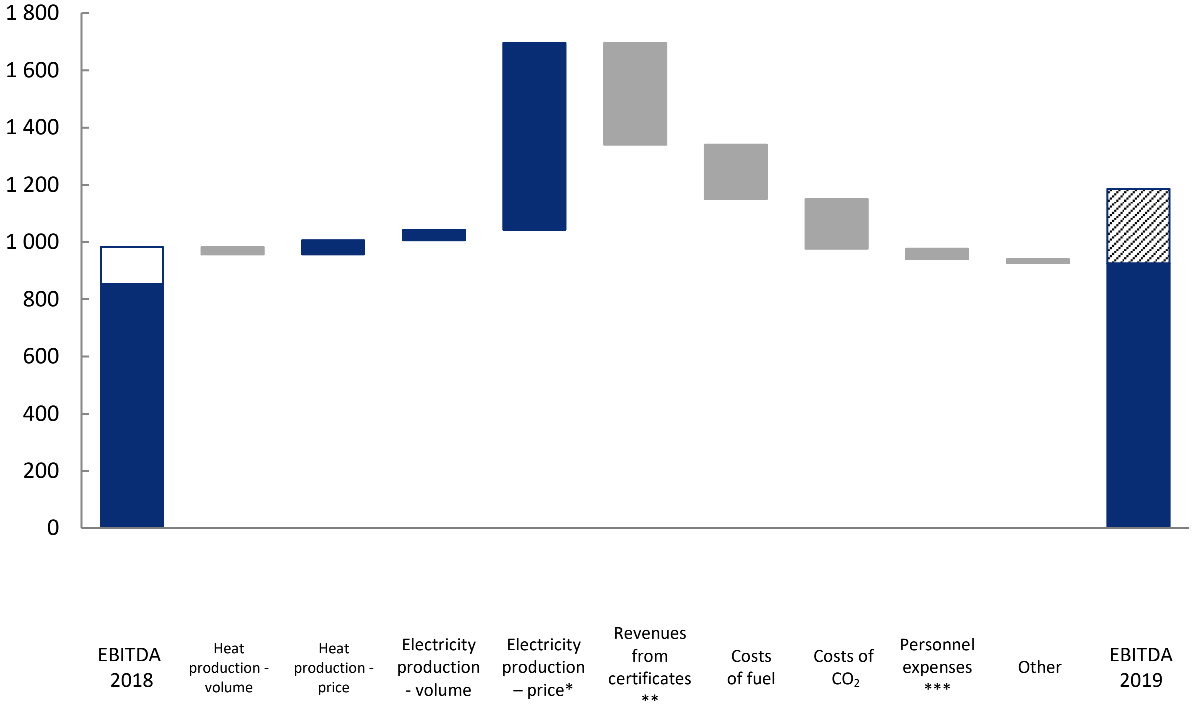
Despite the fact that the reference price of heat produced from hard coal increased in 2018 by 6% (contributing to the increase in heat prices for co-generation entities establishing the tariff also for 2019), the average market prices of hard coal increased by 22%, while the prices of CO_2 emission rights - by 177%. In the conditions of increasing prices, the real costs for the CHP plant can be even higher – during 2019, the prices of hard coal were higher by another 5% and the prices of CO_2 emissions - by another 50%. Aside from the time delay in costs transfer, it is also important that the CO_2 cost is only partially transferred in the reference unit price. This is related to the fact that only approx. 45% of heating entities in Poland is part of the ETS system (capacity above 20 MW), i.e. is obliged to redeem the carbon dioxide emission allowances. The reference price also transfers only approx. 45% of the real CO_2 consumption costs at the average heat sales price.

In addition, in years 2018-2019, an increase in natural gas prices was observed, while the relatively high average price in 2019 was primarily related to the sale of gas in forward contracts in earlier periods. The average spot market price in 2019 was at PLN 74/MWh, even reaching the level of PLN 40/ MWh periodically.

Weather also substantially affects the segment's results. Temperatures directly shape the level of heat demand. Simultaneously, the level of heat production determines the level of electricity production in co-generation, which is an additional source of revenues that decisively affects the CHP plant's profitability.

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of recurring EBITDA in District Heating (in PLN million) – managerial perspective.



	EBITDA 2018	Heat production - volume	Heat production - price	Electricity production - volume	Electricity production – price*	Revenues from certificates **	Costs of fuel	Costs of CO_2	Personnel expenses ***	Other	EBITDA 2019
Change		**-26**	**49**	**38**	**653**	**-356**	**-190**	**-174**	**-36**	**-14**	
Reported EBITDA 2018	**852**										
One-offs 2018	**-130**										
Recurring EBITDA 2018	**982**	1 841		1 430		407	1 687	211	509		
Recurring EBITDA 2019		1 864		2 121		51	1 877	385	545		**926**
One-offs 2019											**260**
Reported EBITDA 2019											**1 186**

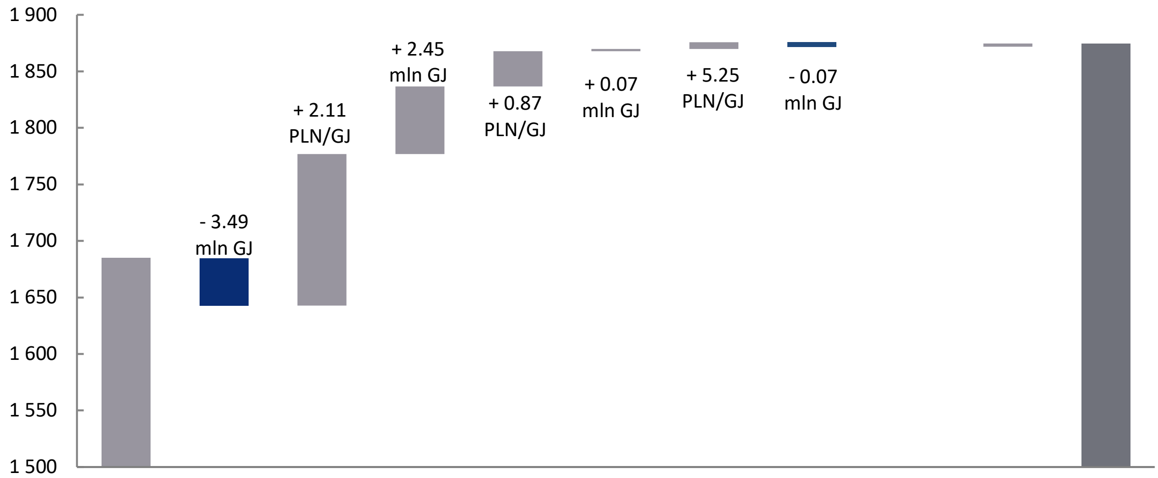
*Includes costs of certificates redemption regarding electricity sales to final off-takers.
**Include support for highly-efficient co-generation.
*** Personnel expenses do not include impact of change in actuarial provision (one-off).

Reversal of the impact of the one-off event reducing the reported result.
Reversal of the impact of the one-off event improving the reported result.

Key factors affecting the recurring EBITDA result of District Heating segment on y/y basis included:

- **Lower volume of heat production** is a result of higher outside temperatures in 2019.
- **Increase of heat sale price** is a result of new heat tariffs published by the ERO.
- **Increase in electricity sale prices** (see p. 4.2 of this report).
- **Lower revenues from sale of certificates** as a result of changing the support scheme for production of electricity in highly efficient co-generation.
- **Higher costs of fuels** caused by increasing prices of main fuels: gas and hard coal.
- **Higher CO_2 costs** are mainly a result of higher price of allowances. The details are shown in the chart below.
- **Higher personnel expenses** result mainly from increased employment y/y.

Chart: Consumption costs of production fuels in District Heating (in PLN million).



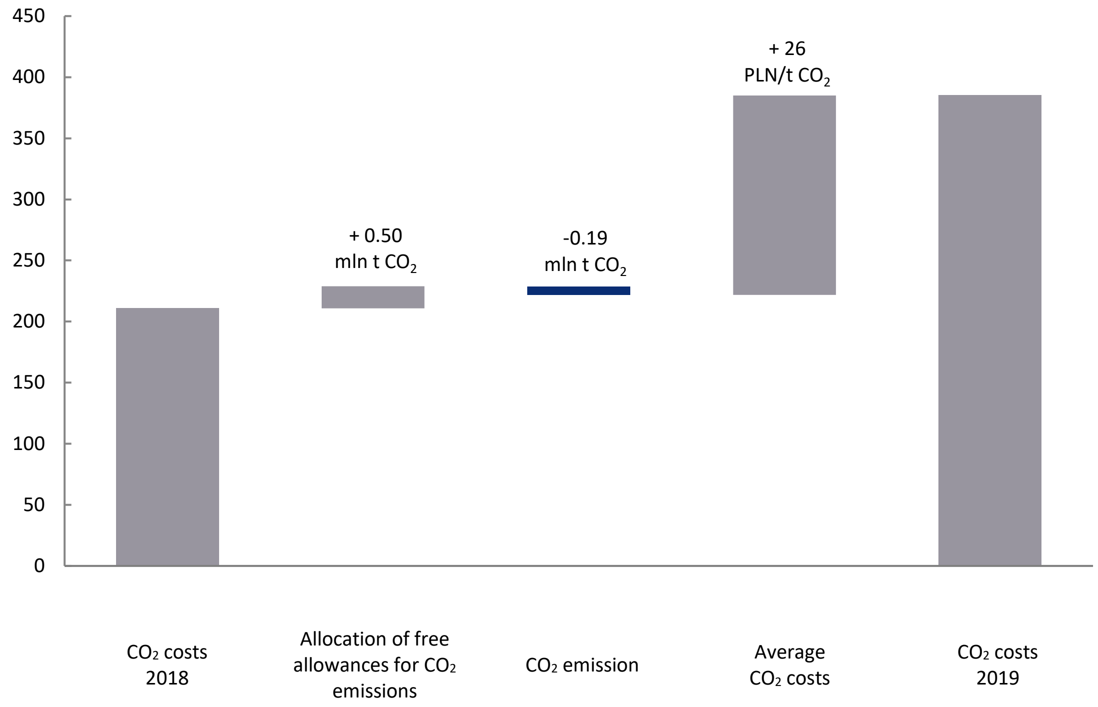
	Costs of fuel 2018	Hard coal volume	Hard coal price*	Gas volume	Gas price	Biomass volume	Biomass price	Light and heavy oil volume	Light and heavy oil price	Other raw materials	Costs of fuel 2019
Change		**-42**	**134**	**60**	**31**	**2**	**6**	**-4**	**0**	**3**	
Costs of fuel 2018	**1 687**	803		827		20		21		16	
Costs of fuel 2019		895		918		28		17		19	**1 877**

*Hard coal costs including transport.

Table: Data on use of production fuels consumption in District Heating.

Fuel type	2019 Volume (tons ths)	2019 Cost (PLN million)	2018 Volume (tons ths)	2018 Cost (PLN million)
Hard coal	2 819	895	2 972	803
Gas (cubic metres ths)	1 203 724	918	1 131 071	827
Biomass	115	28	113	20
Fuel oil – light and heavy		36		37
TOTAL		**1 877**		**1 687**

Chart: CO_2 costs in District Heating segment(in PLN million).



Change		**18**	**-7**	**163**	
Costs 2018	**211**				
Costs 2019					**385**

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in District Heating segment in 2019 and 2018.

mln PLN	2019	2018*	% change
Investments in generating capacities, including:	484	757	-36%
▪ Development	89	212	-58%
▪ Modernisation and replacement	395	545	-28%
Other	64	18	256%
TOTAL	**548**	**775**	**-29%**

* Presented data were restated for the sake of data comparability, because District Heating segment was not separated in 2018.

RENEWABLES

Segment description and its business model

This segment is involved in the generation of electricity from renewable sources and in pumped storage plants.

Renewables

Main revenue items	PLN m
Sale of electricity	594
Regulatory system services*	239
Sale of certificates	195

Electricity generation 2.29 TWh

Main cost items	PLN m
Depreciation and amortisation, liquidation, write-offs**	-140
Use of energy	219
incl. energy to pump water at pumped-storage plants	217
Personnel expenses	103
External services	86
Taxes and fees	63
incl. real estate tax	60

Main result items	PLN m
EBIT	657
EBITDA reported	517

* Managerial perspective

** Impact of reversal of write-offs on property, plant and equipment

The Renewables segment is based mainly on revenues from the sale of electricity, however contrary to production at industrial plants within the Conventional Generation segment, this revenue is subject to a larger degree to changes in weather conditions and prices on the spot market due to the renewables sales model in place. Electricity output volume translates into property rights (green) and revenue from the sale of energy origin certificates obtained by the segment's assets, excluding hydropower plants over 5 MWe.

A stable part of the segment's results is related to the provision of ancillary services using pumped-storage plants, which is performed on the basis of an agreement with the transmission system operator, PSE S.A.

On the cost side, the most important items include: depreciation of segment assets, use of energy to pump water at pumped-storage plants and third-party services, mainly in the form of repair services. Property tax and employee wages also constitute a significant cost item in this segment.

Assets

The PGE Capital Group's operations in renewable energy are managed by the PGE Energia Odnawialna S.A. Due to the profile of operations, the segment includes PGE Baltica, which is recognized in presentation of Renewables segment. This company is responsible for all activities related to off-shore wind farms.

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 and their installed capacity.

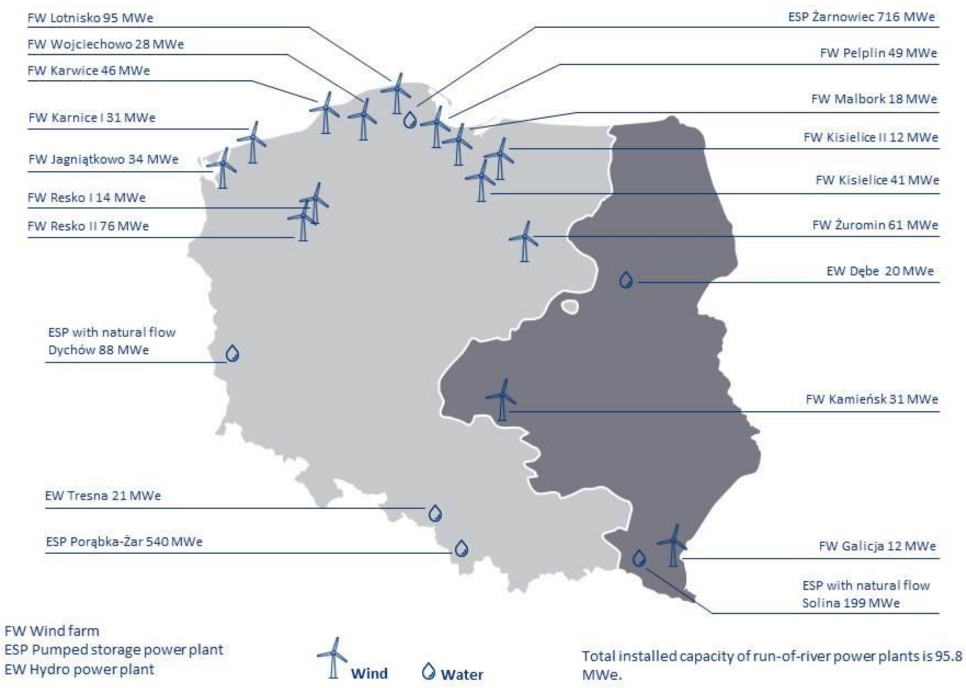


Table: Installed capacity and production in power plants of Renewables segment.

