



*Polska Grupa
Energetyczna*

**STATEMENT ON IMPLEMENTATION OF
CORPORATE GOVERNANCE IN
PGE POLSKA GRUPA ENERGETYCZNA S.A.
in year 2010**

Warsaw, March 15, 2011

1. Statement on implementation of corporate governance

This Statement on implementation of corporate governance in PGE Polska Grupa Energetyczna S.A. in 2010 was prepared on the basis of art. 91 section 5 point 4 of the Regulation of the Minister of Finance dated February 19, 2009 on current and periodic information published by issuers of securities and on conditions under which such information may be recognized as being equivalent to information required by the regulations of law of a state which is not a member state (Dziennik Ustaw of 2009, no. 33, item 259 as amended) and the resolution of the Management Board of the Warsaw Stock Exchange no. 718/2009 of December 16, 2009.

1.1. Corporate governance principles which the Company was obliged to follow in 2010

In 2010 PGE Polska Grupa Energetyczna S.A. ("Company", "PGE S.A.") was obliged to follow the corporate governance principles described in "Best Practices of WSE Listed Companies" (further: Best Practices), adopted with the Resolution of the Board of the Warsaw Stock Exchange ("WSE") no. 12/1170/2007 on July 4, 2007 and amended on May 19, 2010 by the Resolution of the Board of the Warsaw Stock Exchange no. 17/1249/2010, that came into force on July 1, 2010. Management Board passed a resolution approving Best Practices for application in the Company.

The Management Board of the Company acts with due diligence to observe all the principles of Best Practices. However, not all recommendations prescribed by the Best Practices may be followed, which is beyond the Company's control.

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

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

Till the change of the Best Practices, i.e. till July 1, 2010 (see p. 10.1 above) Company applied the corporate governance principles except principle no. 5 included in 'Recommendations for Best Practice for Listed Companies' described in point 1 of the Best Practices. The rule assumed that "Remuneration of the members of the statutory bodies of the company should be tied to the performed function, should correspond with the size of the company and stay in reasonable proportion to the company's economic results." Incomplete application of the aforementioned recommendation is related to provisions of the Act dated March 3, 2000 on remuneration of managers of certain legal entities (Dziennik Ustaw, 2000, no. 26 item 306) which describes the maximum remuneration of the members of the Company's authorities. Given the application of the said Act, the Supervisory Board and the General Meeting of Shareholders of the Company have limited options to change the remuneration of the members of the Management Board and Supervisory Board at the level which corresponds to the scope of responsibilities resulting from the functions performed in the authorities, the size of the Company and its economic results.

As from July 1, 2010 the mentioned rule was changed and according to its new text „A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission Recommendation of December 14, 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of April 30, 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.”

So far, the Company has not worked out a remuneration policy and rules of defining the policy. With regard to the members of the Supervisory Board, the provisions of the of the Act on remuneration of managers of certain legal entities are applied, limiting the Supervisory Board members remuneration to one average salary in the enterprises sector, without payments from the profit in the fourth quarter of the previous year, that is announced by the President of the Polish Statistical Office. In relation to the Management Board members the given Act does not apply as from October 15, 2010 i.e. from the day when the agreements with the Company for rendering of the management services were concluded with the Management Board members and the Management Board members purchased at their own expense a liability insurance with regard to the managing of the Company (see p. 1.6 above).

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

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

Basic regulations applicable to preparation of financial statements include: the Company's accounting policy, IFRS-compliant accounting policy of the PGE Capital Group, the procedure of closing accounting books and preparing consolidated financial statements of the PGE Capital Group in accordance with requirements of the Warsaw Stock Exchange. The IFRS-compliant accounting policy of the PGE Capital Group constitutes directives for companies subject to consolidation, which must be followed during preparation of IFRS-compliant reporting packages. Before every reporting period the companies subject to consolidation receive detailed guidelines 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 aforementioned regulations and guidelines ensure unification of the accounting principles in the PGE Group and method of the preparation of the reporting packages by the companies subject to consolidation. In addition, in the financial reporting area, PGE S.A. and the companies subject to consolidation follow operational procedures/instructions on the accounting document control and recording and procedures of preparing tax documentation when entering into transactions with related entities.

