ENERGA SA
Management Board report on the activity of the Group for the year ended 31 December 2016

Gdańsk,
Publication date: 30 March 2017

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1. SUMMARY OF 2016

ENERGA GROUP AFTER 2016

THIRD LARGEST INTEGRATED DISTRIBUTION SYSTEM OPERATOR IN TERMS OF THE VOLUME OF ENERGY SUPPLY, WITH THE HIGHEST NUMBER OF INSTALLED SMART METERS AND ONE OF THE MARKET LEADERS IN TERMS OF RELIABILITY OF ELECTRICITY SUPPLY

FIRST PLACE IN THE POLISH MARKET IN TERMS OF CONNECTION OF RENEWABLE ENERGY SOURCES AND LEADING POSITION IN OWN RES PRODUCTION

THIRD BIGGEST SELLER OF ELECTRICITY TO END CUSTOMERS

RESULTS 2016

PLN 2,027 m EBITDA

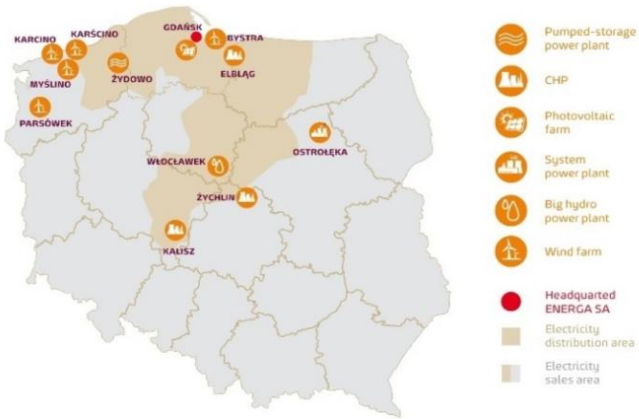
PLN 147 m of net profit

KEY RESOURCES

Distribution network with the length of over **184 thous. km**

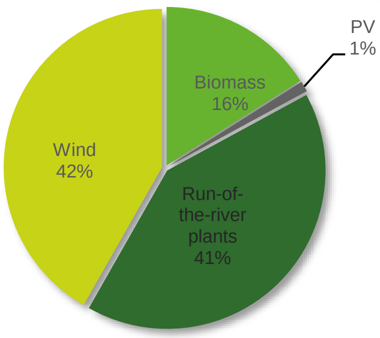
Installed capacity **1.34 GWe** of which **38%** are RES

8.7 thousand employees



RENEWABLE ENERGY SOURCES

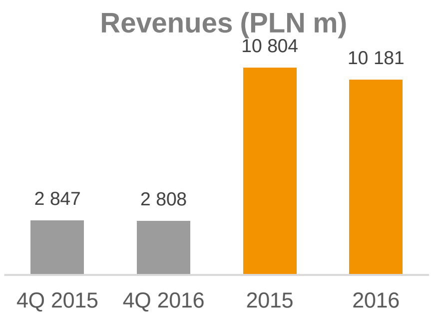
Structure of RES installed capacity in the Group

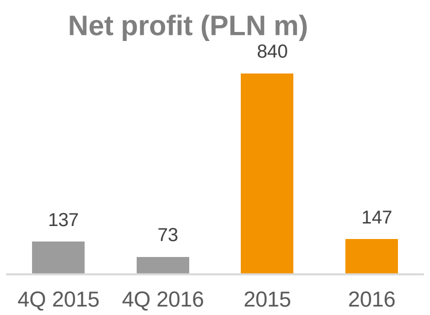


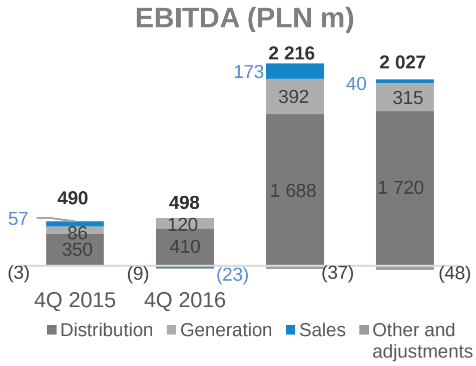
Installed capacity **505 MWe**

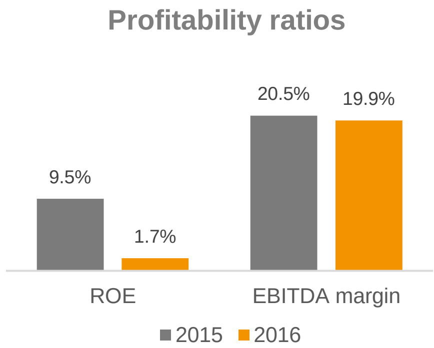
31% of gross electricity production comes from RES

	Q4 2015	Q4 2016	2015	2016
Volume of electricity supplied (GWh)	5,452	5,442	21,486	21,727
Gross electricity produced (GWh)	964	1,231	4,136	3,945
- incl. RES (GWh)	*426*	*382*	*1,743*	*1,218*
Electricity sold (GWh)	6,848	7,156	25,658	24,602
- incl. retail sales (GWh)	*4,423*	*5,262*	*16,767*	*19,628*