Types of power plants	Annual energy generation (GWh)		Installed capacity (MWe)
	2019	2018	2019
Run-of-river hydro power plant	247.88	241.79	95.76
Pumped-storage power plants	648.12	388.68	1 256.00
Pumped-storage power plants with natural flow*	127.83	134.55	286.64
Wind farms	1 265.46	1 063.33	549.98
PV	0.58	0.58	0.60

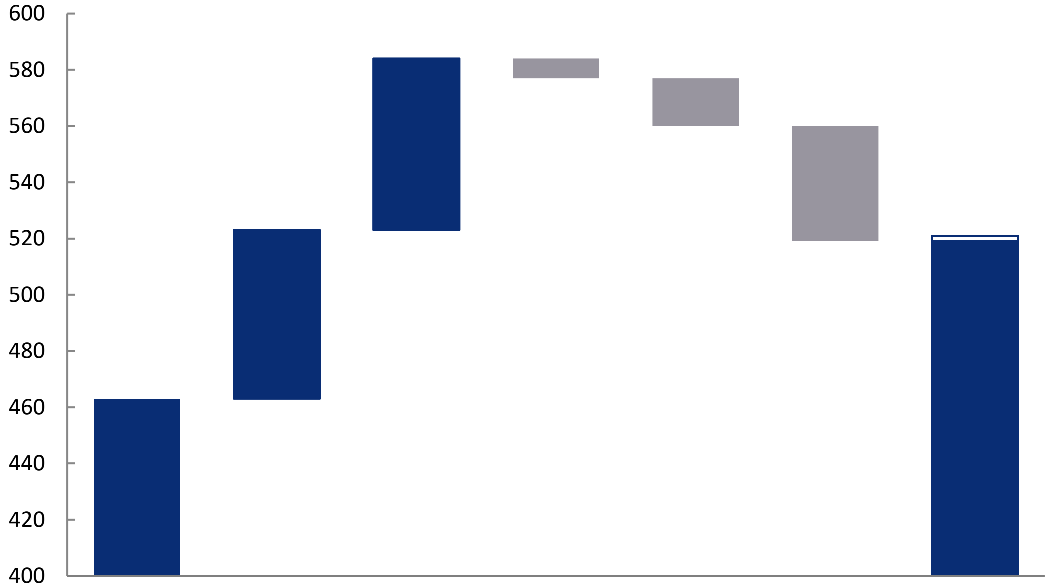
*including generation from pump-storage cycle of 6.8 GWh and generation from natural flow of 121 GWh. Total generation from pump-storage cycle in 2019 amounted to 654.9 GWh and generation from water totalled 368.9 GWh.

Table: Availability and capacity factor in Renewables.

	2019	2018	2017	2016	2015
Availability					
Run-of-river hydro power plants	91.8%	86.2%	92.0%	93.2%	95.7%
Wind farms	97.3%	97.4%	97.4%	97.8%	97.9%
Capacity factor					
Run-of-river hydro power plants	30.2%	29.5%	38.1%	36.7%	29.4%
Wind farms	28.0%	23.7%	29.4%	25.2%	28.9%

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

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



	EBITDA 2018	Electricity revenues*	Certificates revenues	Revenues ancillary control services**	Personnel expenses***	Other	EBITDA 2019
Change		**60**	**61**	**-7**	**-17**	**-41**	
Reported EBITDA 2018	**463**						
One-offs 2018	**0**						
Recurring EBITDA 2018	**463**	297	134	246	84		
Recurring EBITDA 2019		357	195	239	101		**519**
One-offs 2019							**-2**
Reported EBITDA 2019							**517**

* The sum of electricity revenues includes revenues from main generation technologies (wind, water, PV), as well as FIT/FIP-related revenues and from sales of certificates.
** Excluding revenues and costs relating to Balancing market not affecting EBITDA result.
*** Personnel expenses do not include impact of change in actuarial provision (one-off).

Reversal of the impact of the sum of one-off events reducing the reported result.

Key factors affecting the y/y results of Renewables included:

- **Increase in revenues from electricity sales** results: increased electricity sales volume by 187 GWh, what translated into growth of revenues by approx. PLN 38 million; higher average electricity sale price by PLN 11/MWh y/y, what translated into growth of revenues by approx. PLN 18 million; FIT/FIP support scheme (surcharge to the sale of electricity) for 9 small hydro power plants in place of certificates (operating for above mentioned plants from January 2019), what translated into growth of revenues by approx. PLN 4 million y/y.
- **Higher revenues from sales of certificates** mainly result from: higher average electricity sale price by PLN 27/MWh y/y, what translated into growth of revenues by approx. PLN 38 million; increased production volume by 209 GWh, what translated into growth of revenues by approx. PLN 23 million.
- **Lower sales revenues from ancillary control services** result mainly from lower rate by PLN 1/MW determined in accordance with the terms of the current contract.
- **Increase of personnel expenses** resulting from increased employment level (switching to proprietary maintenance of wind farms) and establishing of new company - PGE Baltica, which deals with the development of the offshore project.
- **Increase in other** results mainly from recognition of accrued estimates penalties for non-performance of contracts for sale of certificates and settlement of grants with regard to reversal of write-off on property, plant and equipment.

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Renewables segment in 2019 and 2018.

PLN million	2019	2018	% change
Investments in generating capacities, including:	133	96	39%
▪ Development	20	18	11%
▪ Modernisation and replacement	113	78	45%
Other	18	7	157%
TOTAL	**151**	**103**	**47%**

KEY DEVELOPMENTS IN 2019 IN THE RENEWABLES SEGMENT

In February 2019, the construction works concerning access roads and HV lines were commenced which formed part of the construction of Rybice Wind Farm, Starza Wind Farm and Karnice II Wind Farm. The project is scheduled for completion and commissioning in 2020.

DISTRIBUTION

Segment description and its business model

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

Distribution

Main revenue items	PLN m
Sale of distribution services	5 828
Connection fees	119

Volume of distributed energy **36.38** TWh

Customers **5.46** million

Main cost items	PLN m
Personnel expenses	1 275
Transmission services	1 217
Depreciation and amortisation, liquidation, write-offs including capitalised amortisation	1 208 3
Network loss*	535
Taxes and fees incl. real estate tax	449 406

Main result items	PLN m
EBIT	1 101
EBITDA	2 306

* Managerial perspective

Segment revenue is based on a tariff for electricity distribution services, which is approved by the ERO President every year at company request and is regulated. The tariff allows costs related to the distribution system operator's on-going activities to be transferred. These are both justified operating costs, depreciation as well as costs related to the necessity to cover grid losses on electricity distribution or the purchase of transmission services from the TSO. At the same time, the tariff reflects the transferred costs in fees such as the RES fee, transition fee or - starting from 2019 - cogeneration fee.

The key element shaping the Distribution segment's result is **return on company's invested capital**. This is based on the Regulatory Asset Base ("RAB"), which is established on the basis of completed investments and taking into account asset depreciation. The Regulatory Asset Base serves as the basis for calculating return on capital, using weighted average cost of capital, which is published by the ERO President in accordance with a set formula and using as the risk free rate the average yield on 10-year State Treasury bonds with the longest maturity during the 18-month period preceding the tariff application submission, quoted on Treasury BondSpot market. Moreover, the level of return on capital depends on achievement of individual quality targets set by the ERO President for efficiency indicators that cover: interruption time, interruption frequency, connection time and (not yet included) time to provide metering and settlement data.

VOLUME, CUSTOMERS AND OPERATING DATA

PGE Dystrybucja S.A. operates in the area of 129 829 sq. km and delivers electricity to approximately 5.46 million customers.

Diagram: Area of PGE distribution grid.

Table: Volume of distributed energy and number of customers in 2019 and 2018.

Tariff	Volume (TWh)*		Number of customers according to power take-off points	
	2019	2018	2019	2018
A tariff group	5.56	5.67	109	108
B tariff group	14.28	14.15	12 120	11 739
C+R tariff groups	6.92	7.01	483 668	480 864
G tariff group	9.62	9.58	4 966 098	4 909 493
TOTAL	**36.38**	**36.41**	**5 461 995**	**5 402 204**

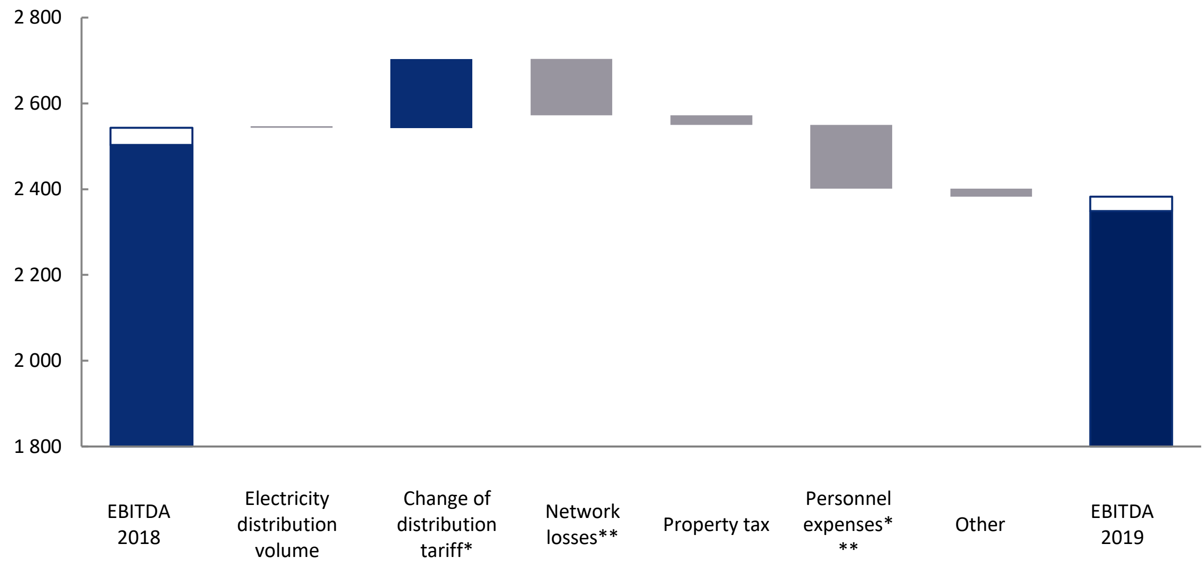
* with additional estimation of sales.

Table: Key operational data.

Operational data	Unit	2019	2018	2017	2016	2015
Number of stations, including:	pieces	94 921	94 198	93 493	92 837	92 258
number of transformer stations	pieces	94 383	93 764	93 104	92 474	91 874
MVA power	MVA	32 177	31 570	30 826	29 903	29 500
Total length of power lines	km	293 686	290 235	287 864	285 701	283 804
HV lines	km	10 301	10 282	10 278	10 197	10 144
MV lines	km	113 815	112 512	111 588	110 798	109 938
LV lines	km	169 570	167 441	165 998	164 706	163 723
Grid loss ratio	%	4.8	5.1	5.4	5.8	5.9
SAIDI ratio, including:	minutes	261	299	557	401	442
Planned	minutes	58	87	95	119	159
Unplanned with catastrophic	minutes	203	212	462	282	283
SAIFI ratio, including:	per customer	3.88	3.92	5.48	4.49	4.72
Planned	per customer	0.31	0.47	0.48	0.61	0.7
Unplanned with catastrophic	per customer	3.57	3.45	5	3.88	4.02
Connection time	days	199	211	215	248	291

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of EBITDA in Distribution (in PLN million) – managerial perspective.



	EBITDA 2018	Electricity distribution volume	Change of distribution tariff*	Network losses**	Property tax	Personnel expenses***	Other	EBITDA 2019
Change		**-4**	**161**	**-132**	**-22**	**-148**	**-18**	
Reported EBITDA 2018	**2 463**							
One-offs 2018	**-40**							
Recurring EBITDA 2018	**2 503**	4 254		403	383	1 093		
Recurring EBITDA 2019		4 411		535	405	1 241		**2 340**
One-offs 2019								**-34**
Reported EBITDA 2019								**2 306**

* Excluding cost of transmission services from PSE S.A.
** Adjusted for revenues from the Balancing market.
*** Personnel expenses do not include impact of change in actuarial provision (one-off).
Reversal of the impact of the sum of one-off events reducing the reported result.

Key factors affecting recurring EBITDA of Distribution segment y/y included:

- **Slightly decreased volume of distributed energy** resulting from lower general decrease of demand for electricity in the NPS.
- **Increase of fixed charge** in tariff for 2019 compared to the previous year, that translated into an increase in revenues from the sale of distribution services.
- **Higher costs of energy to cover network losses** as a result of higher prices on the wholesale market.
- **Increase of costs of tax on real estate** in connection with an increase of grid assets value as a result of investments; tax rates on land and buildings.
- **Increase in personnel expenses** due to ongoing process to optimise salaries.
- **Change in other** resulting mainly from higher costs of external services related to maintenance and repairs of assets.

CAPITAL EXPENDITURES

Table: Capital expenditures incurred in Distribution segment in 2019 and 2018.

PLN million	2019	2018	% change
Development investments	881	727	21%
Modernisation and replacement	1 245	1 045	19%
Other	99	81	22%
TOTAL	**2 225**	**1 853**	**20%**

In 2019 the largest expenditures in amount of PLN 757 million were incurred for connection of new off-takers.

SUPPLY

Segment description and its business model

Supply segment activities include Group's wholesale and retail trading of electricity. Wholesale trading include mainly electricity trading on behalf of and for Conventional Generation segment, District Heating segment and Renewables segment.

Supply

Main revenue items	PLN m
Sale of electricity	12 113
Sale of CO_2 emission allowances	1 376
Sale of fuels including related services	1 296
Compensations	1 117
Sales management	792
Sale of gas	508

Volume of electricity sales to final off-takers*	42.90 TWh
Customers*	5.33 million

Main cost items*	PLN m
Purchase of electricity	12 357
Purchase of CO_2 emission allowances	1 259
Purchase of fuels including transport costs	1 265
Segment operating expenses	773
Redemption of energy origin certificates	754
Purchase of gas	494

Main result items	PLN m
EBIT	247
EBITDA	280

* Data for PGE Obrót S.A.