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. The system includes documentation for the end user section and the technical section. The system documentation undergoes regular verification and update. The Company has implemented organisational and system-wide solutions to ensure that the system is properly used and protected, and that the access to data and hardware is secured. The access to financial and accounting system records and financial reporting records is restricted with relevant rights granted to authorised employees as required for their actions and responsibilities. The accounting books in companies subject to consolidation are kept in autonomous information systems. For the consolidation purposes, these companies prepare reporting packages, which are transferred, verified and processed in the system's consolidation module. Regardless of the control mechanisms built into the information systems, management control mechanisms are implemented into the process of preparing financial statements in PGE S.A. and companies subject to consolidation. Such mechanisms include separation of responsibilities, verification of correctness of data received, authorisation by the superior, independent arrangements, etc.

Director of the Accounting Department of the Company is responsible for supervision over the preparation of stand-alone and consolidated financial statements. Chief bookkeepers of the particular companies are responsible for preparation of the reporting packages under consolidation. These packages are then authorised by the Management Boards of the companies.

Statutory auditors perform an independent assessment of reliability and correct preparation of the financial statements of PGE S.A. and financial statements of companies subject to consolidation. Two auditing companies were appointed to audit 2010 financial statements of key companies in the PGE Group. Their duties include review of the half-year financial statements and initial and essential audit of the annual statements. The PGE Group has implemented a multi-stage process of approving financial statements with the participation of Supervisory Boards. Stand-alone and consolidated financial statements of PGE S.A. are evaluated by the Supervisory Board. The Audit Committee operates within the Supervisory Board and is responsible, among others, for reviewing interim and annual financial statements of the Company. Stand-alone financial statements of the companies subject to consolidation are evaluated by the Supervisory Boards of such companies. The financial statements are approved by the General Meetings of the companies.

The Company has implemented internal audit to perform an independent and objective evaluation of the risk management and internal control systems. The internal audit operates on the basis of the internal audit regulations based on the international standards of professional internal audit practices.

The audit performs scheduled and ad hoc auditing tasks both in the parent companies and companies within the Group. The audit plans are developed on the basis of risk analyses. Audit results are reported to the Management Board of PGE S.A.

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

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

1.4. Shareholders with a majority stake

According to the company's knowledge, as at December 31, 2010, the sole shareholder with a majority stake was the State Treasury with 1,295,637,952 shares accounting for 69.29% of the share capital of the Company, which entitle the State Treasury to 1,295,637,952 votes, accounting for 69.29% of the total number of votes at the General Meeting (according to the notification received from the Minister of the State Treasury).

1.5. Shareholders with special control powers

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

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

In accordance with the Statutes of the Company, the State Treasury is authorised to appoint one member of the Supervisory Board by means of a written statement submitted to the Company at the General Meeting or outside the General Meeting, through the Management Board, where the State Treasury may exercise this power regardless of the voting right when appointing other members of the Supervisory Board.

Up to March 31, 2010, pursuant to the Act of June 3, 2005 on particular powers of the State Treasury and exercise of such powers in the companies of particular importance for the public order or public security (Dziennik Ustaw, 2005, no. 132 item 1108), the Minister of Treasury, as long as the State Treasury was a shareholder, may object to a resolution of the Management Board or another legal action by the Management Board, aimed at administration of a Company asset that was essential for the Company's operations. The objection could have applied solely to the legal action of the Company of particular importance for the public order or public security if there were reasonable grounds to suspect that such an action breaches the public order or public security. The act was overruled on April 1, 2010 by the Act of March 18, 2010 on exercising of particular rights of the State Treasury in respect of some companies and capital groups manage in electricity, oil and gas fuel sector (Dziennik Ustaw of 2010, no. 65, item 404). The binding act does not assume privileges of the Minister of the State Treasury connected with the possession of PGE S.A. shares by the State Treasury.

1.6. Limitations regarding exercise of the voting rights in shares

There are no limitations regarding exercise of the voting rights in shares of the Company.

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

The limitations regarding the transfer of ownership of the Company's securities were based on the State Treasury's obligation under which from October 6, 2009 for a period of 180 days from the first quotation of the rights to shares (i.e. November 6, 2009) on the Warsaw Stock Exchange, the State Treasury would not issue, offer, sell, commit to sell, pledge or otherwise dispose of (or make a public announcement of an issue of an offering, sale or disposal) Company's shares or securities convertible to Company's shares or granting rights to Company's shares by exercising rights related to such securities, warrants or other rights which allow the purchase of the Company's shares or other

securities or financial instruments the value of which is fixed directly or indirectly by making a reference to the price of underlying securities, including equity swaps, futures and options, without a prior written consent of managers of the initial public offering of PGE S.A. (i.e. UniCredit CAIB Poland S.A. and Goldman Sachs International, jointly referred to as the IPO Managers.