Investment projects in the ENERGA Group

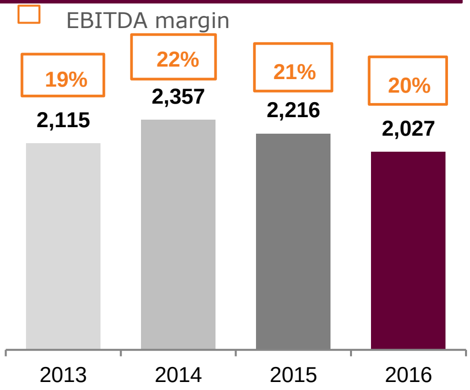
In 2016 ENERGA completed investment projects in the Distribution Segment for **PLN 1.3 bn**, with the total Group expenditures in the amount of PLN 1.6 bn. The projects in the Distribution Segment included expansion of the grid to connect new clients and producers as well as modernization, which is aimed at improving the reliability of electricity supply. Expenditures were also made for innovative grid technologies and solutions.

As a result of these capital expenditures, **33 thousand new clients** were connected, **4,490 thousand km** of high, medium and low voltage lines were built and modernized and **2,296 new renewable energy sources** (including **2,236 microinstallations**) were connected to the grid.

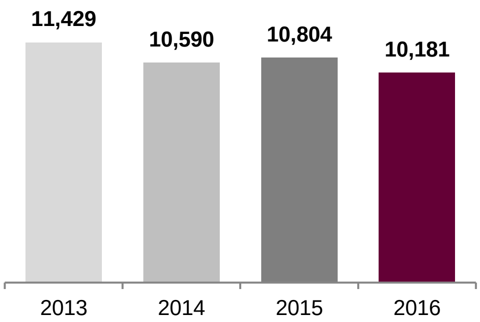
Capitalization: PLN 3.77 bn*
Dividend payment: PLN 203 m (PLN 0.49 per share).
** According to share price as at closing on 30 December 2016*

FINANCIAL AND OPERATIONAL HIGHLIGHTS FOR 2013-2016

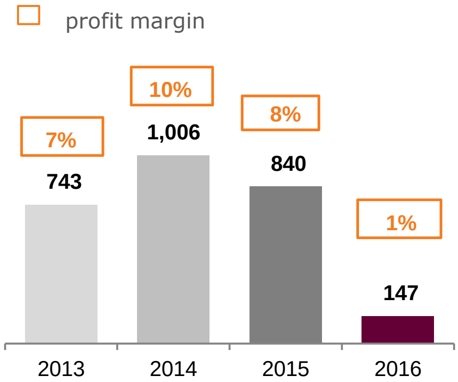
EBITDA (PLN m)



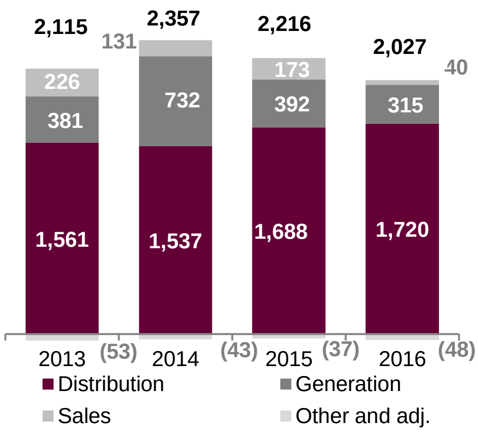
Revenues (PLN m)



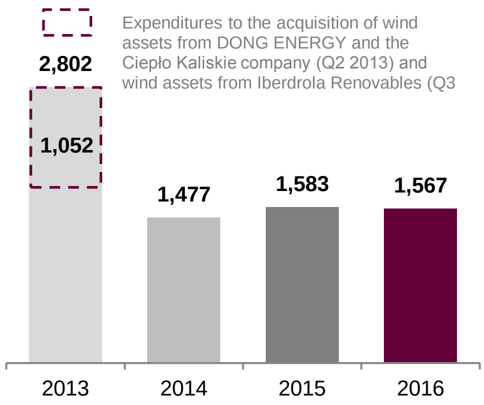
Net profit (PLN m)



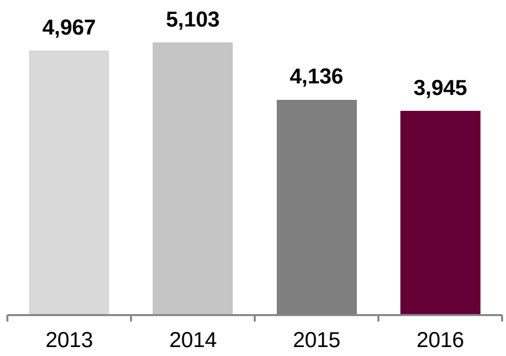
EBITDA by segment (PLN m)



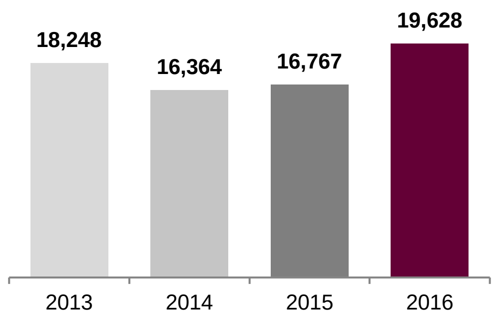
Capital expenditures (PLN m)