As part of retail-market activities, the key source of segment's revenue is **sale of electricity** to final customers. This is sale to business and institutional clients, which constitutes more than 3/4 of the sales volume, and to retail clients. The segment's revenue also includes the sale of fuels, mainly: pulverised coal and fat coal, which is sold by PGE Paliwa sp. z o.o., and **sale of gas.**

Electricity sales are matched by the **costs to purchase electricity** on the wholesale market and costs to redeem certificates as part of the support system for renewable sources and energy efficiency.

The Supply segment also covers costs related to the Group's corporate centre.

VOLUME, CUSTOMERS AND OPERATING DATA

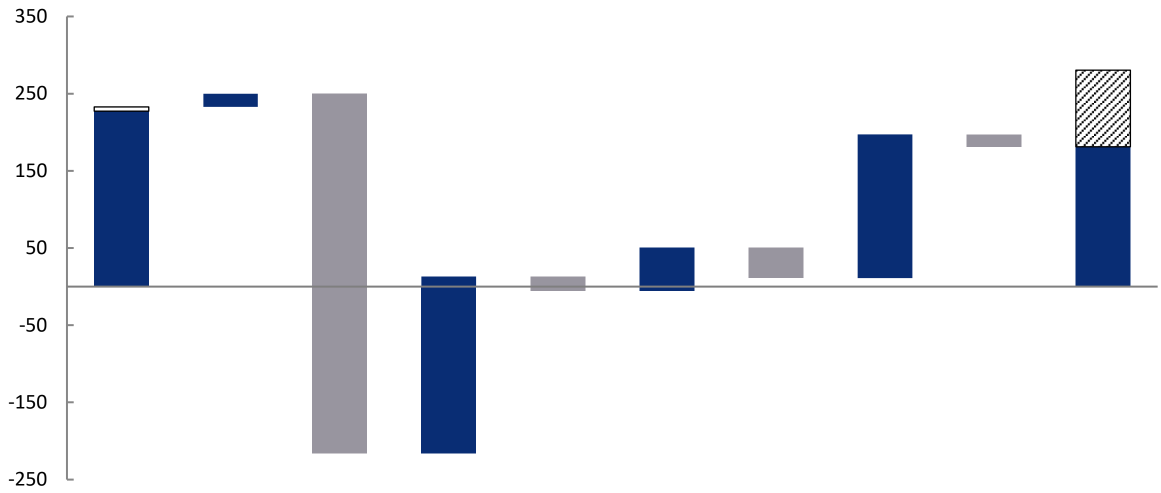
Table: Volume of electricity sales to final off-takers and number of customers in 2019 and 2018.

Tariff	Volume (TWh)*		Number of customers according to power take-off points*	
	2019	2018	2019	2018
A tariff group	9.87	10.21	169	153
B tariff group	15.67	13.65	12 708	11 718
C+R tariff groups	7.55	6.76	450 126	447 081
G tariff group	9.81	9.77	4 869 622	4 812 012
TOTAL	**42.90**	**40.39**	**5 332 625**	**5 270 964**

* Data relates to PGE Obrót S.A.

KEY FACTORS FOR THE RESULTS OF THE SEGMENT

Chart: Key changes of recurring EBITDA in Supply (in PLN million) – managerial perspective.



	EBITDA 2018	Result on electricity - volume	Result on electricity - margin	Revenues from services provided to other segments of the PGE Group	Result on sale of fuels	Valuation of financial instruments	Personnel expenses*	Balance of provisions for onerous contracts	Other	EBITDA 2019
Change		**18**	**-466**	**229**	**-19**	**56**	**-38**	**186**	**-18**	
Reported EBITDA 2018	**227**									
One-offs 2018	**-6**									
Recurring EBITDA 2018	**233**	489		590	50	-39	313	-261		
Recurring EBITDA 2019		41		819	31	17	351	-75		**181**
One-offs 2019										**99**
Reported EBITDA 2019										**280**

* Personnel expenses do not include impact of change in actuarial provision (one-off).

Reversal of the impact of the sum of one-off events improving the reported result .

Reversal of the impact of the sum of one-off events reducing the reported result .

Key factors affecting recurring EBITDA of Supply segment y/y included:

- **Lower result from electricity** by PLN 448 million resulting mainly from lowering prices for final off-takers billing pursuant to the act on electricity prices in 2019, partly compensated by recognition of expected return of lost revenues in form of compensation pursuant to the act on electricity prices in 2019; additionally lower realized unit margin on sale of electricity was due to increase of prices on the wholesale market.
- **Increase of revenues from services performed within the Group** resulting mainly from increased revenues from the Agreement for Commercial Management of Generation Capacities ("ZHZW") as a consequence of higher sale and purchase prices of electricity under management and covering new assets under ZHZW agreement.
- **Lower result on sale of fuels**, mainly as a result of revaluation of coal inventories.
- **Valuation of financial instruments** i.e. forward contracts connected with trading of CO_2 emission rights.
- **Increased personnel expenses** in connection with ongoing process to optimise salaries and increase of FTEs, mainly as a result of organizational changes within PGE Capital Group.
- **Balance of provisions for onerous contracts** mainly in relation to the act on electricity prices in 2019 with result of + PLN 186 million y/y, which comprised a loss in 2018, resulting from the recognition of a provision for onerous contracts from 2019, the reversal of this provision in 2019 and the recognition of a provision for onerous contracts from 2020, mainly in connection with the approval of the tariff for households.

5.4. Significant events of the reporting period and subsequent events

SIGNING OF AN ANNEX TO THE AGREEMENT FOR DESIGNING AND CONSTRUCTION OF POWER UNIT IN TURÓW POWER PLANT

On March 29, 2019 PGE GiEK signed the annex to the agreement for designing and turn-key construction of power unit in Turów power plant, that is being pursued by the consortium formed by companies: Mitsubishi Hitachi Power Systems Europe GmbH, Budimex S.A. and Tecnicas Reunidas SA. Due to need of technological adaptations and broader scope of works, the value of the Agreement was increased by PLN 108.5 million net to PLN 3 647 million net, and date of completion of works was prolonged by 6 months, i.e. till October 30, 2020.

Current report of PGE S.A.:

- Signing of an annex to the agreement for designing and construction of power unit in Turów power plant>>

GRANTING OF ADDITIONAL CO2 ALLOWANCES FOR PGE GROUP'S INSTALLATIONS

On the ground of the announcement of the Minister of Environment of April 16, 2019, the Company had taken information about the number of CO_2 emission rights, which had been granted to installations generating electricity, belonging to PGE Group in 2019.

As a result of settlement of capital expenditures in PGE Group, generation assets acquired from EDF group in 2017 received in April 2019 an additional allocation of CO_2 emission allowances for the years 2013-2017 in amount of approx. 11 million emission rights. (see Note 33.2 to the consolidated financial statements). Results of valuation of additional CO_2 emission rights are recognised in the operational result.

Current report of PGE S.A.:

- Granting of additional CO2 allowances for PGE's installations >>

WITHDRAWAL FROM THE PROCESS OF ACQUISITION OF ALL SHARES IN PGE EJ1

On April 17, 2019 PGE decided to withdraw from the process of acquisition of shares of PGE EJ1 sp. z o.o. ("PGE EJ1") held by other partners, that was initiated in the fourth quarter of 2018. Thus, PGE's share in PGE EJ1 will remain at 70%.

Current report of PGE S.A.:

- Withdrawal from the process of acquisition of all shares in PGE EJ1 >>

ACQUISITION OF SHARES OF 4MOBILITY BY PGE NOWA ENERGIA

On April 24, 2019 Nowa Energia concluded an agreement for the purchase of 51.47% of shares in 4Mobility. 4Mobility provides car-sharing services and is the third company in Poland in terms of the number of cars available to customers. It provides services in Warsaw and in Poznań. Information regarding the acquisition of shares in 4Mobility have been provided in section 4.1 of this report and in note 1.3 to the consolidated financial statements.

ISSUE OF BONDS WITH TOTAL VALUE OF PLN 1.4 BILLION

Bonds amounting to total value of PLN 1.4 billion were issued in two series: PLN 1 billion with 10-year maturity (series PGE003210529) and PLN 400 million with 7-year maturity (series PGE002210526). On May 21, 2019, both series of issues were settled, and on May 23, 2019, Fitch Ratings assigned the final national rating of the issue at AA (pol). Information regarding the issue and terms of the bonds were published in the following current reports:

- Potential issue of bonds on Polish market>>
- Fitch Ratings assigns upcoming domestic bonds an expected senior unsecured National Rating>>
- Terms of domestic bonds issue by PGE Polska Grupa Energetyczna S.A.>>

COMMISSIONING OF UNIT 5 AND 6 IN OPOLE POWER PLANT

On May 30, 2019 PGE GiEK S.A. obtained the concession to produce electricity in the unit 5 in Opole Power Plant and on May 31, 2019 issued the certificate of completion of the investment and the above mentioned unit was handed over and placed into service.

Unit no. 5 is a part of the agreement for construction of units 5 and 6 in Opole Power Plant being realized by the General Contractor (consortium formed by companies: Polimex-Mostostal S.A., Mostostal Warszawa S.A. and Rafako S.A.) and GE Power, which is the general designer and consortium leader managing the contract execution.

On September 30, 2019 unit no. 6 was placed into commercial operations, according to the schedule. Therefore, the implementation of the investment considering the construction of new power units in Opole Power Plant was completed.

Current report of PGE S.A.:

- Commissioning of unit 5 in Opole Power Plant >>

SIGNING OF THE AGREEMENT REGARDING THE FIZAN EKO-INWESTYCJE FUND

On July 30, 2019 PGE, PGE Energia Ciepła S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Energia Odnawialna S.A. signed the investment agreement with Towarzystwo Funduszy Inwestycyjnych Energia S.A. ("TFI Energia" – investment fund company), which plans to establish a closed-end investment fund under the name "Closed-end Investment Fund of Non-public Assets Eco-Investments". The details are presented in note 33.4 to the consolidated financial statements.

Current report of PGE S.A.:

- Signing of the agreement regarding the establishing and operation of FIZAN Eko-Inwestycje fund >>

ACT ON THE AMENDMENT OF THE ACT ON THE EXCISE TAX AND CERTAIN OTHER ACTS

On December 28, 2018, the Act on the amendment of the act on the excise tax and certain other acts (the "Act on electricity prices") was adopted. The aim of this act was to stabilise the prices of electricity sale to the end recipient in 2019. The act was amended twice: with the Act of February 21, 2019 and Act of June 13, 2019. Furthermore, on July 19, 2019, the act on the system of compensation for energy-intensive sectors and subsectors, which affects the Act on electricity, was adopted. Specific information and the effects of the Act on electricity prices were discussed in note 33.1 to the consolidated financial statements.

INFORMATION ON SALE PROCESS OF STAKES IN COMPANIES DEVELOPING OFFSHORE WIND FARMS ON THE BALTIC SEA

On October 22, 2019 PGE Polska Grupa Energetyczna S.A. decided to commence talks with Ørsted regarding the sale of a 50% stake in two off-shore wind farm projects with a total capacity of up to 2.5 GW and agreeing co-operation terms for their development.

The subject of talks will be a sale of 50% of the shares in each of Baltica 3, which is developing a project with a planned capacity of approximately 1 GW by 2026, and Baltica 2, which is developing a project with a planned capacity of approximately 1.5 GW by 2030.

Current report of PGE S.A.:

- Information on sale process of stakes in companies developing offshore wind farms on the Baltic Sea >>

RESULTS OF MAIN CAPACITY MARKET AUCTION FOR 2024

On December 6, 2019, as a result of capacity market auction for the year 2024 (the main auction), total capacity obligation of not less than 4 332 MW has been contracted for generation units owned by PGE Group. Total capacity obligation involves:

- 1 335 MW for new units (17-years capacity contract),
- not less than 2 957 MW for units being modernized (including 2 598 MW with 5-years capacity contract and 359 MW with 7-years capacity contract),
- 40 MW for existing units (1-year capacity contract).

On December 30 ,2019, the ERO President finally approved the above results in the Public Information Bulletin on its website.

Current report of PGE S.A.:

- Result of main capacity market auction for the year 2024 >>

SIGNING OF THE AGREEMENT FOR THE CONSTRUCTION OF POWER UNITS IN DOLNA ODRA POWER PLANT

On January 30, 2020 PGE GiEK concluded an agreement with syndicate of companies: General Electric Global Services GmbH, Polimex Mostostal S.A. and General Electric International Inc.

Subject matter of the agreement is realisation by the contractor of turn-key construction of two gas-steam units with a gross capacity of 683 MWe each at PGE GiEK S.A. Branch Zespół Elektrowni Dolna Odra (Unit 9 and Unit 10). The units will be in CCGT technology.

In accordance with the provisions of the agreement, the commissioning of both units is to take place by December 11, 2023.

The value of the Agreement for construction of units, including autostart option, amounts to PLN 3 701 092 633 net. In connection with the agreement, a LTSA (Long-Term Service Agreement) was also signed with regard to service of two gas turbines during 12-year period from the commissioning date of the units. The value of the LTSA amounts to PLN 1 030 053 270 net. Total value of all concluded agreements amounts to PLN 4 731 145 903 net (PLN 5 819 309 460 gross).

Current report of PGE S.A.:

- Signing of the agreement for the construction of power units in Dolna Odra power plant >>

CHANGES IN THE MANAGEMENT BOARD

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

SARS-COV-2 PANDEMIC

Information about SARS-CoV-2 pandemic, causing the disease COVID-19 are described in p. 2.3 of this report and in note 33.5 to the consolidated financial statements.

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.

INFORMATION CONCERNING PROCEEDINGS IN FRONT OF COURT, BODY APPROPRIATE FOR ARBITRATION PROCEEDINGS OR IN FRONT OF PUBLIC ADMINISTRATION AUTHORITIES

Significant proceedings pending in front of courts, competent arbitration authority or public administration authority are described in note 28.4 to the consolidated financial statements.

Claims related to agreements for sale of certificates signed with Energa-Obrót S.A.

Information on claims related to agreements for sale of certificates signed with Energa-Obrót S.A. are described in note 28.1 to the consolidated financial statements.

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

Information on termination by Enea S.A. of agreements for sale of certificates are described in note 28.4 to the consolidated financial statements.

INFORMATION CONCERNING THE GUARANTEES FOR LOANS GRANTED BY THE COMPANY OR A SUBSIDIARY

Within the Group, as at December 31, 2019 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.

CHANGE OF ACCOUNTING RULES

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

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. 5.4 of the foregoing report and in note 25.1 to the consolidated financial statements.

TRANSACTIONS WITH RELATED ENTITIES

Information about transactions with related entities is presented in note 31.2 to the consolidated financial statements.