1.8. 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

1.9. Activities and powers of the General Meeting, shareholder rights and exercise of such rights

Activities of the General Meeting are described 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.pgesa.pl.

a) Convening and cancelling the General Meeting

The General Meeting is convened 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

The General Meeting of Shareholders is held as an ordinary or extraordinary meeting and is generally convened by the Management Board. The Supervisory Board may convene ordinary General Meeting if the Management Board fails to convene the Meeting on the date specified in the Code of Commercial Companies and the Statutes. The Supervisory Board may convene an extraordinary General Meeting at any time if advisable.

Shareholder or Shareholders representing at least half of the share capital or at least half of total votes in the Company may convene the extraordinary General Meeting. The Shareholder or Shareholders shall appoint the chairman of that General Meeting.

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 shareholder or shareholders representing at least one twentieth of the share capital submit the demand for convening the General Meeting to the Management Board in writing or by e-mail. As long as the State Treasury remains a shareholder of the Company, the State Treasury may demand in writing that the General Meeting be convened.

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 and appoints the Chairman of this General Meeting.

The Ordinary General Meeting of Shareholders should take place no later than within six months of the end of the financial year. The shareholder or shareholders representing at least one twentieth of the share capital may demand that certain matters be placed on the agenda of the next General Meeting. The demand should be presented to the Management Board no later than twenty one days before the proposed date of the meeting. The demand should include a justification or draft resolution on the proposed matter of the agenda. The demand may be submitted in writing or by e-mail. If the demand is made after the date referred to in art. 401 § 1 of the Code of Commercial Companies (i.e. twenty one days), then it is treated as a request to convene the extraordinary General Meeting

The Management Board shall immediately, however no later than eighteen days before the scheduled date of the General Meeting, announce changes to the agenda, in the manner appropriate for convening of the General Meeting.

Before the date of the General Meeting, the shareholder or shareholders representing at least one twentieth of the share capital may present the Company in writing or by e-mail with draft resolutions on the matters introduced to the agenda of the General Meeting or matters to be introduced to the agenda. The Company shall immediately announce the draft resolutions on its website.

The General Meeting of Shareholders is convened by an announcement made on the Company's website and in the manner prescribed for provision of current information pursuant to provisions of the Act dated July 29, 2005 on public offering, conditions governing the introduction of financial Instruments to organised trading, and public companies (Dziennik Ustaw of 2009, no. 185, item 1439).

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 in the time sufficient to evaluate such materials, on the corporate website of the Company at www.pgesa.pl.

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.

b) Competencies of the General Meeting of the Company

Within its basic competencies, the General Meeting:

- reviews and approves the report of the Management Board on the activities of the Company, financial statements and the consolidated financial statements for the past financial year,
- grants approval of fulfilment of duties by the Members of the Supervisory Board and Members of the Management Board,
- makes a decision on the distribution of profit or covering the loss,
- appoints and recalls Members of the Supervisory Board and determines rules of remuneration for the Members of the Supervisory Board,
- agrees on the acquisition and lease of the undertaking or its organised part and placing a limited material right thereon,
- enters into the 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,
- increases and reduces the share capital of the Company,
- issues convertible bonds or preferential bonds, issues subscription warrants,
- makes decisions regarding claims for repair of damage caused during founding of the company, management or supervision over the company,
- merges, transforms and divides the Company,
- redeems shares,
- amends the Statutes and changes the subject of activities of the Company,
- dissolves and winds up the Company.

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

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

c) 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).

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. The Proxy may grant further proxies unless text of the proxy stipulates otherwise. One Proxy may represent more than one shareholder. In such a case, the Proxy may vote differently with the shares of each shareholder. 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.

Members of the Management Board and the Supervisory Board may participate in the General Meeting.

Members of the Supervisory Board and the Management Board provide explanations and information pertaining to the Company to participants of the General Meeting, within the scope of their competencies and the scope necessary to decide on matters discussed by the General Meeting.

During the General Meeting, each shareholder may propose draft resolutions regarding matters entered on the agenda.

d) Voting at the General Meeting of Shareholders

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. The absolute majority is understood as more votes in favour of than votes against or abstaining.

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

The shareholders may participate and exercise the right to vote at the General Meeting of Shareholders in person or through their plenipotentiaries.