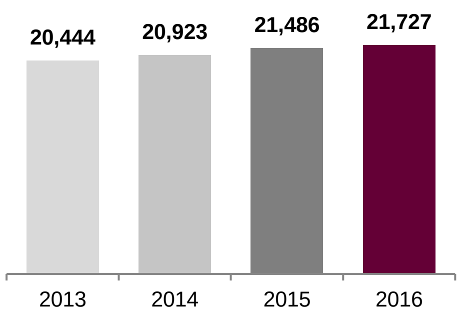
Gross production of electricity (GWh)



Retail sales of electricity (GWh)

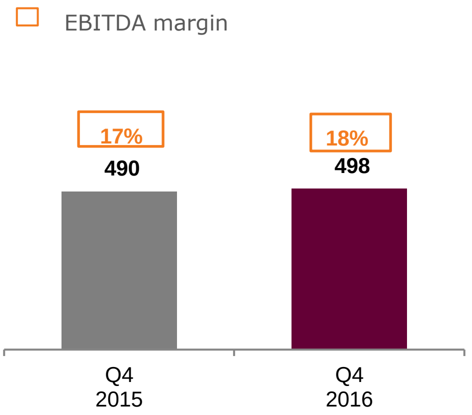


Distribution of electricity (GWh)

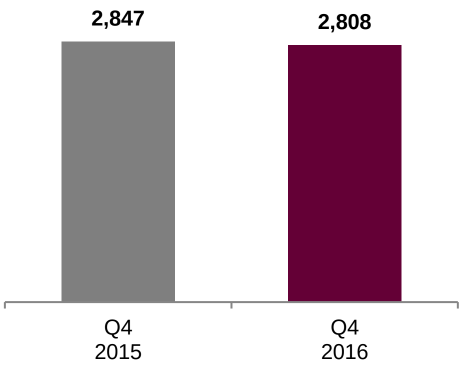


FINANCIAL AND OPERATIONAL HIGHLIGHTS FOR Q4 2016

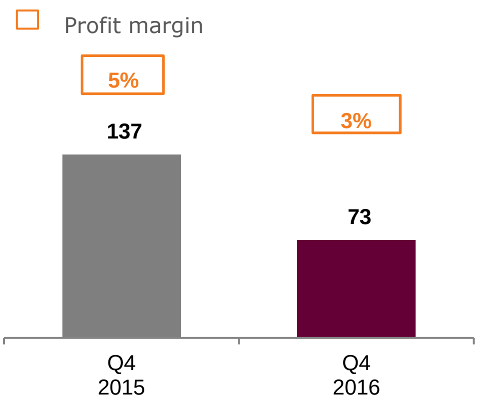
EBITDA (PLN m)



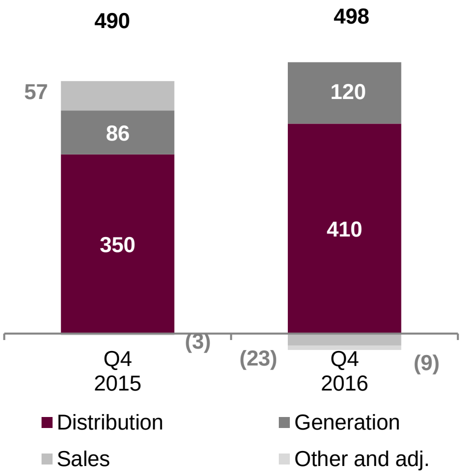
Revenues (PLN m)



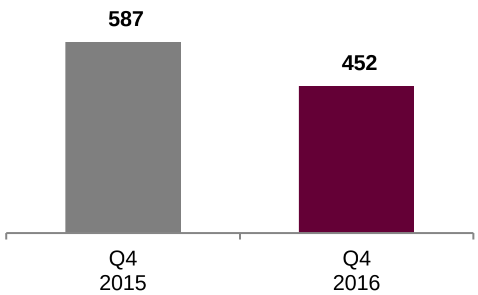
Net profit (PLN m)



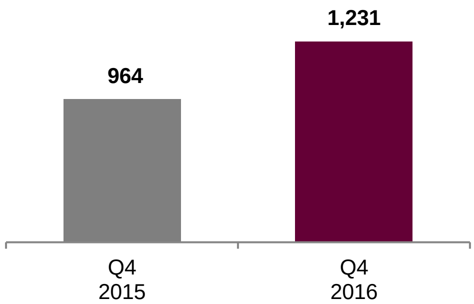
EBITDA by segment



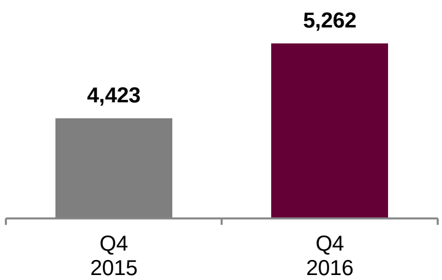
Capital expenditures (PLN m)



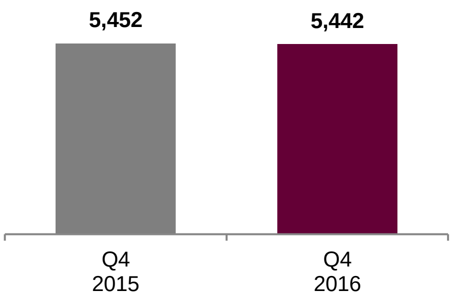
Gross production of electricity (GWh)