5.5. Management of financial resources and financial liquidity

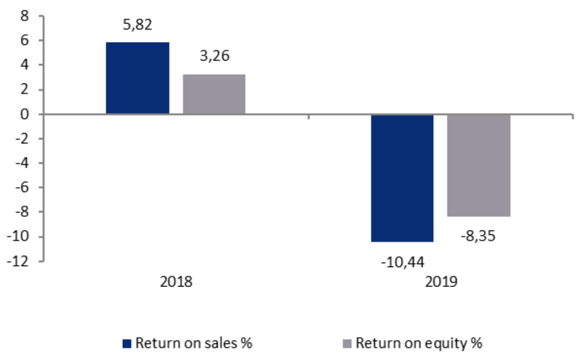
NET DEBT OF THE GROUP AND MAIN FINANCIAL RATIOS

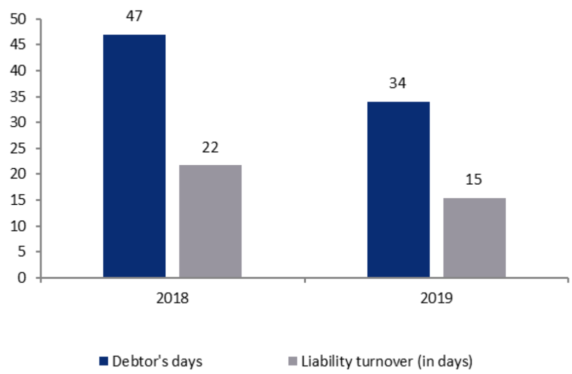
Table: Group's net debt as at December 31, 2019 and December 31, 2018.

PLN million	As at December 31, 2019	As at December 31, 2018
Cash on hand and cash at bank	1 093	1 023
Overnight deposits	19	33
Short-term deposits	103	156
VAT - Split payment	98	69
Cash and cash equivalents	**1 313**	**1 281**
Adjustment for restricted cash*	-428	-180
Investments held until maturity date (short-term deposits)	8	7
Cash at PGE Group's disposal	**893**	**1 108**
Current loans and borrowings	1 382	2 168
Bonds issued - current	12	2 177
Current lease	55	2
Non-current loans and borrowings	7 999	5 768
Bonds issued – non-current	1 986	592
Non-current lease	874	1
Gross financial debt (short and long-term)	**12 308**	**10 708**
Net financial debt	**11 415**	**9 600**

* Restricted cash includes collaterals for settlements of the Group entities with Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGiT" - Warsaw Commodity Clearing House), funds on VAT accounts and security deposits.

Table: Key financial ratios.





MANAGEMENT OF FINANCIAL RESOURCES AND FINANCIAL LIQUIDITY

PGE's existing financing model takes into account the use of funds from its core activities, debt financing in the form of commercial bank credit facilities and bond programmes, credit facilities from Bank Gospodarstwa Krajowego ("BGK"), credit facilities from multilateral institutions such as the European Investment Bank ("EIB") or the European Bank for Reconstruction and Development ("EBRD") as well as in the form of preferential financing. In order to effectively manage liquidity, within the Group we have introduced a cash-pooling system, with participation of 31 Group companies.

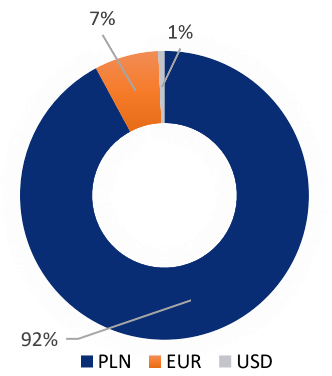
An ambitious investment programme of approx. PLN 34 billion scheduled for 2016-2020 requires long-term planning and external financing.

The most important available external financing sources for PGE Group are as follows:

- Domestic bond programme of PLN 5 billion.
- Euro Medium Term Note (EMTN) bond programme of up to EUR 2 billion.
- 2 credit facilities from BGK as part of the "Inwestycje polskie" ("Polish investments") programme, amounting to PLN 1.5 billion in total.
- Syndicated loan - term facility of PLN 3.6 billion.
- PLN 1.99 billion credit facilities from the EIB - PLN 1.50 billion will be used for projects related to distribution network modernisation and expansion, while PLN 0.49 billion will be used to finance and re-finance the construction of cogeneration units.
- Green facility loan of PLN 272.5 million from EIB for financing of "green projects".
- PLN 500 million credit facility from the EBRD to support implementation of a long-term programme for distribution network development and modernisation.
- Syndicated revolving loan of PLN 4.1 billion intended for financing of the ongoing operations, financing of the investment and capital expenses and refinancing of the financial liabilities.
- Current-account overdraft facilities.

PGE Group's financing policy features diverse maturities for specific financial instruments, which along with the diversification of financing sources, helps the Group to optimise its financing costs. The Group aspires to implement a responsible financial policy, which entails maintaining its net debt to EBITDA ratios at a level that makes it possible to retain investment-grade ratings.

Diagram: Currency profile of the Group's debt (including hedging transactions) and the Group's debt breakdown by fixed and floating rate (including hedging transactions).



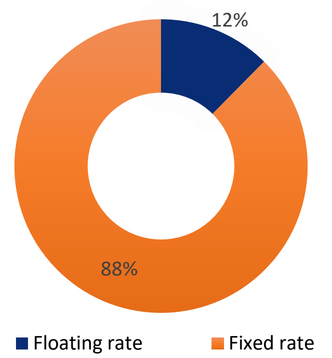
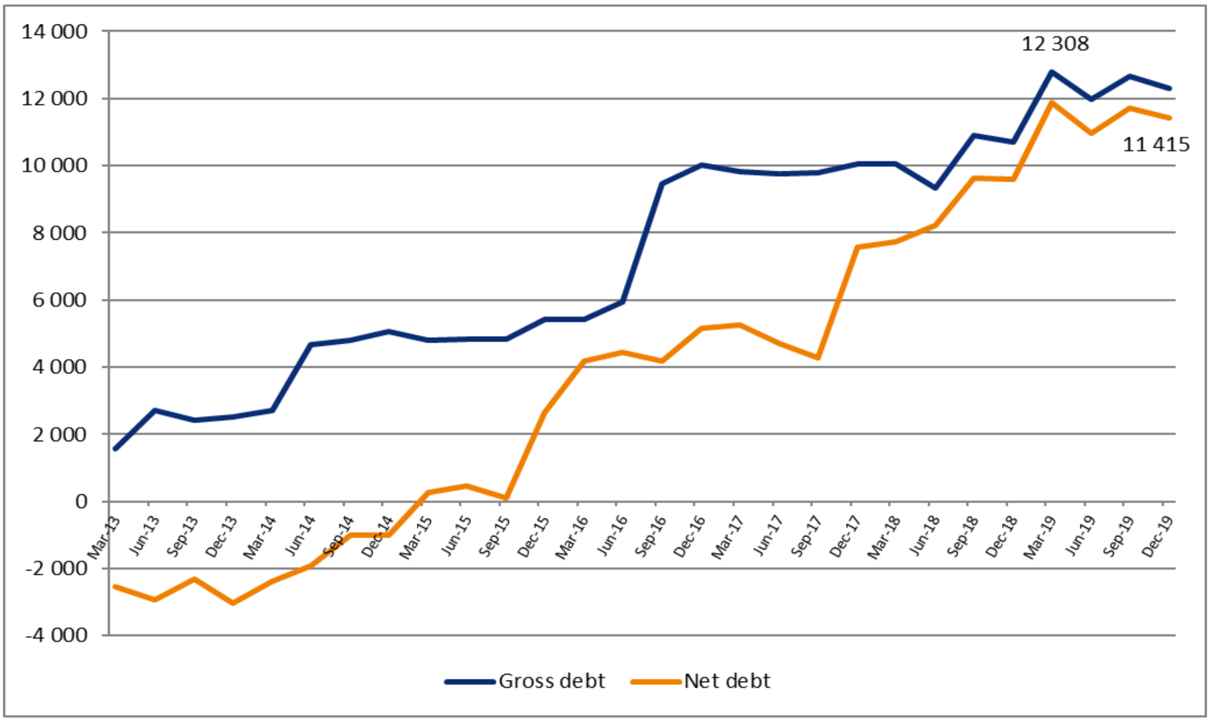
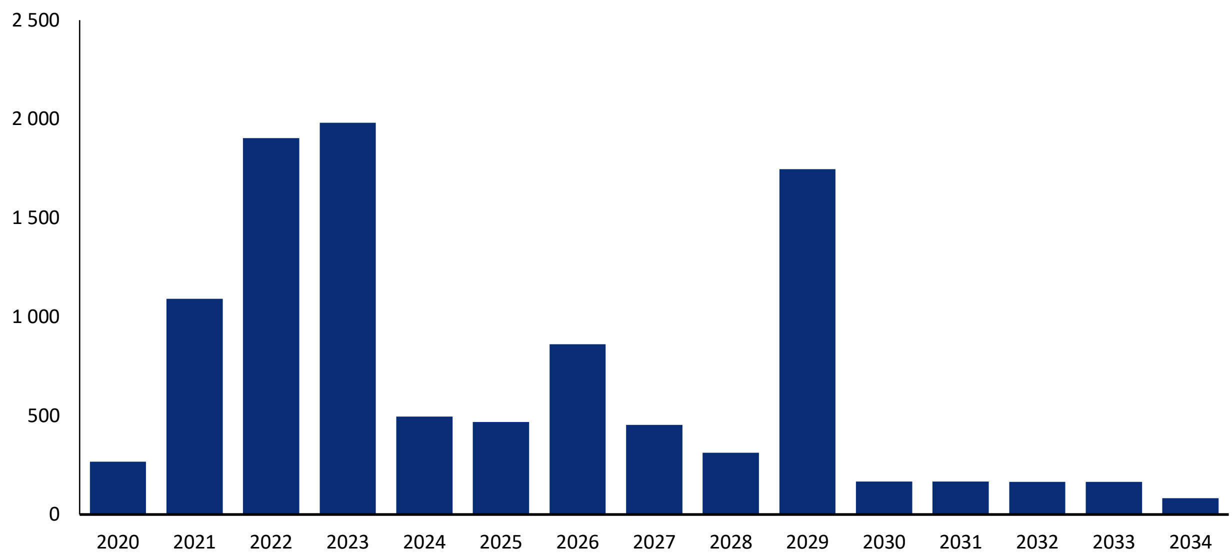


Diagram: Gross debt and net debt (PLN million).



External long-term debt is mainly drawn by PGE S.A. and PGE Sweden AB (Swedish SPV for Eurobonds issues). Companies from the Group have long-term debt under the preferential financing from institutions like National Fund for Environmental Protection and Water Management and Voivodship Fund for Environmental Protection and Water Management, while Some historical investments loans exist in PGE GiEK.

Diagram: Debt maturity profile (PLN million) as at December 31, 2019.



BONDS ISSUED

Company (Issuer)	Party of the agreement	Type of financing	Signing date of the program (yyyy-mm-dd)	Maturity date of the program (yyyy-mm-dd)	Maximum value of the program (million)	Utilisation (million)	Currency
PGE S.A.	Bank Polska Kasa Opieki S.A. and ING Bank Śląski S.A.	Domestic market bonds	2011-08-29	-	5 000	1 400	PLN
PGE Sweden AB	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	Eurobonds	2015-05-22	-	2 000	138	EUR

INTRA-GROUP BONDS

Company (Issuer)	Party of the agreement	Type of financing	Signing date of the program (yyyy-mm-dd)	Maturity date of the program (yyyy-mm-dd)	Maximum value of the program (million)	Utilisation (million)	Currency
PGE GiEK	ING Bank Śląski S.A.	Intra-group bonds	2011-06-20	2025-12-31	11 558	7 930	PLN
PGE GiEK	ING Bank Śląski S.A.	Intra-group bonds	2010-09-13	2025-12-31	4 091	0	PLN
PGE GiEK	Powszechna Kasa Oszczędności Bank Polski S.A.	Intra-group bonds	2009-11-30	2025-12-31	3 700	3 610	PLN
PGE EO	ING Bank Śląski S.A.	Intra-group bonds	2013-09-20	2020-12-31	2 000	1 085	PLN

BANK LOANS AND ADVANCES

Table: Information about most important loans and advances agreements signed in 2019.

Company (Lender)	Party of the agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Liability limit (million)*	Currency	Fixed/ floating rate
PGE S.A.	EIB	Bank loan	2019-12-16	2038-10-16	273	PLN	Fixed/floating

* Values over PLN 100 million.

INTRA-GROUP LOANS

Company (Borrower)	Party of the agreement	Type of financing	Signing date (yyyy-mm-dd)	Maturity date (yyyy-mm-dd)	Liability limit (million)*	Currency	Fixed/ floating rate
PGE S.A.	PGE GiEK	Advance	2019-06-18	2025-06-18	4 000	PLN	Fixed
PGE S.A.	PGE Dystrybucja S.A.	Advance	2019-09-18	2024-09-18	1 400	PLN	Fixed
PGE S.A.	PGE Obrót S.A.	Advance	2019-04-04	2022-04-04	600	PLN	Fixed
PGE S.A.	PGE Dystrybucja S.A.	Advance	2019-09-18	2020-09-18	600	PLN	Fixed
PGE EO	PGE Klaster sp. z o.o.	Advance	2019-09-12	2026-09-11	412	PLN	Floating
PGE S.A.	PGE Obrót S.A.	Advance	2019-02-27	2022-02-25	400	PLN	Fixed

* Values over PLN 100 million.

Loans granted

Advances granted by PGE S.A. and Group companies in 2019 are shown in the table above.

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.

In September 2017, an agreement was concluded between PGE S.A. and BGK for establishment of a guarantee line in the amount of PLN 200 million. Under the agreement, PGE S.A. may request issuance of bank guarantees for the liabilities of PGE S.A. and selected companies from the PGE Group for a period of 36 months from 2018 with the guarantee validity period of up to 5 years.

In 2019, PGE S.A. conducted a public procurement procedure concerning guarantee lines, under which requests for the issue (or annexation) of guarantees are submitted to banks in order to secure transaction deposits and deposits to secure transactions carried out by PGE Dom Maklerski S.A. on the Polish Power Exchange to the account of customers, i.e. PGE S.A. and companies from the PGE Group or transactions carried out by PGE S.A. and companies from the PGE Group on the Polish Power Exchange, whose clearing entity is IRGIT. In addition, the guarantees issued may constitute security for agreements related to the offsetting of security deposits within power groups established for the benefit of the PGE Group companies or the related surety agreements concluded with IRGIT.

Table: Main guarantees granted by the PGE Group companies as at December 31, 2019.