A shareholder may cast different votes for each of his/her shares.

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

1.10. Members and activities of the Company's management and supervisory bodies and the Company's committees

Activities of the Management Board and the Supervisory Board are regulated by the provisions of the Code of Commercial Companies, the Company's Statutes, the Rules of the Management Board and the Rules of the Supervisory Board. Activities of such authorities of PGE Polska Grupa Energetyczna S.A. are also subject to the corporate governance principles established by the Warsaw Stock Exchange. The Company's Statutes and the Rules of the Management Board and Rules of the Supervisory Board are available on the PGE's website at www.pgesa.pl

A. Management Board

Members of the Management Board

In 2010, the Management Board of the Company consisted of:

Name and surname of the Member of the Management Board	Position
Tomasz Zadroga	President of the Management Board
Marek Szostek	Vice-President of the Management Board responsible for Development since November 24, 2010 Vice-President of the Management Board responsible for Organisation since November 11, 2009
Piotr Szymanek	Vice-President of the Management Board responsible for Corporate Affairs, since April 28, 2009
Marek Trawiński	Vice-President of the Management Board responsible for Operations since April 28, 2009
Wojciech Topolnicki	Vice-President of the Management Board responsible for Finance: October 1, 2010 – January 5, 2011 Vice-President of the Management Board responsible for Development and Finance: April 28, 2009 – September 30, 2010

On January 5, 2011 Mr Wojciech Topolnicki, Vice-President of the Management Board responsible for Finance, was recalled from the Management Board.

Rules of appointing and recalling the management staff

The Management Board consists of two to seven members: the President and other Members acting as Vice-Presidents. Members of the Management Board are appointed for a joint term of office of three years.

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

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. Statements made to the Company and letters served the Company may be performed by one Member of the Management Board or a proxy.

Members of the Management Board are authorised and obliged to manage the affairs of the Company jointly. Each Member of the Management Board may manage the affairs which fall within the scope of ordinary activities of the Management Board, without a prior resolution of the Management Board, within the agreed division of responsibilities unless any Member of the Management Board objects. Resolutions of the Management Board must be made for all the affairs which fall beyond the scope of ordinary activities of the Company. If there are equal votes at the meeting of the Management Board, the President of the Management Board has the decisive vote.

In accordance with the Statutes, resolutions of the Management Board are required in particular for:

- purchase (taking up) or administration over the following assets: (a) real properties, perpetual usufruct or shares in real properties; (b) assets other than real property worth more than €400,000; (c) shares, stocks or other titles of participation in companies;
- encumbering eligible assets as listed above with a limited material right for the amount (sum of the collateral) in excess of €400,000;
- entering into agreements other than these mentioned above or incurring liabilities other than these mentioned above in the amount exceeding €400,000, excluding agreements or liabilities related to trade transactions concerning electricity, related products or related rights as well as trade transactions concerning the purchase and sale of fuels,
- granting of guaranties and suretyship by the Company;
- approving the rules of the Management Board;
- approving the organisational rules of the Company's undertaking;
- establishment and liquidation of branches;
- entering into contracts not related to the subject of activities of the Company specified in the Statutes;
- making donations and release from debt;
- appointment of proxies;
- approval of annual and long-term financial plans of the Company;
- approval of the Company's development strategy;
- deciding on the method of exercising the right to vote at the general meetings of companies in which the Company holds shares or stocks;
- matters referred by the Management Board to the Supervisory Board for review, and matters not reserved for the Board's competencies.

The Statutes does not provide for detailed regulations which authorise Members of the Management Board to decide on the issue or redemption 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. The Management Board makes decisions in the form of resolutions passed at the meetings. The Management Board meets when required, not less often than once a week. 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, stating the agenda. The notification of the meeting date is distributed to the members of the Management Board at least two working days before the planned date of the meeting. In reasonable circumstances, the meeting may be convened one day prior to the scheduled meeting. When the President of the Management Board is absent, meetings of the Management Board are convened by the appointed member of the Management Board. Meetings of the Management Board are presided by the President of the Management Board or another member of the Management Board. The agenda can be changed if all members of the Management Board are present at the meeting and all the members agree to such a change.