Retail sales of electricity (GWh)



Distribution of electricity (GWh)



Key information about the Group

2. KEY INFORMATION ABOUT THE GROUP

2.1. Key events and achievements of the ENERGA Group

Adoption of the ENERGA Group's Strategy for 2016-2025

On 15 November 2016 the Supervisory Board adopted a resolution accepting the "Strategy of the ENERGA Group for 2016-2025" ("Strategy") and "Long-Term Strategic Investments Plan of the ENERGA Group for 2016–2025". In accordance with the adopted documents, the Energa Group's objective is to increase EBITDA to PLN 2.4 bn in 2020 and PLN 3.0 bn in 2025, with stable market conditions. Total expenditures on core and non-core investments of the Group planned for 2016-2025 as part of the implementation the Strategy are approx. PLN 20.6 bn, of which PLN 9.5 bn is expected to be spent in 2016-2020. The assumptions and objectives of the strategy are described in more detail in chapter 2.4. *ENERGA Group's Strategy for 2016-2025* [...] this Report.

Signing of an Investment Agreement with Enea S.A. regarding execution of the Ostrołęka C Project

On 24 May 2016, ENERGA SA's Management Board adopted a resolution repealing the resolution halting the execution of the project to build a new power unit in Ostrołęka, adopted on 14 September 2012 (Current Report No. 19/2016). On 8 December 2016 the Company entered into an Investment Agreement with Enea S.A. and Elektrownia Ostrołęka SA regarding the execution of the Ostrołęka C project, i.e. preparation, construction and operation of a 1,000 MW class coal-fired power unit. The execution of the Agreement was preceded by entering into a letter of intent on 19 September 2016 (Current Report No. 33/2016). According to the Agreement, in principle the cooperation will be structured around three stages: Development Stage – until an instruction is issued to the general contractor to commence the work; Construction Stage – until Ostrołęka C is commissioned for commercial operations; and Operation Stage – commercial operation of Ostrołęka C. Upon completion of the Development Stage the Parties are obligated to participate in the Construction Stage provided that the Project is profitable and the Project funding does not breach the Parties' covenants. It is estimated that ENERGA's capital expenditures until the completion of the Development Stage will be approx. PLN 27 m. In order to carry out the Investment Project, ENERGA SA disposed of its shares in Elektrownia Ostrołęka SA, constituting 50% in the share capital, to Enea S.A. after obtaining the approval by the President of UOKiK for a concentration involving the acquisition of a shares in a special purpose vehicle for the execution of the Project. Based on specific assumptions (including appropriate participation of ENERGA, Enea and Financial Investors, if any) and assuming that the Capacity Market or other support mechanisms are introduced, Elektrownia Ostrołęka SA will be able to undertake the comprehensive execution of the Project (Current Report No. 49/2016). On 14 October 2016, the impairment loss on the fixed assets under construction in the amount of PLN 110 m in Elektrownia Ostrołęka SA was reversed. The above amount improved the ENERGA Group's operating result for Q3 in the Generation Segment and according to the prevailing definition did not affect its EBITDA. The PLN 122.6 m impairment loss was recognized in 2012 when the Ostrołęka C power plant was put on hold. The reason for reversing the impairment was the progress of work under the Ostrołęka C project (Current Report No. 37/2016). In December 2016 Elektrownia Ostrołęka SA entered into an agreement on coal supply to the planned power plant in Ostrołęka, and ENERGA Elektrownie Ostrołęka SA signed an agreement on raw material supplies to the existing Ostrołęka B power plant (there agreements were described in more detail in chapter 2.7. "Information on material agreements and transactions" of this Report). On 19 December 2016 a tender was announced to select a general contractor for the power generation unit in order to complete the Investment Project in the second half of 2023.

The impairment loss on assets in the Ostrołęka B Power Plant

Based on the results of impairment tests, a decision was made on 3 February 2017 in consultation with the auditor to recognize, in the Generation Segment, an impairment loss on assets in the Ostrołęka B Power Plant for the total amount of PLN 132 million. The main reason for the impairment loss are the current and projected low prices of electricity. The above operation is of a non-cash nature. It will be charged to the ENERGA Group's operating result in the Generation Segment, in accordance with the definition adopted in April 2016, without any impact on the EBITDA result. Following this impairment loss, the book value of the Ostrołęka B Power Plant in the ENERGA Group's consolidated balance sheet is PLN 586 million. The final amount of the charge was presented in the consolidated 2016 report.

Capital investment in Polimex Mostostal S.A.

On 6 December 2016, directional talks were started between the Company and ENEA S.A., PGE S.A., PGNiG S.A. (Investors) and between the Investors and Polimex-Mostostal S.A. (Polimex). The negotiations were aimed at developing the structure of the Investors' potential capital investment in Polimex and at developing a potential model of cooperation between the Investors in executing the Investment Project (Current Report No. 48/2016).

As the next step, on 27 December 2016 the Company signed a letter of intent with the Investors and Polimex in which the Investors expressed their intent to consider the potential investment in Polimex and based on which they launched talks with Polimex to work out the detailed parameters of the transaction. On the same date, the Company and the Investors also filed a petition with the Office for Competition and Consumer Protection (UOKiK) to approve the concentration involving acquisition of joint control over Polimex by the Investors (Current Report No. 54/2016).