Company	Entity entitled to guarantee (Beneficiary)	Entity whose liabilities are subject to guarantee (Debtor)	Form of security	Validity of guarantee (yyyy-mm-dd)		Value of guarantee (million)	Currency
				Beginning	End		
PGE S.A.	Bondholders	PGE Sweden AB	Guarantee of financial instrument; 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	EUR
PGE S.A.	IRGiT	PGE Dom Maklerski S.A.	Corporate Guarantee	2019-09-30	2023-09-30	1 500	PLN
PGE EC	IRGiT	PGE Dom Maklerski S.A.	Corporate Guarantee	2018-09-14	2020-12-31	500	PLN
PGE S.A.	Nordic Investment Bank	PGE GiEK S.A.	Guarantee of liabilities of PGE GiEK towards NIB in connection with the loan agreement of PGE GIEK S.A.	2017-05-24	2024-06-20	83	EUR
PGE S.A.	Polskie Górnictwo Naftowe i Gazownictwo S.A.	PGE Energia Ciepła S.A.	Corporate Guarantee	2019-10-01	2022-12-31	176	PLN

The total amount of guarantees granted by the companies of the PGE Capital Group and mandatory on December 31, 2019 amounted to approx. EUR 2 580 million, approx. PLN 2 427 million and USD 83 million.

Table: Main guarantees in PLN received by the PGE Group companies and valid as at December 31, 2019.

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
				Beginning	End		
PGE GiEK	Santander Bank Polska S.A.	GE Power Sp. z o.o.	Performance bond	2018-07-31	2020-01-15	317	PLN
PGE GiEK	Dusseldorf Mizuho	Mitsubishi Hitachi Power Systems Europe GmbH	Performance bond	2014-07-10	2024-08-12	238	PLN
PGE GiEK	Millennium Insurance Company Limited	Mostostal Mostostal Power Development Sp. z o.o.	Performance bond	2014-01-29	2020-01-15	192	PLN
PGE GiEK	Santander Bank Polska S.A.	GE Power Sp. z o.o.	Performance bond	2018-07-31	2020-01-15	187	PLN
PGE GiEK	Bank Handlowy w Warszawie S.A. Bank BGŻ BNP Paribas S.A. (formerly: BNP Paribas Bank Polska S.A.)	Budimex S.A.	Performance bond	2014-07-09	2023-03-18	105	PLN

* Values over PLN 100 million.

The total amount of guarantees received by the companies of the PGE Capital Group and mandatory on December 31, 2019 amounted to more than PLN 2 300 million and EUR 37 million. Guarantees were received in connection with investments being pursued and day-to-day operations and include mainly: advance payments guarantees and performance bonds.

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 13 to the consolidated financial statements. Changes in the Capital Group's structure which took place in 2019 and capital investments related thereto are described in p. 7.1 of this report.

6. Parent company of PGE Group – PGE S.A.

Pursuant to art. 55 section 2a of the Accounting Act and § 71 section 8 Regulation of the Minister of Finance on current and periodic information, the Company has prepared the report on activities of PGE 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 6, are identical with the ones in the report on activities of PGE Capital Group.

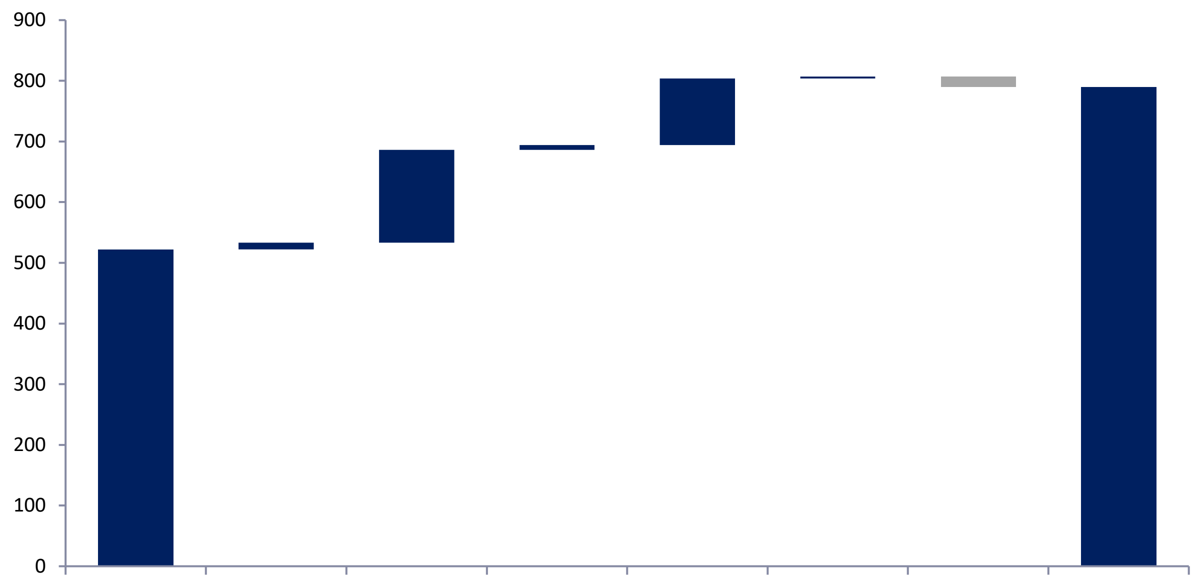
6.1. Key financial results of PGE S.A.

Key financial data	Unit	Year ended December 31, 2019	Year ended December 31, 2018	% change
Sales revenues	PLN million	15 146	11 450	32%
EBIT	**PLN million**	**779**	**509**	**53%**
EBITDA	**PLN million**	**791**	**522**	**52%**
EBITDA margin	%	5%	5%	
Net loss	**PLN million**	**-1 259**	**-203**	**-520%**
Net earnings per share	PLN	-0.67	-0.11	-
Net cash from operating activities	PLN million	-331	558	-
Net cash from investing activities	PLN million	-297	-2 563	-88%
Net cash from financial activities	PLN million	614	407	51%
Working capital	PLN million	5 814	-788	-
Shares in subsidiaries	PLN million	29 995	32 024	-6%
Net debt/EBITDA	**x**	**6.03**	**12.21**	

REVENUES BY GEOGRAPHICAL AREAS

PGE S.A. earns revenues mostly on domestic market (over 99%).

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



	EBITDA 2018	Result on electricity sales	Result on trading of CO2 emission rights	Result on sale of gas	Revenues form ZHZW and ZDEE	Result on other operations	Cost of organisation's activity	EBITDA 2019
Change		**11**	**153**	**8**	**110**	**4**	**-17**	
EBITDA 2018	**522**	3	-39	-9	801	38	272	
EBITDA 2019		14	114	-1	911	42	289	**791**

Key factors affecting the results of PGE S.A. in 2018 on y/y basis included:

- **The higher result on sales of electricity** is mainly attributable to higher margin on sales of electricity, as a result of the positive development of market prices in 2019.
- **The higher result on trading in CO_2 emission allowances** is mainly due to the valuation of forward contracts related to the CO_2 emission allowance trading, with PLN (+) 104 million relating to the valuation of free CO_2 emission allowances granted to the PGE Group' generating units.
- **The higher result on gas sales** in 2019 is mainly attributable to a change in the principles of determining the selling price in contracts concluded. In 2018, transactions with entities from the PGE Group (PGE Obrót, Enesta) were balanced by means of purchase on the spot market. Due to an imbalance in demand, the gas was sold to these companies at fixed prices.
- **Increased revenues from the Group companies** from the services of ZHZW result from the higher volume and value of electricity trading under management on behalf of PGE GiEK; the agreement for the provision of the ZHZW service for management for PGE EC was concluded in July 2018. On the other hand, revenues from the provision of services under the Electricity Supply Security Agreement (ZDEE) with PGE Obrót decreased as a result of lower margin for these services in 2019.
- **The higher result on other operations** is mainly attributable to a higher result on other operating activities, partially offset by lower revenues from licence agreements.
- **Increase in operating costs** is mainly due to higher personnel expenses as a consequence of increased headcount (e.g. 60 employees were relocated from PGE EC to PGE S.A. in July 2018). In 2019, there was an increase in the cost of IT services and costs related to turnover, but it was offset by lower costs of marketing activities (sponsorship and advertising).

Table: Financial operations.

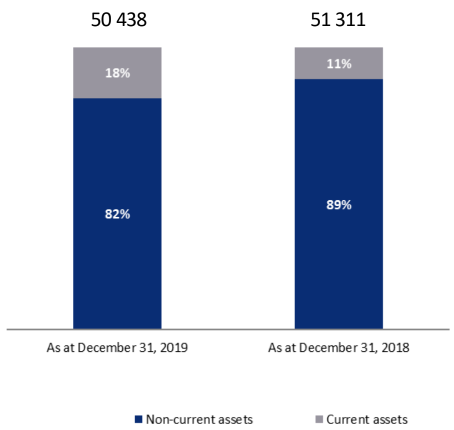
PLN million	Year ended December 31, 2019	Year ended December 31, 2018	% change
Financial revenues			
Dividends from PGE Capital Group companies	950	46	1 965%
Interest	180	100	80%
Revaluation	-6	-3	-100%
Reversal/creation of impairment losses	-3 065	-799	-284%
Foreign exchange translations	-25	0	-
Other	-3	-2	-50%
Result on financial operations	**-1 969**	**-658**	**-199%**

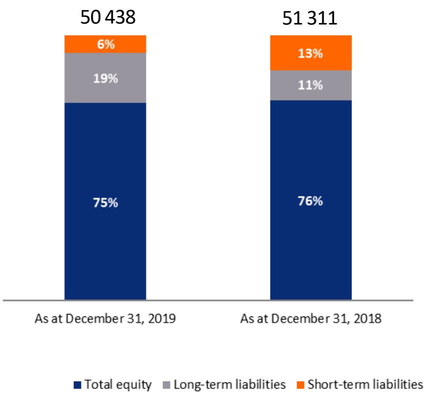
Key factors affecting the financial results of PGE S.A. on y/y basis included:

- **Increased revenues from dividends** mainly as a result of the dividend from PGE Dystrybucja S.A. in amount of PLN 935 million.
- **Increased interests** results mainly from higher revenues from interest on purchased bonds issued by the Group companies.
- **Change on impairment loss**: in 2019 it includes impairment loss made on value of shares of PGE GiEK, PGE Obrót S.A., PGE Sweden AB and PGE EJ1, in 2018 it included impairment loss on expected credit loss related to shares of PGE Obrót S.A. and PGE Sweden AB.

STATEMENT OF FINANCIAL POSITION

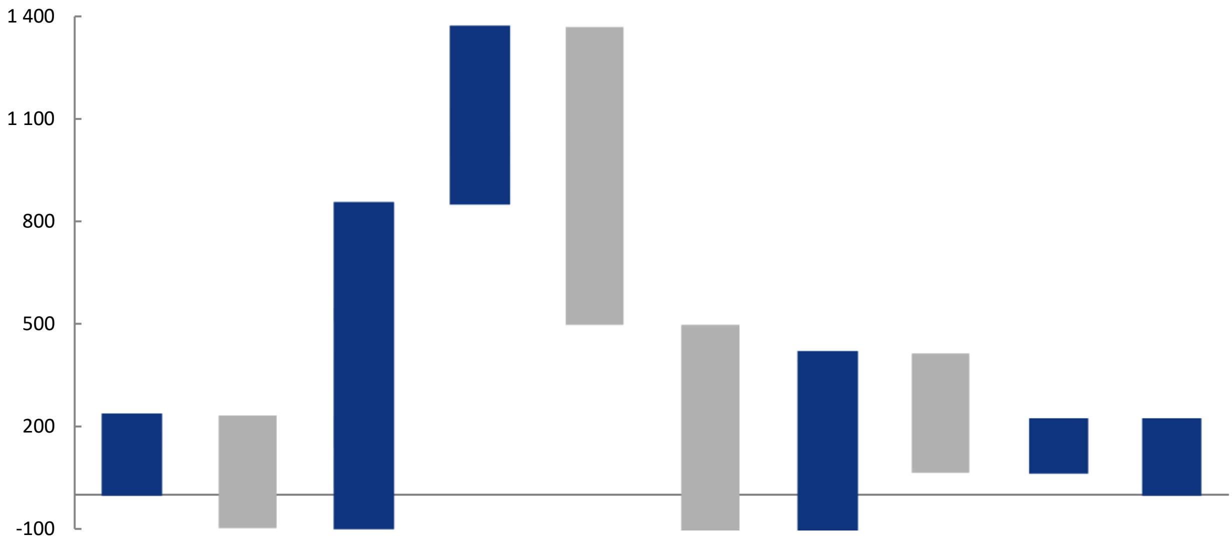
Chart: Structure of assets and equity and liabilities (PLN million).





STATEMENT OF CASH FLOWS

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



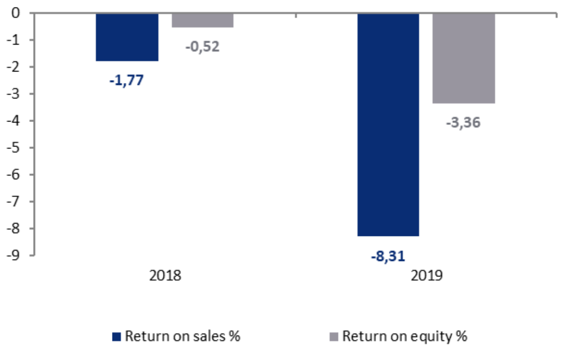
	Cash at January 1, 2019	Net cash from operations	Dividends received	Purchase/ buy-out of bonds issued by PGE Group companies	Granting advances / repayment of granted advances	Purchase of shares in subsidiaries	Drawing / repayment of loans and bonds	Cash pooling-related income and expenses	Other	Cash at December 31, 2019
Impact on cash		**-331**	**950**	**515**	**-868**	**-1 035**	**952**	**-351**	**154**	
Cash	**233**									**219**

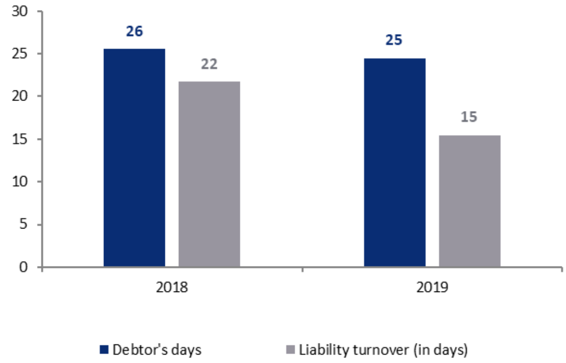
NET DEBT OF PGE S.A. AND MAIN FINANCIAL RATIOS

Table: Company's net debt as at December 31, 2019 and December 31, 2018.