Minutes are taken for each meeting of the Management Board and signed by the members of the Management Board present at the meeting. 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. A secret voting is administered for personnel matters and when requested by a member of the Management Board. All members of the Management Board must be properly notified of the scheduled meeting and at least half of the members of the Management Board must be present for the resolutions to be valid. A resolution on appointment of proxies requires an unanimous decision of all members of the Management Board. A member of the Management Board voting against a resolution may present an opposing opinion with a justification. Resolutions may be made in writing or using means of direct remote communications

The Rules of the Management Board divide 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.

B. Supervisory Board

Members of the Supervisory Board

In 2010 the Supervisory Board consisted of:

Name and surname of the member of the Supervisory Board	Function
Marcin Zieliński	Chairman of the Supervisory Board
Maciej Bałtowski	Vice-Chairman of the Supervisory Board
Wojciech Cichoński	Member of the Supervisory Board till March 30, 2010
Jacek Barylski	Member of the Supervisory Board
Małgorzata Dec	Member of the Supervisory Board
Czesław Grzesiak	Member of the Supervisory Board from March 30, 2010
Grzegorz Krystek	Member of the Supervisory Board from March 30, 2010
Ryszard Malarski	Member of the Supervisory Board till March 30, 2010
Katarzyna Prus	Member of the Supervisory Board, from April 12, 2010 acts as a Secretary of the Supervisory Board
Zbigniew Szmuniewski	Member of the Supervisory Board
Krzysztof Żuk	Member of the Supervisory Board from February 22, 2010

Rules of appointing and recalling the supervisory personnel

The Supervisory Board consists of five to nine members appointed and recalled by the General Meeting. In addition, the State Treasury is authorised to appoint and recall one member of the Supervisory Board by means of a written statement presented to the Company at the General Meeting of Shareholders or outside the General Meeting, through the Management Board, where the State Treasury exercises this right regardless of the right to vote on appointing other members of the Supervisory Board.

In accordance with provisions of the Statutes, the Supervisory Board should comprise at least one person appointed by the General Meeting out of persons which meet the criteria of independence as specified by the corporate governance principles approved by the Warsaw Stock Exchange. Candidates for the position of a member of the Supervisory Board submit a statement regarding their independence.

If the State Treasury fails to make the appointment or the General Meeting fails to appoint aforementioned members of the Supervisory Board, or if such persons are not members of the Supervisory Board, the Supervisory Board may pass binding resolutions nonetheless.

The Chairman of the Supervisory Board is appointed by the General Meeting. The Supervisory Board appoints the Vice-Chairman and Secretary out of its members.

Members of the Supervisory Board are appointed for a joint term of office of three years. The mandate of a member of the Supervisory Board expires at the latest on the day of the General Meeting which approves the financial statements for the past complete financial year during which the member of the Supervisory Board performed his/her function and in other cases as provided for by the Code of Commercial Companies. A member of the Supervisory Board may be recalled by the General Meeting

at any time, except the member of the Supervisory Board appointed by the State Treasury, which may be recalled by the State Treasury only.

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 of PGE Polska Grupa Energetyczna S.A.

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.

The first meeting of the Supervisory Board of the new term of office is convened by the chairman of the General Meeting during which the Board was appointed, before the General Meeting concludes the session. The meeting date cannot occur more than two weeks after the date of the General Meeting. If the meeting is not convened as described above, the first meeting of the Supervisory Board shall be convened by the Management Board within four weeks of the date of the General Meeting.

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.

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 Vice-Chairman and Secretary of the Supervisory Board, and appointment, recalling or suspending a Member of the Management Board. Resolutions of the Supervisory Board are passed with an absolute majority of votes. If there are equal votes at the meeting of the Supervisory Board, the Chairman of the Supervisory Board has the decisive vote.

Members of the Management Board and other persons in an advisory capacity, invited by the Chairman or Vice-Chairman of the Supervisory Board, may participate in the meeting of the Supervisory Board.

In order to perform its duties, the Supervisory Board may require the Management Board to provide information on all material issues pertaining to activities of the Company and risks related to such activities.

The Supervisory Board prepares a report on its activities. The report is submitted to the General Meeting of Shareholders.

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.