On 18 January 2017 the Company signed the following agreements:

1. The Investment Agreement with the Investors and Polimex-Mostostal S.A. under which, subject to the conditions precedent specified in the agreement (described in detail in Current Report No. 5/2017), the Investors undertook to make an investment in Polimex, i.e. subscribe to a total up to 150,000,000 series T common bearer shares with a par value of PLN 2 each, for the issue price of PLN 2 each issued by Polimex as part of the Polimex's share capital increase up to PLN 300,000,000. Pursuant to the Investment Agreement, the Company undertook to subscribe to 37,500,000 New Issue Shares for the total issue price of PLN 75,000,000.
2. Agreement between the Investors setting out the rules of cooperation and the mutual rights and duties of the Investors during the execution of the investment project contemplated in the Investment Agreement.
3. Agreement between the Investors and SPV Operator obligating the parties to the agreement, on the condition that the conditions precedent are satisfied, to conduct the transaction of selling a total of 6,000,001 Polimex shares by SPV Operator to the Investors, in which the Company undertook to purchase 1,500,000 Polimex shares;
4. Agreement between the Investors and TFS, under which TFS granted the Investors, against remuneration, an option to purchase Polimex shares from TFS if the TFS exercises its right to convert the convertible bonds issued by Polimex and undertook before the Investors not to convert its series A convertible bonds issued by Polimex without a prior written demand from the Investors.

On 18 January 2017, having examined the application the President of UOKiK issued his approval for the concentration involving acquisition of joint control over Polimex by the Investors.

On 20 January 2017, after the fulfillment of the conditions precedent set forth in the investment agreement signed on 18 January 2017, the Company accepted an offer made by the Polimex Mostostal S.A. management board to subscribe to 37,500,000 series T common bearer shares with a par value of PLN 2 each issued by Polimex at the issue price of PLN 2 each and for the total issue price of PLN 75,000,000 in private subscription. On the same day the Company purchased 1,500,000 shares of Polimex from SPV Operator (Current Report No. 6/2017).

Submission, together with partners, of a tentative proposal for the acquisition of EDF's assets in Poland and execution of a memorandum of understanding

On 16 September 2016, ENERGA SA along with Enea S.A., PGE S.A. and PGNiG Termika S.A. ("Business Partners") submitted a joint, tentative, non-binding offer to EDF International S.A.S. ("EDF") to purchase shares in EDF companies in Poland holding conventional generating assets and carrying out service activity (Current Report No. 31/2016).

On 26 October 2016, EDF announced in a press release that it conducts exclusive negotiations with IFM Investors in respect to the sale of heating assets in Poland and with EPH (Energetický a průmyslový holding) in respect to the sale of the Rybnik Power Plant. On 30 November 2016, in connection with the imminent expiry date of the offer submitted on 16 September 2016, ENERGA SA together with its partners submitted a new offer to EDF to purchase shares in EDF companies in Poland.

On 27 January 2017 the Company, together with its Business Partners, signed a Memorandum of Understanding with EDF concerning the negotiation of the acquisition of EDF's assets in Poland and due diligence in this respect.

The transaction involves:

(i) acquisition of all EDF's shares in EDF Polska S.A., which is the owner of, in particular, 4 CHP plants, i.e. Kraków, Gdańsk, Gdynia and Toruń and the heat distribution network in Toruń, Rybnik Power Plant and

(ii) acquisition of acquisition of all the shares held by EDF in ZEC "Kogeneracja" S.A., which owns 4 combined heat and power plants, i.e. in Wrocław, Zielona Góra, Czechnica and Zawidawie and heat distribution networks in Zielona Góra, Siechnice and Zawidawie.

The Business Partners have agreed that a binding proposal, if any, will be submitted following a due diligence exercise, which will form grounds for making further decisions about the transaction (Current Report No. 8/2017).

Payment of a dividend from the profit generated in 2015

On 24 June 2016, the Annual General Meeting of ENERGA SA adopted a resolution on the distribution of net profit for the financial year covering the period from 1 January 2015 to 31 December 2015 in the amount of PLN 841,165,914.38, with the following allocation:

1) payment of a dividend to shareholders in the amount of PLN 202,892,885.86, i.e. PLN 0.49 per share (24.1% of profit),
2) PLN 570,979,755.36 to reserve capital (67.9% of profit),
3) PLN 67,293,273.16 to supplementary capital (8.0% of profit).

The record date was set by a resolution at 4 July 2016 and the dividend payment date at 18 July 2016 (Current Report Nos. 18/2016, 20/2016 and 25/2016).

Purchase of bonds issued by ENERGA SA by its subsidiary ENERGA-OPERATOR SA

On 16 June 2016, in connection with completion of the negotiation process conducted by ENERGA SA's subsidiary ENERGA-OPERATOR SA (Subsidiary) and selected Bondholders with regard to the terms and conditions of purchase, by the Subsidiary, of series A bonds issued by ENERGA SA, on the same day a transaction was executed under which the Subsidiary acquired 55,795 series A bonds issued by ENERGA with the total par value of PLN 557.95 m.

The Bonds were purchased by ENERGA-OPERATOR SA at the price of PLN 102.85 on the basis of resolutions adopted by the ENERGA SA's and the Subsidiary's Management Board and Supervisory Board. The purchase of the Bonds was financed with cash and funds from available credit facilities.