PLN million	As at December 31, 2019	As at December 31, 2018
Cash on hand and cash at bank	182	211
Funds on VAT accounts	39	24
Cash and cash equivalents	**221**	**235**
Short-term loans and debt securities (PGE Group)	5 530	3 360
Loans and receivables - cash pooling	1 016	1 204
Cash at the Company's disposal	**6 767**	**4 799**
Current loans and borrowings	1 102	3 982
Short-term bonds (interest)	5	0
Short-term liabilities - cash pooling	907	1 446
Lease liabilities (short-term and long-term)	21	0
Non-current loans and borrowings	8 103	5 744
Bonds issued – non-current	1 398	0
Gross financial debt (short and long-term)	**11 536**	**11 172**
Net financial debt	**4 769**	**6 373**

Charts: Key financial ratios.





6.2. Key operational figures of PGE S.A.

Table: Volume of electricity sales (in TWh).

Sales volume	2019	2018	% change
Sale of electricity to the Group companies	46.24	44.92	3%
Sale of electricity on the power exchange and in bilateral transactions outside the Group	2.60	2.70	-4%
Sale within the balancing group and on the balancing market	1.42	1.27	12%
Total electricity sales	**50.26**	**48.89**	**3%**

PGE S.A. acts as a wholesale trading competence centre for the PGE Capital Group. Growth of volume of electricity sales in 2019 y/y is a result of increase in trading volumes, mainly in transactions with PGE Obrót S.A. Sales to PGE Obrót S.A. are realised in order to secure the demand of the retail customers for electricity supplies.

Table: Volume of natural gas sales (in TWh).

Sales volume	2019	2018	% change
Sale of natural gas to the Group	2.31	2.99	-23%
Sale of natural gas outside the Group	2.58	2.68	-4%
Total natural gas sales	**4.89**	**5.67**	**-14%**

Lower sales volume of natural gas y/y is a result of decreasing sales to entities from the PGE Group, especially to PGE Obrót S.A. Lower volume of gas sale by PGE Obrót S.A. results from decline in sales to large customers from professional segment.

6.3. Ownership structure

State Treasury is a main shareholder of PGE S.A. State Treasury and 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. 8.4 of this report).

6.4. Dividend policy

In May 2017 the Management Board decided to 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. The dividend policy 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.

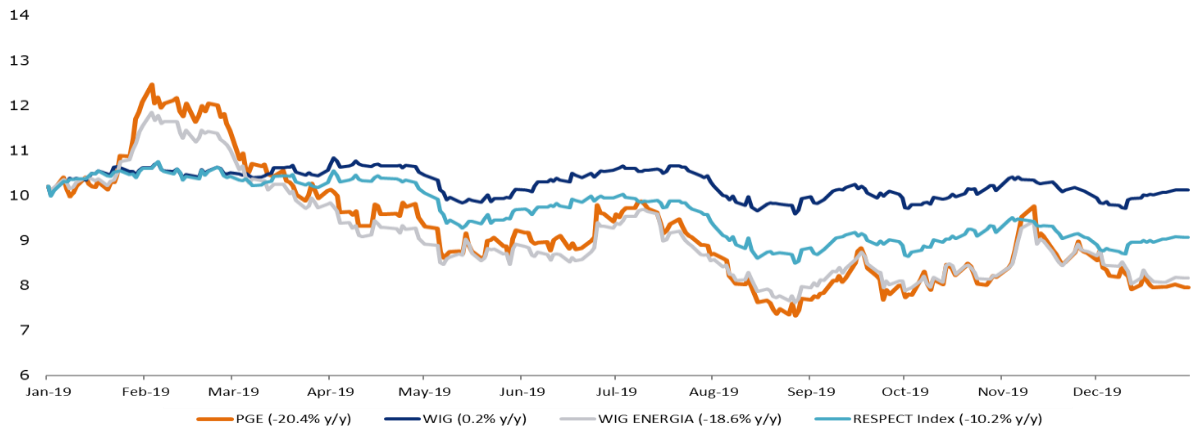
The dividend policy will be periodically verified by the Management Board of the Company.

The Ordinary General Meeting of PGE S.A. of May 15, 2019 did not adopt a resolution on dividend from consolidated net profit - separate net loss for financial year 2018, amounting to PLN 202 768 919.52, was covered from the Company's reserve capital.

6.5. PGE S.A. shares on the stock exchange

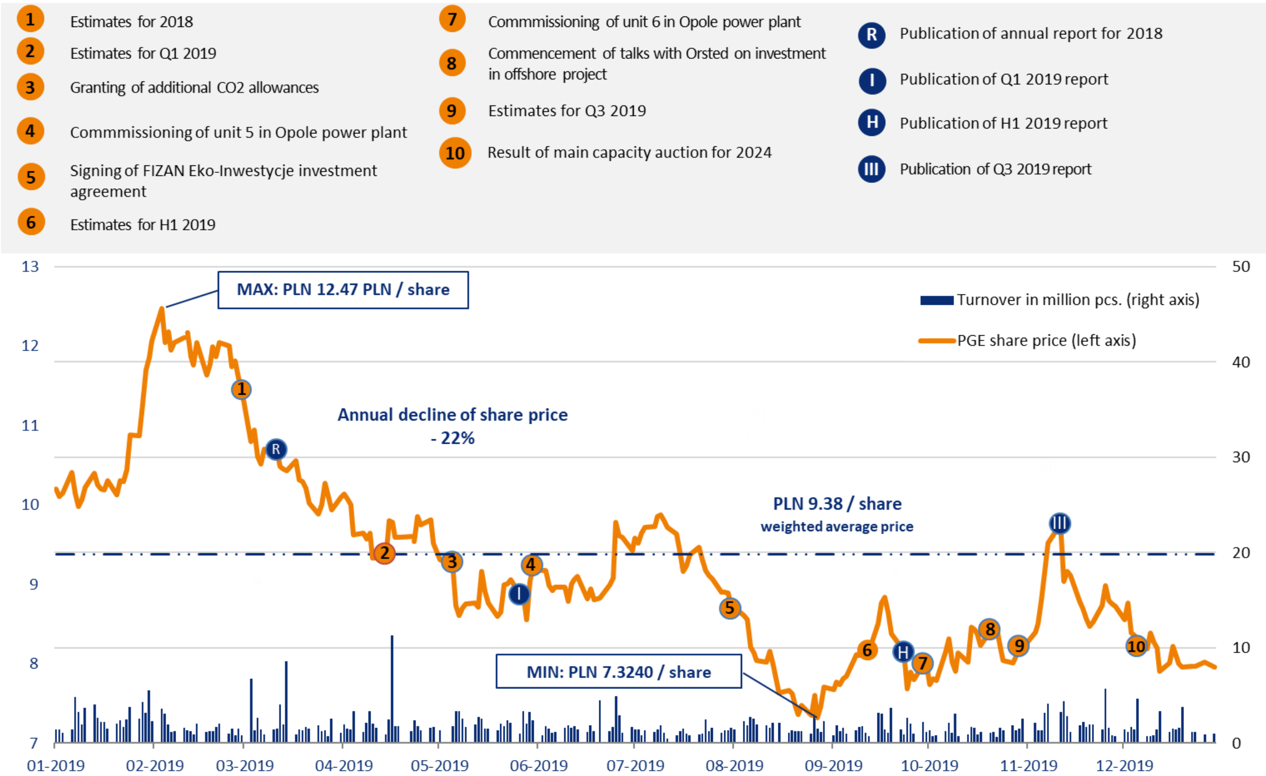
PGE shares are listed in the continuous trading system on the Main Market of Warsaw Stock Exchange ("WSE"). PGE has the largest market capitalization among Polish companies from power sector listed on WSE. PGE shares are included in the most important WSE indexes: WIG20 – the index of the largest and most liquid companies, WIG – the index of all companies from the Main Market, and WIG Energia – the index of power sector companies. Moreover, continuously since 2011, PGE S.A.'s shares were also listed in the RESPECT Index – index including Polish companies operating in compliance with best corporate governance, information governance and investors relations standards and also in adherence to environmental, social and personnel criteria. As of January 1, 2020, the WSE stopped calculating and publishing the RESPECT Index. On September 3, 2019, the WSE started to publish the WIG-ESG (Environment, Social, Governance) index which includes companies from WIG20 and mWIG40 indices. In 2019 PGE shares quotation were in range PLN 7.3240-12.4700. Average market capitalisation (value of all shares of the Company) in 2019 amounted to PLN 17.3 billion. Average trading volume amounted to 1.9 million shares per session and average trading amount reached PLN 18 million.

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



Source: Bloomberg.

Chart: Key events on the background of stock quotes of PGE in 2019 (PLN).



Source: Bloomberg, Company's data.

Table: Key data on PGE shares

	2019	2018
Turnover value (PLN)	4 506 880 646	5 610 112 265
Average number of transactions per session (pcs)	1 915 115	2 174 005
Maximum price during the year (PLN)[1]	12.47	13.40
Minimum price during the year (PLN)[1]	7.32	8.55

[1] Stock 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 8.4 of this report).

6.6. 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	December 16, 2019	February 15, 2019
Poland long-term rating	A2	A-
Rating outlook	stable	stable

In 2019 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 dated February 2019 especially underlines projected revenues from the capacity market, transfer of higher prices of CO_2 emission rights into the wholesale electricity prices, advanced stage of construction of power units in Opole and Turów PGE's expansion in more stable district heating sector. Rating acknowledges also high capital expenditures and planned acquisitions, likely return to dividend payment from 2020 and higher average CO_2 emission rate in comparison to the Western European peers. Moody's in its latest release dated December 2019 emphasises strong, leading market position of the PGE Group in Poland, growing share of revenues from regulated activities related to distribution grid and district heating, as well as moderate level of debt.

The rating takes into account significant share of coal-based generation in the Group's portfolio, exposure to volatility of electricity prices on the power exchange in view of significant level of fixed costs of operations and large capital expenditures that involve funds from operations.

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

7. Other elements of the report

7.1. Significant changes in organisation of the Capital Group

Changes which occurred in the PGE Capital Group's structure in the period from January 1, 2019 until the publication date of this report, are presented in note 1.3 to consolidated financial statements and described below.

ESTABLISHMENT OF COMPANIES

Segment	Entity	Date of establishment/ registration in the National Court Register	Comment
Renewables	PGE Soleo 1 sp. z o.o. PGE Soleo 2 sp. z o.o. PGE Soleo 3 sp. z o.o. PGE Soleo 4 sp. z o.o. PGE Soleo 5 sp. z o.o. PGE Soleo 6 sp. z o.o. PGE Soleo 7 sp. z o.o.	November 19, 2019 October 23, 2019 October 23, 2019 October 24, 2019 October 28, 2019 October 30, 2019 October 22, 2019	On October 2, 2019 PGE Energia Odnawialna S.A. set up 7 sole shareholder companies with seats in Warsaw in the form of limited liability companies with following names: PGE Soleo 1 sp. z o.o., PGE Soleo 2 sp. z o.o., PGE Soleo 3 sp. z o.o., PGE Soleo 4 sp. z o.o., PGE Soleo 5 sp. z o.o., PGE Soleo 6 sp. z o.o. oraz PGE Soleo 7 sp. z o.o. The share capital of each company is PLN 100 000.

ACQUSITION OR DISPOSAL OF SHARES BY THE COMPANIES

Segment	Shares of the company	Date of transaction/ registration in the National Court Register	Comment
Other Operations	ElectroMobility Poland S.A. ("ElectroMobility") - acquisition by PGE S.A. of increased value of the shares held in ElectroMobility	October 4, 2018/ January 7, 2019	On October 4, 2018 the Extraordinary General Meeting of ElectroMobility adopted resolution on a share capital increase by PLN 40 000 000 to PLN 70 000 000 by increasing the nominal value of existing shares. In exchange for a cash contribution, PGE S.A. took up increased nominal value of 2 500 shares, the total nominal value of which increased from PLN 7 500 000 to PLN 17 500 000, i.e. by PLN 10 000 000. As a result of the share capital increase, PGE S.A.'s stake in ElectroMobility did not change (25% shareholding).
Conventional Generation	Pracownicze Towarzystwo Emerytalne „Nowy Świat" S.A. with its seat in Warsaw ("PTE Nowy Świat") - acquisition of shares by PGE GiEK S.A. (as a result of conditional share sale agreement)	December 28, 2018/ June 14, 2019 (transfer of ownership of shares)	On December 28, 2018 PGE GiEK as the buyer and Centralny Dom Maklerski Pekao S.A. with its seat in Warsaw as the seller entered into the agreement for the sale of 9 890 registered shares in PTE Nowy Świat, with the total nominal value of PLN 98 900, representing 19.78% of the share capital. On June 14, 2019 transfer of ownership of shares to PGE GiEK took place (the Financial Supervision Authority granted approval for the acquisition of shares of PTE Nowy Świat). The acquisition of the shares resulted in increased share of PGE GiEK in the sahre capital of PTE Nowy Świat from 75.20% to 94.98%.
District Heating	Pracownicze Towarzystwo Emerytalne „Nowy Świat" S.A. with its seat in Warsaw ("PTE Nowy Świat") – acquisition of shares by	February 18, 2019 June 25, 2019 (transfer of ownership of shares)	On February 18, 2019 PGE EC as the buyer and PGE S.A. as the seller entered into the agreement for the sale of one registered share in PTE Nowy Świat with the total nominal value of PLN 10 which is 0.002% of the share capital. On June 25, 2019 transfer of ownership of shares to PGE EC took place (the Financial Supervision Authority granted approval for the acquisition of shares of PTE Nowy Świat). The acquisition of the share resulted in PGE EC becoming a shareholder in PTE

Segment	Shares of the company	Date of transaction/ registration in the National Court Register	Comment
	PGE EC (as a result of conditional share sale agreement)		Nowy Świat and PGE S.A. ceasing to be a shareholder in that company.
Other Operations	4Mobility S.A. seated in Warsaw ("4Mobility") – acquisition by Nowa Energia of shares in the increased share capital of 4Mobility	April 24, 2019/ May 8, 2019	On April 24, 2019 the Extraordinary Assembly of Partners of 4Mobility adopted resolution on a share capital increase by PLN 187 500 to PLN 364 316, through issue of new bearer shares. On April 24, 2019 Nowa Energia signed an agreement to acquire all newly issued bearer shares, i.e. total of 1 875 000 shares in the increased share capital of 4Mobility with a total nominal value of PLN 187 500 in exchange for a cash contribution. The acquired shares constitute 51.47% in the share capital of the company.
District Heating	PGE Gaz Toruń sp. z o.o. ("PGE Gaz Toruń") – acquisition of shares by PGE Nowa Energia sp. z o.o. (as a result of accepting the share purchase offer)	June 14, 2019	On May 15, 2019, Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Infrastructure Investment Fund - Private Assets Closed-end Capital Investment Fund) with its registered office in Warsaw (partner of PGE Gaz Toruń), represented by Polski Fundusz Rozwoju S.A. with its registered office in Warsaw, submitted a statement of acceptance of the offer submitted by PGE EC to acquire 662 shares in PGE Gaz Toruń, constituting 49.96% of the share capital. On June 14, 2019 – the day of payment of the purchase price for the shares – the ownership right to the above mentioned shares in PGE Gaz Toruń was transferred to PGE EC, which resulted in PGE EC becoming the sole shareholder in PGE Gaz Toruń, holding 100% of shares in its share capital.
District Heating	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. with its seat in Zgierz ("PEC Zgierz") - acquisition of shares by PGE EC (as a result of share sale agreement)	October 18, 2019	On October 18, 2019 PGE EC as the buyer and PGE GiEK as the seller entered into the agreement for the sale of all shares possessed by PGE GiEK in PEC Zgierz, i.e. total of 7 630 shares of that company with a total nominal value of PLN 7 630 000, representing 50.98% in the share capital. Transfer of ownership of shares to PGE EC took place on October 18, 2019.
Other Operations	PGE Ekoserwis sp. z o.o. („PGE Ekoserwis") - acquisition of shares by PGE EC (as a result of share sale agreement)	November/December 2019	In November and December 2019, the company purchased a total of 25 634 shares in PGE Ekoserwis from minority shareholders. The acquired shares with a total nominal value of PLN 5 126 800 represent 10.94% of PGE Ekoserwis' share capital. As a result of the purchase of shares in PGE Ekoserwis, PGE EC's share in the share capital of PGE Ekoserwis increased from 84.15% to 95.08%.
Other Operations	PGE Ekoserwis sp. z o.o. („PGE Ekoserwis") - acquisition of shares by PGE S.A. (as a result of share sale agreement)	December 17, 2019 and December 19, 2019	On December 17, 2019 and December 19, 2019 17 i 19 grudnia 2019 PGE as the buyer and PGE EC as the seller entered into two agreement for the sale of, respectively 2 000 and 220 850 shares in PGE Ekoserwis, i.e. all shares possessed by PGE EC. Acquired shares with a total nominal value of PLN 44 770 000 represent 95.08% in the share capital of PGE Ekoserwis. Transfer of ownership of shares to PGE S.A. took place on dates of the share sale agreements, i.e. respectively on December 17, 2019 and December 19, 2019.