In accordance with the Statutes, the Supervisory Board:

- reviews the report of the Management Board on the activities of the Company and the unit financial statements for the past financial year for compliance with the books, documents and the actual status. This also applies to the consolidated financial statements of the capital group if any;
- reviews the motions of the Management Board on the division of profit or covering the loss;
- presents the General Meeting with a written report on the results of activities referred to in the aforementioned two points;

- appoints the statutory auditor to audit the unit financial statements and the consolidated financial statements of the capital group if any;
- approves the annual and long-term financial plans of the Company, specifies the scope and dates of presentation of such plans by the Management Board;
- approves the development strategy of the Company;
- approves the rules which lays down detailed operating procedure of the Supervisory Board;
- approves the rules of the Management Board of the Company;
- sets remuneration and other terms of agreements and concludes agreements with the members of the Management Board (including the President of the Management Board), subject to competencies of the General Meeting resulting from the binding laws;
- provides opinions on all the motions for resolutions submitted by the Management Board to the General Meeting;
- approves the organisational regulations of the Company;
- delegates members of the Supervisory Board to perform, on a temporary basis, activities of the members of the Management Board who cannot fulfil their duties;
- grants consent for the members of the Management Board to hold positions in authorities of other companies.

In addition, in accordance with the Statutes, the Supervisory Board grants a consent for:

- purchase (taking up) or administration over the following assets: (a) real properties, perpetual usufruct or shares in real properties; (b) fixed assets other than real property; (c) shares, stocks or other titles of participation in companies – worth or exceeding €5m;
- encumbering eligible assets as listed above with a limited material right for the amount (sum of the collateral) equal or in excess of €5m;
- entering into the following agreements by the Company: (a) agreements of donation or release from debt worth at least €5,000, (b) agreements not related to the statutory subject of activities of the Company worth at least €5,000;
- granting of guaranties and suretyship to entities other than companies and co-operatives which are direct and indirect subsidiaries (as defined by the Code of Commercial Companies);
- entering into contracts for construction or establishing a connection with the power systems of other countries;
- entering into contracts other than listed above or incurring of obligations other than listed above worth or exceeding €100m, where entering into contracts or incurring of obligations consisting in electricity, related products and rights connected, fuel trade with direct or indirect subsidiaries (as defined by the Code of Commercial Companies) does not need any consent;
- payment of an advance against the expected dividend.

C. 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 remuneration committee. The current Rules of the Supervisory Board provide that the Supervisory Board may appoint standing or ad hoc committees, acting as collective advisory and opinion-making bodies of the Supervisory Board. The particular goal of the committees is to provide the Supervisory Board with opinions and recommendations on matters within the competencies of the committees. The committees are established by the Supervisory Board out of its members. The committee consists of 2 to 5 persons. The committee appoints a chairman out of its members. The chairman convenes meetings of the committee, manages works of the committee and represents the committee in relations with the authorities and employees of the Company. The mandate of a committee member expires with the expiry of the mandate of the member of the Supervisory Board, resignation from membership in the committee or recalling from the committee by

the Supervisory Board. Each Member of the Supervisory Board may participate in committee meetings. The committee chairman may invite to the meetings members of the Management Board, Company employees and other persons whose participation is advisable. Decisions of the committee are made on a consensus basis.

The following standing committees work within the Supervisory Board: the Audit Committee, the Strategy and Development Committee, the Appointment and Remuneration Committee, and the Corporate Governance Committee.

I. The Audit Committee

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

In particular, the Audit Committee:

- monitors the work of statutory auditors of the Company and presents the Supervisory Board with recommendations on the appointment and remunerating statutory auditors of the Company,
- discusses the scope of audit with the statutory auditors of the Company before the audit of the annual financial statements and monitors the work of the statutory auditors of the Company,
- reviews interim and annual financial statements of the Company (stand-alone and consolidated), focusing in particular on:
 - all the changes of accounting standards, principles and practices,
 - main areas to be audited,
 - major corrections resulting from the audit,
 - statements on the going concern,
 - compliance with governing provisions on book-keeping.
- discusses with the competent persons all the issues or reservations which might arise out of the audit of the financial statements,
- analyses letters addressed to the Management Board by the statutory auditors and responses of the Management Board; checks independence and objectiveness of audits conducted by the statutory auditors,
- expresses opinions on the Company's policy on dividends, profit distribution and issue of securities,
- reviews the management accounting system,
- reviews the internal control system (including the mechanisms of financial and operational control, legal compliance, risk assessment and management control) and the annual report,
- analyses reports of internal auditors of the Company and main conclusions of other internal analysts and responses of the Management Board to such conclusions; examines the level of independence of internal auditors,
- performs an annual review of the internal audit programme, co-ordinates the work of internal and external auditors and examines the operating conditions of internal auditors,
- co-operates with the organisational units of the Company responsible for the audit and control and performs a periodical evaluation of their work,
- reviews all the other issues related to the audit of the Company, highlighted by the Committee or the Supervisory Board,
- informs the Supervisory Board of any major issues related to the activities of the Audit Committee.