The purchase of the bonds was associated with optimization of the financing structure and cash management in the ENERGA Group. The above actions have been taken in the context of the dynamic changes in the financial and legal environment of the ENERGA Group (Current Report No. 23/2016).

Recognition of impairment loss on wind assets

In connection with changes in the market environment, such as the falling prices for the certificates of origin for energy and the persistently low electricity prices, certain factors have been identified that may result in a decline in the ENERGA Group's recoverable assets. In view of the foregoing, as a result of the impairment tests conducted for Q1 2016, on 11 April 2016 the decision was made to recognize impairment losses in the Generation Segment for property, plant and equipment totaling PLN 187.6 m. Accordingly, it was also necessary to conduct impairment tests on the goodwill coming from the acquisition of wind farms in 2013 and this contributed to recognizing an impairment loss of PLN 117 m. The total impact exerted by these impairment losses on the ENERGA Group's consolidated financial statements for Q1 2016 was PLN 304.6 m. These operations are non-cash in nature and do not affect the Group's current or future liquidity position. These tests have not demonstrated an impairment loss for the ENERGA Group's existing conventional generation assets. After taking these impairment losses, the book value of wind farms in the ENERGA Group's consolidated balance sheet is PLN 892.6 m, including PLN 86.9 m for future wind power plants (Current Report No. 14/2016).

Moreover, in connection with regulatory changes (Act on Investments in Wind Power Plants), it was identified that there exist grounds for impairment of the recoverable value of the ENERGA Group's non-current assets. As a result of conducted impairment tests according to the legal status as at 28 June 2016, a decision was made to recognize impairment losses in the Generation Segment for the existing and future wind farms totaling PLN 247 m. The above operation was of a non-cash nature. It was charged to the ENERGA Group's operating result, in accordance with the definition adopted in April of this year, without impacting the EBITDA result. After taking these impairment losses into account, the book value of wind farms in the ENERGA Group's consolidated balance sheet is PLN 647.4 m, including PLN 11.9 m for future wind power plants (Current Report No. 26/2016).

Capital investment in Polska Grupa Górnicza Sp. z o.o.

On 15 March 2016, the Company submitted a non-binding conditional proposal of its capital contribution to the investment in Polska Grupa Górnicza Sp. z o.o. in the amount of up to PLN 600 m. The submitted proposal was an expression of will for the Company to enter into good faith negotiations concerning the investment and to strive to complete the investment process smoothly giving consideration to the conditions presented in the proposal.

On 26 April 2016 ENERGA Kogeneracja Sp. z o.o. („ENERGA Kogeneracja"), an indirect subsidiary of ENERGA SA, signed the Memorandum of Agreement on commencing the operations of Polska Grupa Górnicza Sp. z o.o. ("PGG"). The investors declared in the Memorandum of Agreement that they plan to purchase shares in PGG for a final amount of PLN 2,417 m. ENERGA Kogeneracja has declared that it will subscribe for shares in PGG for PLN 500 m.

To define the possible directions of, and grounds for, PGG's further operation and development, its business plan has been devised and it assumes the following in particular:

a) sale to PGG of KW's enterprise consisting of 11 mines, 4 establishments and a set of support functions for mines and establishments currently termed the head office of Kompania Węglowa;
b) PGG's achievement of certain levels of profitability;
c) enhancement of PGG's operating efficiency giving consideration to the re-allocation of some assets.

PGG will operate on the basis of its business plan whose purpose is to keep coal production costs under strict control, achieve specific levels of profitability and enhance the company's operational efficiency (Current Report No. 16/2016). Implementation of the Memorandum of Agreement required the execution of specific agreements, including the investment agreement, which was executed on 28 April of this year ("Agreement"). The Agreement regulated how the investment will be conducted and how to join PGG, the rules for the operation of PGG and its corporate bodies as well as the rules for the parties to divest their investment in PGG. The Agreement called for the purchase of shares in PGG in 3 stages by ENERGA Kogeneracja:

1. To pay PLN 361.1 m for the newly issued shares in PGG during the first stage (payable within 4 business days after signing the Agreement). The first stage will enable ENERGA Kogeneracja to subscribe for 15.7% of PGG's share capital.
2. To pay PLN 83.3 m for the newly issued shares in PGG during the second stage (by 3 November 2016), which will translate into a total stake of 16.6% in PGG's share capital.
3. To pay PLN 55.6 m for the newly issued shares in PGG during the third stage (by 1 February 2017), which will translate into a total stake of 17.1% in PGG's share capital.

The Agreement included introduction of a number of ratios to monitor the implementation of the business plan, in particular pertaining to profitability, liquidity, the debt level and PGG's operating efficiency. The Agreement contained clauses pertaining to providing regular information to the Investors' representatives on the levels of the various ratios. Details on the Agreement are presented in Current Report No. 17/2016 of 28 April 2016.

Additionally, PGE Górnictwo i Energetyka Konwencjonalna S.A., ENERGA Kogeneracja Sp. z o.o., PGNiG TERMIKA S.A. and Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych [Polish Corporates Closed-End Mutual Fund] (hereinunder jointly referred to as "New Investors" signed a memorandum of agreement regarding PGG ("Memorandum of Agreement"). The purpose of the Memorandum of Agreement is to increase control of New Investors over PGG, since they jointly hold the majority of votes at PGG's Shareholder Meeting. The Memorandum of Agreement assumes, among others, that a joint position will be agreed upon when the key decisions are made by PGG's General Meeting and its Supervisory Board.