DE-MERGERS

Segment	Spun off company /acquiring company	Date of transaction/ registration in the National Court Register	Comment
Conventional Generation	PGE GiEK/ PGE EC	October 18, 2018/ On January 2, 2019 de-merger was registered in the National Court Register	The Extraordinary General Meetings of PGE GiEK and PGE EC adopted resolutions on the division of PGE GiEK (divided company) through a carve out, pursuant to art. 529 § 1 point 4 of the Polish Commercial Companies Code, by way of transfer to PGE EC (acquiring company) of selected PGE GiEK assets in the form of six PGE GiEK branches (Branches), i.e.: (1) Zespół Elektrociepłowni Bydgoszcz, (2) Elektrociepłownia Gorzów, (3) Elektrociepłownia Zgierz, (4) Elektrociepłownia Lublin Wrotków, (5) Elektrociepłownia Kielce and (6) Elektrociepłownia Rzeszów. The Branches constitute an organised part of enterprise and are functionally related to the generation of electricity, generation of electricity and heat in cogeneration and distribution of heat and electricity. The transfer of the Branches to PGE EC was carried out by lowering PGE GiEK's share capital by PLN 406 847 180 and increasing PGE EC's share capital by PLN 763 432 450 through cancelling 40 684 718 shares of PGE GiEK, with nominal value of PLN 10 each, and issue of 76 343 245 new shares of PGE EC, with nominal value of PLN 10 each. As the sole shareholder of PGE GiEK, PGE S.A. acquired all new shares in PGE EC's increased share capital in exchange for the cancelled PGE GiEK shares.
District Heating	PGE EC/PGE GiEK	October 10, 2019/ January 2, 2020	The Extraordinary General Meetings of PGE EC and PGE GiEK adopted resolutions on the division of PGE EC (divided company) through a carve out, pursuant to art. 529 § 1 point 4 of the Polish Commercial Companies Code, by way of transfer to PGE GiEK (acquiring company) of part of assets of the divided company in the form of an organised part of the enterprise covering the activities carried out by PGE EC Branch in Rybniku ("Rybnik Branch") related to production of electricity and heat, as well as distribution of electricity and heat. The transfer of the Rybnik Branch to PGE GiEK was carried out by lowering PGE EC's reserve capital and increase of the share capital of PGE GiEK by PLN 53 119 080 PLN to PLN 6 583 137 600 as a result of issue of 5 311 908 inscribed shares of the acquiring company with nominal value of PLN 10 each. As the sole shareholder of PGE EC, PGE S.A. acquired all new shares in the increased share capital of the acquiring company.

7.2. Significant off-balance sheet items

Significant off-balance sheet items are described in note 29 to the consolidated financial statements.

7.3. Publication of financial forecasts

PGE S.A. did not publish financial forecasts.

7.4. 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 2019 is Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. on the ground of the agreement signed on April 26, 2019. More information regarding the co-operation of PGE Capital Group with the auditor is presented in note 32 to the consolidated financial statements.

7.5. Information on entity authorised to audit financial statements

Based on a statement from the Supervisory Board, the Management Board of PGE S.A. announces that the entity authorised to audit separate financial statements and consolidated financial statements, carrying out the audit of the annual financial statements: separate and consolidated, was selected in accordance with the provisions of law, especially as regards audit firm selection and selection procedure:

- the audit firm and members of the team performing the audit met the conditions for preparing an impartial and independent report on audit of annual financial statements in accordance with the existing regulations, professional standards and professional ethics rules,
- the existing regulations concerning audit firm and lead statutory auditor rotation and mandatory grace periods are being observed,
- has a policy for selecting audit firms and a policy for provision of additional non-audit services to the issuer by the audit firm, entity related to the audit firm or a member of its network, including services conditionally exempted from the prohibition concerning audit firm services.

8. Statement on implementation of Corporate Governance

This Statement on implementation of corporate governance in PGE S.A. in 2019 was prepared on the basis of § 70 section 6 point 5 of the Regulation of the Minister of Finance dated March 29, 2018 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.

8.1. Corporate governance principles which the Company was obliged to follow in 2019

In 2019 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 WSE no. 26/1413/2015 on October 13, 2015, came into force on January 1, 2016 and should be obeyed 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 WSE: https://www.gpw.pl/best-practice

INFORMATION ON EXCEPTIONS IN APPLICATION OF THE CORPORATE GOVERNANCE PRINCIPLES

In 2019 the Company was applying the Best Practices with the exception of recommendation IV.R.2.

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.

INFORMATION ABOUT THE DIVERSITY POLICY

PGE S.A. so far has not 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.

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 filing and financial 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.

Consolidation of the financial statements is performer in the dedicated financial program. This program automates repetitive consolidation adjustments, ensures internal consistency of reporting data, and generates reports that are the basis for the preparation of the consolidated financial statements, among others.

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 that covers all areas of activity of the PGE Capital Group, excluding protection of classified information, which is regulated by the act. The aim of internal audit is to perform independent and objective assessments of business processes at PGE Group companies as regards implementing 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 bodies 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 objectives in the financial plans.

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. 8.4 of the foregoing report.

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%.

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.

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.

8.2. 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.

MODE OF OPERATION OF THE GENERAL MEETING OF THE COMPANY, ITS KEY POWERS AND THE RIGHTS OF SHAREHOLDERS AND THE MANNER OF THEIR EXECUTION

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

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

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.

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.

In accordance with the changes adopted by the Extraordinary General Meeting in November 2018, the consent of the General Meeting is required for:

- the PGE's disposal of shares/interests in a company with respect to which frequencies from the ranges 452.5-457.5 MHz and 462.5-467.5 MHz have been reserved pursuant to a decision on frequency reservation to be issued, after consultations with the minister competent for energy-related matters, by the President of the Electronic Communication Office,
- the determination of the manner of voting at the General Meeting of a company with respect to which frequencies from the ranges 452.5-457.5 MHz and 462.5-467.5 MHz have been reserved pursuant to a decision on frequency reservation to be issued, after consultations with the minister competent for energy-related matters, by the President of the Electronic Communication Office, on matters concerning amendments to such a company's statutes / agreement.

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.

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.

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 of members of Company's authorities or liquidators, and motions for recalling or prosecuting 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.

8.3. Composition and the description of operations of the management and supervisory bodies and its committees

MANAGEMENT BOARD

Management Board members

As at December 31, 2019 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 Wasiłek	Vice-President for Operations
Emil Wojtowicz	Vice-President for Finance

Following the expiry of the tenth term of office of the Management Board, on February 19, 2020 the Supervisory Board of PGE Polska Grupa Energetyczna S.A. dismissed all Members of the Management Board.

After a competitive procedure, on February 19, 2020 the Supervisory Board of PGE Polska Grupa Energetyczna S.A. appointed the following Members of the Company's Management Board for the eleventh term of office:

Name and surname of the Management Board	Position	
Wojciech Dąbrowski	President of the Management Board	from February 20, 2020
Paweł Cioch	Vice-President for Corporate Affairs	from February 24, 2020
Paweł Strączyński	Vice-President for Finance	from February 24, 2020
Paweł Śliwa	Vice-President for Innovations	from February 20, 2020
Ryszard Wasiłek	Vice-President for Operations	from February 20, 2020

As at the date of issue of this report, the composition of the Company's Management Board has not changed.

Wojciech Dąbrowski – President of the Management Board

Mr Wojciech Dąbrowski was appointed to the Management Board of PGE of the 11th term on February 20, 2020. He graduated from the Faculty of Law and Administration at the University of Warsaw, where he was awarded a Master of Law degree. He later completed postgraduate studies at the Warsaw University of Technology, in the Faculty of Power and Aeronautical Engineering, in the area of steam exploitation, gas and steam-gas power plants, combined heat and power plants. Moreover, he is a graduate of the Leon Kozminski Academy of Entrepreneurship and Management, and he can boast a further degree from the University of Warsaw, in Management in Public Administration.

Mr Dąbrowski has been working as a manager in the energy sector for ten years. From November 2017 to February 2020, he was the President of the Management Board of the PGE EC, where he completed the process of Polish heat industry assets integration, acquired by PGE from the French company EDF. From January 2016 to November 2017, he was President of the Management Board of the PGNiG Termika S.A., where he completed the process of acquisition in PEC Jastrzębie and SEJ Jastrzębie, strengthening the market position of PGNiG Termika. Between 2011 and 2016, he was Vice-President of the Municipal Heat Energy Company in Wołomin Ltd.

Paweł Cioch – Vice-President for Corporate Affairs

Mr Paweł Cioch was appointed to the Management Board of PGE of the 11th term on February 24, 2020. Doctor of Law, a graduate of the Faculty of Law, Canon Law and Administration of the Catholic University of Lublin in 2003. In 2006 he completed a judicial apprenticeship completed with a judicial exam at the Court of Appeal in Rzeszów, as well as obtained a PhD in legal sciences at KUL and was registered on the roll of attorneys-at-law.

He specializes in providing legal services to commercial law companies and public finance sector entities. For many years, he provided legal services to capital companies in the manufacturing, transport and construction industries, as well as local government units and organizational units of the State Treasury. Mr Cioch has experience in the implementation of corporate governance in capital companies. Since 2007, the owner of the Law Firm of Attorney-at-Law - dr Paweł Cioch, and since 2016 the Managing Partner of the law firm Cioch & Partnerzy. At the same time, since 2018 he has been the Legal Advisor of the Marshal of the Lublin Province. At the same time, since 2018 he has been the Legal Advisor of the Marshal of the Lublin Province.

Paweł Strączyński - Vice-President for Finance

Mr Paweł Strączyński was appointed to the Management Board of PGE of the 11th term on February 24, 2020. He graduated from University of Economics in Wrocław, Faculty of National Economy, major: finance and banking and Master of Business Administration - Executive MBA, specialisation in management of medium and large enterprises.

Since November 2018 he held position of the Vice-President of the Management Board of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. From April 2018 till February 2019, a Vice-President of the Management Board of ZOWER Sp. z o.o. (a company from the PGE Energia Ciepła S.A. group). From 2016 to 2018, Member of the Management Board of Przedsiębiorstwo Energetyki Cieplnej S.A., of Spółka Energetyczna "Jastrzębie" S.A., and of PGNiG Termika Energetyka Przemysłowa S.A. In the years 2010-2012, he was a Member of the Management Board of PROTEKTOR S.A., and then of the companies in Polska Grupa Biogazowa. In 2005-2010, he was the finance director and proxy of the Polish division of Steinhoff International Holding. In the years 2002-2005, he was the Chief Accountant in the company ASP Polska sp. o.o.

Paweł Śliwa – Vice-President for Innovations

Mr Paweł Śliwa was appointed to the Management Board of PGE of the 11th term on February 20, 2020. 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. From 2002 till March 2016 Mr. Paweł Śliwa ran a Law Firm in Gorlice. Since October 2010 a councilor in the legislative assembly of Małopolskie voivodship. In years 2005-2012 ran 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 Wasiłek – Vice-President for Operations

Mr Ryszard Wasiłek was appointed to the Management Board of PGE of the 11th term on February 20, 2020. He 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 Cieplnej Sp. z o.o. in Stargard. In years 1990-1994 Mr. Ryszard Wasiłek 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) and a Member of the National Council of the Polish Chamber of District Heating (since 2014). In years 1993-1994 Ryszard Wasiłek was also the President of the Western Pomerania Municipal Community "Euroregion Pomerania".

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 Statutes. 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.

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. In the case of a voting tie, the President of the Management Board has the casting vote.

In accordance with the PGE's Statutes (taking into account change of § 14 of the Statutes intoduced by the Resolution no. 25 of the Ordinary General Meeting of PGE Polska Grupa Energetyczna S.A. of May 15, 2019) 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 PLN 400 000, 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 do not provide for detailed regulations which authorise Members of the Management Board to decide on the issue or buy-out of shares.

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.

SUPERVISORY BOARD

Supervisory Board members

As at the publication date of this report, the Supervisory Board works in following composition:

Name and surname	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
Mieczysław Sawaryn	Supervisory Board Member - independent
Jerzy Sawicki	Supervisory Board Member - independent
Radosław Winiarski	Supervisory Board Member

Resumes of members of the Supervisory Board are available on the website www.gkpge.pl.

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.

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.

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. In 2019, the Ordinary General Meeting of Shareholders, by Resolution no. 27 of May 15 on amendments to § 18 of the Company's Statutes, clarified the provisions related to the amendment of the Act of December 16, 2016 on Principles of Management of State Property. The said resolution of the Ordinary General Meeting introduces amendments to § 18(2) of the PGE's Statutes with respect to the disposal of fixed assets, extending the powers of the Supervisory Board.

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

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 task of the Audit Committee is assessment of the correctness and effectiveness of internal control at PGE S.A. and PGE Group and cooperation with the 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.