In 2010, the Audit Committee consisted of:

Name and surname	Function
Until March 30, 2010	
Wojciech Cichoński	Chairman
Maciej Bałtowski	Committee Member
Jacek Barylski	Committee Member
Małgorzata Dec	Committee Member
Zbigniew Szmuniowski	Committee Member
Marcin Zieliński	Committee Member
March 30, 2010 – April 12, 2010	
Maciej Bałtowski	Committee Member
Jacek Barylski	Committee Member
Małgorzata Dec	Committee Member
Zbigniew Szmuniowski	Committee Member
Marcin Zieliński	Committee Member
Since April 12, 2010	
Małgorzata Dec	Przewodnicząca
Maciej Bałtowski	Committee Member
Grzegorz Krystek	Committee Member
Zbigniew Szmuniowski	Committee Member
Krzysztof Żuk	Committee Member

II. 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.

In 2010 the Corporate Governance Committee consisted of:

Name and surname	Function
Until March 30, 2010	
Katarzyna Prus	Chairman
Maciej Bałtowski	Committee Member
Ryszard Malarski	Committee Member
March 30, 2010 – April 12, 2010	
Katarzyna Prus	Chairman
Maciej Bałtowski	Committee Member
Since April 12, 2010	
Katarzyna Prus	Chairman
Maciej Bałtowski	Committee Member
Jacek Barylski	Committee Member
Czesław Grzesiak	Committee Member

III. The 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. In particular, the Strategy and Development Committee :

- provides opinions on the strategy and strategic plans submitted to the Supervisory Board by the Management Board

In 2010 the Strategy and Development Committee consisted of:

Name and surname	Function
Until March 23, 2010	
Ryszard Malarski	Chairman
Małgorzata Dec	Committee Member
Zbigniew Szmuniowski	Committee Member
Marcin Zieliński	Committee Member
March 23, 2010 – March 30, 2010	
Ryszard Malarski	Chairman
Małgorzata Dec	Committee Member
Zbigniew Szmuniowski	Committee Member
Marcin Zieliński	Committee Member
Krzysztof Żuk	Committee Member
March 30, 2010 – April 12, 2010	
Małgorzata Dec	Committee Member
Zbigniew Szmuniowski	Committee Member
Marcin Zieliński	Committee Member
Krzysztof Żuk	Committee Member
Since April 12, 2010	
Małgorzata Dec	Committee Member
Grzegorz Krystek	Committee Member
Zbigniew Szmuniowski	Committee Member
Marcin Zieliński	Committee Member
Krzysztof Żuk	Committee Member

IV. The 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 the organisational solutions, remuneration system and selection of properly qualified personnel.

In particular, the Appointment and Remuneration Committee:

- initiates and provides opinions on the system of appointing the members of the Management Board;
- provides opinions on the Company management system solutions proposed by the Management Board, aimed at ensuring the effectiveness, cohesion and security of Company management,
- performs a periodic review and recommends the rules of fixing motivational remuneration for the members the Management Board and top management, taking into account the interest of the Company,
- performs a periodic review of the system of remunerating the members of the Management Board and the managerial staff reporting directly to the members of the Management Board, including the manager contracts and motivational systems, and presents the Supervisory Board with proposals of developing such systems in the context of pursuing the strategic objectives of the Company,

- presents the Supervisory Board with opinions justifying the award of remuneration dependant on results in the context of evaluation of the level of achievement of specific tasks and goals of the Company,
- evaluates the human resources management system in the Company.

In 2010 the Appointment and Remuneration Committee consisted of:

Name and surname	Function
Until March 30, 2010	
Maciej Bałtowski	Chairman
Jacek Barylski	Committee Member
Wojciech Cichoński	Committee Member
Katarzyna Prus	Committee Member
Marcin Zieliński	Committee Member
March 30, 2010 – April 12, 2010	
Maciej Bałtowski	Chairman
Jacek Barylski	Committee Member
Katarzyna Prus	Committee Member
Marcin Zieliński	Committee Member
Since April 12, 2010	
Maciej Bałtowski	Chairman
Jacek Barylski	Committee Member
Czesław Grzesiak	Committee Member
Katarzyna Prus	Committee Member
Marcin Zieliński	Committee Member