All the above described payments have been made. On 10 March 2017, the increase in PGG's share capital was registered in National Court Register, which means that ENERGA Kogeneracja Sp. z o.o. holds a 17.14% stake in the share capital of PGG.

Changes in the ENERGA SA Management Board and Supervisory Board

A detailed description of changes to the Company's governing bodies is presented in chapter 6.7. *Company's corporate bodies* of this Report.

2.2. Activities of the ENERGA Group

The core business of the ENERGA Group entails distribution, generation and sales of electricity and heat and concentrates on the following key operating segments:

The **Distribution Segment** – operating segment of key importance for the Group's operating profitability, involving distribution of electricity which in Poland is a regulated activity conducted on the basis of tariffs approved by the President of the Energy Regulatory Office (ERO). The ENERGA Group has a natural monopoly position in the northern and central part of Poland, where its distribution assets are located, through which it supplies electricity to 3 million customers, approx. 2.8 million of which are customers with comprehensive agreements and 205 thousand are TPA customers. A breakdown of ENERGA-OPERATOR SA's customer by energy group is presented in the *Key operational data* section. As at 31 December 2016, the total length of the power lines was over 184 thousand km and covered almost 75 thousand km², i.e. about 24% of the country's landmass. ENERGA-OPERATOR SA acts as the leader of this Segment.

Figure 1: Number of ENERGA-OPERATOR SA's customers (thousands)

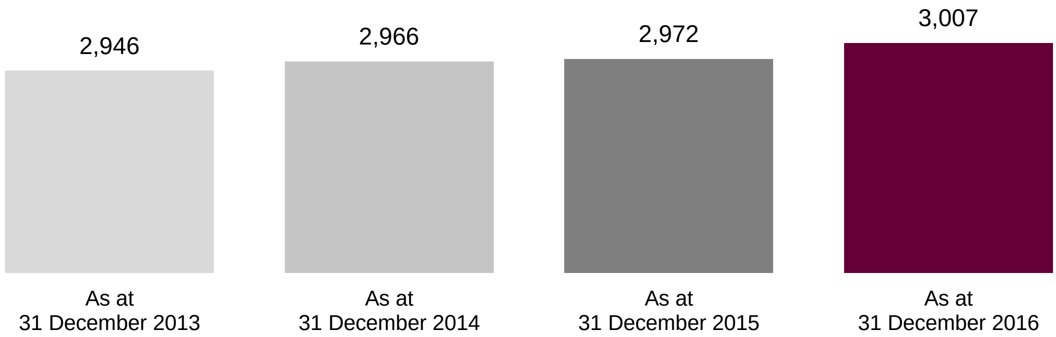
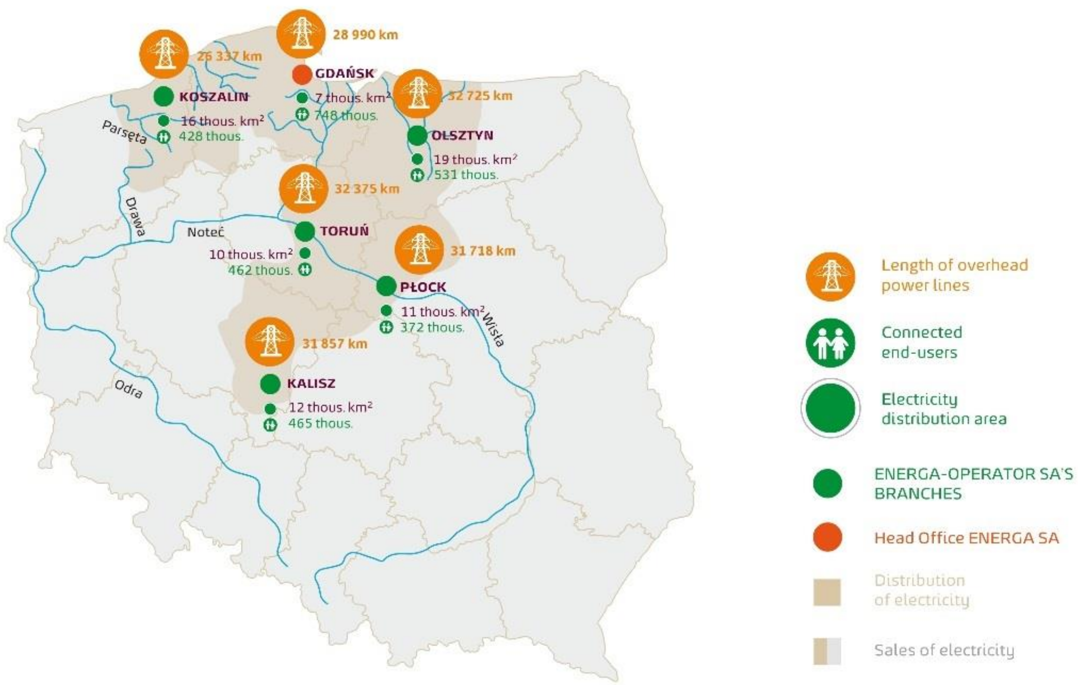