The Supervisory Board Audit Committee had the following members in 2019:

- meeting statutory independence criteria: Mrs. Janina Goss, Mr. Grzegorz Kuczyński, Mr. Artur Składanek,
- having knowledge and skills in accounting or auditing financial statements due to their education and experience: Mr. Radosław Winiarski,
- having knowledge and skills in the industry in which the company operates due to their education and professional experience: Mr. Artur Składanek and Mrs. Anna Kowalik.

The CVs of Supervisory Board Audit Committee Members, containing details on their education and professional experience are available at the website of PGE S.A. www.gkpge.pl.

Details on the composition of the Audit Committee in 2019 are presented in a further part of this report.

The Supervisory Board Audit Committee at PGE S.A. held 9 meetings in 2019.

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 ("Act on statutory auditors"), Regulations for the Audit Committee at the Supervisory Board of PGE S.A. were adopted in 2017. What more, the Audit Committee at the Supervisory Board of PGE 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. In accordance with the adopted 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, a statutory auditor or audit firm conducting a statutory audit at PGE S.A. or any of its network members may not provide any prohibited non-audit services directly or indirectly to PGE S.A. and PGE Group companies.

The aforesaid prohibited non-audit services include:

- services indicated in Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC ("Regulation no. 537/2014") (in 5 section 1 of the Regulation no. 537/2014),
- other non-financial revision services.

On the other hand, prohibited services that are not auditing financial statements are not:

- services: conducting economic and financial due diligence, issuing of comfort letters in connection with prospectuses issued by the audited entity, conducted in compliance with the national standard for related services and consisting of agreed procedures,
- assurance services as regards pro forma financial information, earnings forecasts or estimated results published in a prospectus of the audited entity,
- auditing of historic financial information for the prospectus referred to in Commission Regulation (EC) No 809/2004 of April 29, 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements,
- verification of consolidation packages,
- confirming compliance with conditions included in credit agreements based on analysis of financial information from financial statements audited by the audit firm,
- assurance services concerning reporting on corporate governance, risk management and corporate social responsibility,
- services consisting of evaluating the compliance of information disclosed by financial institutions and investments firms with information disclosure requirements concerning capital adequacy and variable pay components,
- assurances concerning financial statements or other financial information intended for supervision authorities, supervisory board or other supervisory body of the company or owners, exceeding the scope of statutory audit and intended to help these entities in compliance with their statutory obligations,
- open workshops, thematic conferences, industry meetings or other events that are open in nature and are not prepared for or adapted to the needs of PGE S.A., PGE Group companies or their employees.

The provision of these services by an audit firm performing a statutory audit of PGE S.A. and by members of the network for PGE S.A. and PGE Group companies is possible only in as far as this is not linked to tax policy after the Audit Committee at PGE S.A.'s Supervisory Board carries out an assessment of independence threats and precautions as referred to in the Act on statutory auditors. In the case of the aforesaid open training sessions, thematic conferences, industry meetings and other events, the assessment of threats and safeguards for independence referred to in the Act on Statutory Auditors is carried out by the Audit Committee of PGE S.A. only if, in a given financial year, the value of these services, provided jointly by PGE S.A. and the PGE Group Companies to a statutory auditor or audit firm carrying out statutory audits of PGE S.A. or a member of the network to which the statutory auditor or audit firm belongs, reaches the limit set in the Policy. The Policy sets out the manner in which a PGE Group Company may request the Audit Committee of PGE S.A. to carry out the aforesaid assessment. The Audit Committee provides its position in writing within 14 calendar days of receipt of the request for assessment.

In accordance with the Policy and Procedure for selecting audit firms to conduct audits, selecting audit firms to audit the Company's financial statements and PGE Group's consolidated financial statements takes place in accordance with the rules specified in this Policy and Procedure, with observance of the laws, especially the Act on statutory auditors, the Accounting Act and the Regulation no. 537/2014, and taking into account guidelines from the Prime Minister, concerning the rules and procedures for selection of statutory auditors to audit financial statements, who exercises rights attached to the shares held by the State Treasury.

The Supervisory Board selects the audit firm to conduct an audit of financial statements.

The first agreement concerning the audit of financial statements with an audit firm is executed for a period not shorter than two years, with an option to extend it for subsequent two-year periods.

The maximum time for continuous financial statement audit commissions by the same audit firm or an audit firm linked to this audit firm or any member of a network operating in EU member states to which these audit firms belong may not exceed five years, with the stipulation that the lead statutory auditor may audit financial statements again after at least three years from the end of the most recent audit of financial statements.

The recommendation on selection of the audit firm to audit financial statements met the applicable criteria, was prepared following a selection procedure organised by the issuer in accordance with the applicable criteria.

The separate and consolidated financial statements for 2019 were audited by an audit firm – Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp.k. selected in the public procurement procedure by way of competitive negotiations with publication of a contract notice, pursuant to the following legal acts:

- Act on Statutory Auditors, in particular Article 130(3)(2) thereof,

- Public Procurement Law (consolidated text: Journal of Laws of 2019, item 1843 as amended, "PPL"),
- General Procurement Procedure of the PGE Group,
- Procurement Instructions of PGE S.A.,
- Policy and Procedure for selecting audit firms to conduct audits adopted by the PGE Supervisory Board's Audit Committee (the "Policy") on October 10, 2017,
- Guidelines for selecting and cooperating with audit firms auditing the annual financial statements of companies with a State Treasury shareholding of September 2017.

The procurement procedure for the selection of an audit firm was initiated by the Supervisory Board who adopted a resolution on the determination of: the criteria for the selection of the audit firm, the method of evaluation of the bids and the content of the notice of a joint procurement procedure entitled "Selection of a statutory auditor to audit the separate and consolidated financial statements of selected companies of the PGE Polska Grupa Energetyczna Group for the years 2019-2021".

The procurement procedure was carried out by an appointed tender committee. Subsequently, the Audit Committee of the Supervisory Board of PGE S.A., on the basis of the results of the assessment of the bids received from the tender committee and the minutes of the proceedings for the selection of an audit firm, presented a recommendation concerning the selection of an audit firm to the Supervisory Board of PGE S.A. The recommendation met the requirements of Art. 130(2)–(3) of the Act on Statutory Auditors.

The Supervisory Board of PGE S.A. agreed with the recommendation of the Audit Committee of the Supervisory Board of PGE S.A. and on December 11, 2018 selected the best bid – Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp.k. for the audit of the separate and consolidated financial statements of PGE S.A. for the years 2019-2021 and accepted the recommendation of the tender committee for the selection of the contractor – Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp.k. to audit the separate financial statements for selected PGE Group companies for the years 2019-2021, which was presented to the PGE Group companies.

In 2019, the audit firm Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (auditing financial statements for 2017 and 2018) and the audit firm Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp.k. provided permitted non-audit services based on consents given by way of resolutions by the Supervisory Board Audit Committee.

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.

In 2019 the committees worked in following compositions:

Name and surname of the member of the Supervisory Board	Audit Committee	Corporate Governance Committee	Strategy and Development Committee	Appointment and Remuneration Committee
Janina Goss	Member			Member
Tomasz Hapunowicz		Chairman	Member	
Anna Kowalik	Member		Member	Member
Grzegorz Kuczyński	Chairman	Member	Member	
Mieczysław Sawaryn			Member	Chairman
Jerzy Sawicki		Member	Member	Member
Artur Składanek	Member		Chairman	
Radosław Winiarski	Member		Member	

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).The act also 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 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 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. In 2019 the Supervisory Board determined management objectives and indicators for assessing their performance.

Table: Remuneration and benefits received in 2019 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 2019 (PLN)
Henryk Baranowski	1 200 000.40 [1]
Wojciech Kowalczyk	1 078 173.04 [1]
Marek Pastuszko	1 124 549.04 [1]
Paweł Śliwa	1 124 549.04 [1]
Ryszard Wasiłek	1 124 549.04 [1]
Emil Wojtowicz	1 124 549.04 [1]
Bolesław Jankowski	191 830.00 [2]

[1] Item including remuneration for the period of service at the Management Board i.e. base and variable remuneration for 2017.

[2] Mr Bolesław Jankowski was a member of the Management Board until July 1, 2017. In 2019 he received variable remuneration for 2017.

The total remuneration achieved by the Management Board members in 2019 amounted to PLN 7.0 million (according to PIT11). In cost perspective (including provisions), in 2019 the remuneration of all persons who acted as Management Board members of PGE S.A., amounted to PLN 7.2 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 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 2019 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 2019 (PLN)
Janina Goss	83 515.82
Tomasz Hapunowicz	79 427.98
Anna Kowalik	93 455.71
Grzegorz Kuczyński	79 268.04
Mieczysław Sawaryn	80 112.25
Jerzy Sawicki	80 431.30
Artur Składanek	81 005.22
Radosław Winiarski	81 998.54

Total remuneration earned in 2019 by the members of the Supervisory Board in PGE S.A. amounted to PLN 659 thousand. In cost perspective (including provisions), the remuneration of all persons who acted as Supervisory Board members amounted to PLN 733 thousand in 2019.

8.4. Information about shares and other securities

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, 2019 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, 2019*.

	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, 2019	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.

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, 2019 PGE S.A. and subsidiaries did not hold any treasury shares.

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 December 31, 2019 and as of the date of publishing of the consolidated report for the third quarter of 2019 did not hold shares of the parent company.

Table: PGE S.A. shares held by the persons acting on behalf of material direct subsidiaries of PGE S.A as at December 31, 2019.

Shareholder	Position	Number of shares as at December 31, 2019	Nominal value of shares as at December 31, 2019 (PLN)
Management Board of PGE GiEK S.A.		**2 213**	**22 683**
Robert Ostrowski*	President of the Management Board	1 002	10 271
Andrzej Kopertowski	Vice-President of the Management Board	1 211	12 413
Management Board of PGE Obrót S.A.		**3 416**	**35 014**
Jan Mądrzak	Member of the Management Board	3 416	35 014
Management Board of KOGENERACJA S.A.		**300**	**3 075**
Paweł Strączyński**	Vice-President of the Management Board	300	3 075

*On March 25, 2020 Mr Robert Ostrowski was dismissed from the position of President of the Management Board of PGE GiEK S.A.

**As of February 24, 2020 Mr Paweł Strączyński has been holding position of the Vice-President of the Management Board of PGE S.A.

Control system of employees share scheme

In 2019, PGE S.A. did not maintain any employees share schemes.

Use of proceeds from issues

In 2019, PGE S.A. did not maintain any employees share schemes.

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. 5.5 of this report).

9. Statement on non-financial data

A separate report on non-financial data of PGE Polska Grupa Energetyczna S.A. and PGE Group for 2019, 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 2019 and is available at PGE Group's website in the section dedicated to financial data for 2019: www.gkpge.pl.

10. 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.

11. 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 31, 2020.

Warsaw, March 31, 2020

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

President of the Management Board	**Wojciech Dąbrowski**	
Vice-President of the Management Board	**Paweł Cioch**	
Vice-President of the Management Board	**Paweł Strączyński**	
Vice-President of the Management Board	**Paweł Śliwa**	
Vice-President of the Management Board	**Ryszard Wasiłek**	

Glossary

AKPiA	Control, measurement and automation apparatus area
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.
ARA	USD hard coal price index in EU. Loco in harbours Amsterdam-Rotterdam-Antwerp
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.
BAT	Best Available Technology
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.
CCGT	Combined Cycle Gas Turbine
Circular economy	system that minimises the consumption of resources and the level of waste as well as emissions and energy losses by creating a closed loop of processes in which waste from one process is used as resources in other processes so as to maximally reduce the quantity of production waste
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.
CVC fund	Corporate Venture Capital; in the CVC model, portfolio companies, aside from financial support, receive the opportunity to verify their ideas in a corporate setting
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.
Energy cluster	civil-law arrangement that may include natural persons, legal entities, scientific units, research institutes or local government units, concerning the generation, distribution or trade in energy and energy demand balancing, with this energy being from renewable sources or other sources or fuels, within a distribution grid with nominal voltage below 110 kV, within the operational area of the given cluster, not exceeding the area of one district (powiat) in the meaning of the act on district authorities) or 5 municipalities (gmina) in the meaning of the act on municipal authorities; an energy cluster is represented by a coordinator, which is a cooperative, association, foundation appointed for this purpose or any member of the energy cluster indicated in the civil-law arrangement
ERO	Energy Regulatory Office (pol. URE).
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).

EV	Electric vehicle
FIT/FIP	Feed-in-Tariff (FIT) and Feed-in-Premium (FIP): system of subsidies to the market price of electricity performed by Zarządca Rozliczeń S.A.
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.
IED	Industrial Emissions Directive
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.
KRI	Key Risk Indicator
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.
N:W ratio	Ration of volume of overburden removed in m^3 to the mass of extracted coal in tons
OTF	Organised Trading Facilities
Operational Capacity Reserve (ORM)	ORM constitutes of generation capacities of active Production Schedular 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
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	special type of hydro-power plant allowing for electricity storage. It uses the upper reservoir, to which water is pumped from the lower reservoir using electricity (usually excessive in system). The pumped storage facilities provide ancillary control services for the national power system. In periods of increased demand for electricity, water from the upper reservoir is released through the turbine. This way, electricity is produced.
PJ	Petajoule, a unit of work/heat in the SI system, 1 PJ = approx. 278 GWh
Property rights	negotiable exchange-traded rights under green and co-generation certificates
Prosumer	end customer who purchases electricity under a comprehensive agreement and generates electricity only from renewable sources at a micro-installations for own purposes, unrelated to economic activities
PSCMI1	Polish Steam Coal Market Index 1 - average level of prices of coal dust sold to industrial-scale power plants in Poland
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
Start-up	early-stage company established in order to build new products or services and characterised by a high level of uncertainty. The most common features of start-ups are: short operational history (up to 10 years), innovativeness, scalability, higher risk than in the case of traditional businesses but also potential higher returns on investment
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.
TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange), a commodity exchange on which trading can take place in electricity, liquid or gas fuels, extraction gas, emission allowances and property rights whose price depends directly or indirectly on electric energy, liquid or gas fuels and emission allowances, admitted to commodity exchange trading.

TPA, TPA rule	Third Party Access, the owner or operator of the network infrastructure to third parties in order to supply goods/services to third party customers.
Transmission	transport of electricity through high voltage (220 and 400 kV) transmission network from generators to distributors.
Transmission System Operator (TSO)	a power company engaging in the transmission of gaseous fuels or electric energy, responsible for traffic in a gas or power transmission system, current and long-term security of operation of that system, the operation, maintenance, repair and indispensable expansion of the transmission system, including connections with other gas or power systems. In Poland, for the period from July 2, 2014 till December 31, 2030 Polskie Sieci Elektroenergetyczne S.A. was chosen as a TSO in the field of electricity 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 V= 1J/1C = (1 kg x m^2) / (A x s^3).
W (watt)	a unit of power in the International Systems of Units (SI), 1 W = 1J/1s = 1 kg x m^2 x 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.