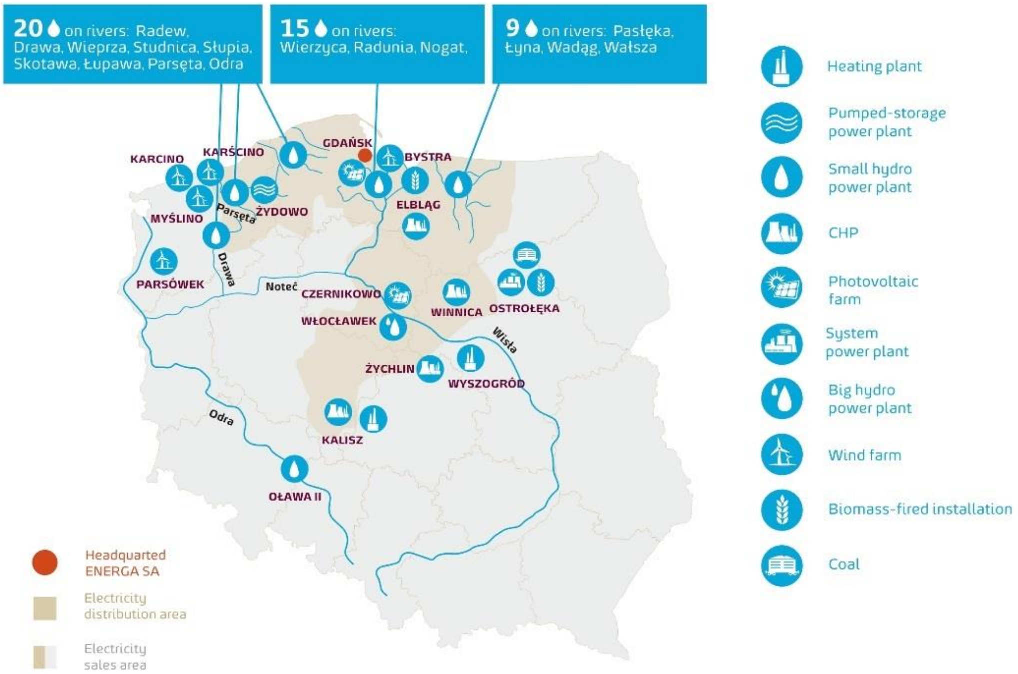
Figure 2: Electricity distribution area served by ENERGA-OPERATOR SA



Generation Segment operates on the basis of four business lines: the Ostrołęka Power Plant, Hydro, Wind and Other (including cogeneration – CHP). At the end of 2016, the total installed generation capacity in the Group's power plants was approximately 1.3 GW.

The Group's gross electricity production was 1.2 TWh in Q4 2016 and 3.9 TWh in the whole year. The installed capacity in the Group's power plants relies on diverse energy sources, such as hard coal, hydropower, wind, biomass and photovoltaics. In Q4 2016, 68% of the Group's gross electricity production originated from hard coal, 21% from hydro and 11% from wind. After 12 months of 2016 the Group generated 68% of its gross energy from hard coal, 21% from hydro, 9% from wind and 1% from biomass. The leader in this segment is ENERGA Wytwarzanie SA.

Figure 3: Distribution of the main generation assets of the ENERGA Group



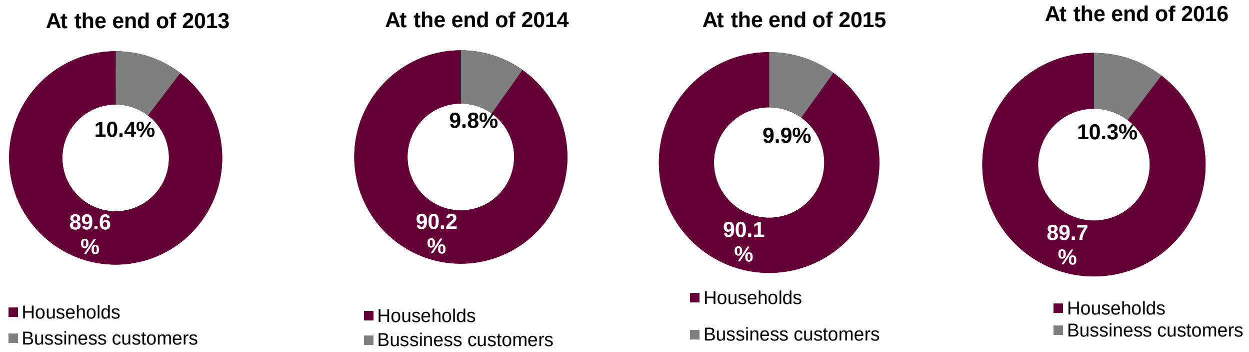
The ENERGA Group owes its leading position in terms of the percentage of electricity from renewable energy sources in the total energy generated, primarily to the generation of energy in hydro power plants and wind power plants. Green energy is produced in 46 hydro power plants, 5 wind farms and in biomass-fired installations (mainly in ENERGA Kogeneracja) and in photovoltaic installations.

At the end of 2016, the Group had the installed capacity of 0.5 GW in renewable energy sources, with a gross production of 382 GWh of electricity in the fourth quarter of 2016 and 1.2 TWh in the whole 2016.

Hard coal was the main fuel used by the ENERGA Group for electricity and heat production. Due to the low market prices of green property rights in 2016, the Group stopped biomass co-firing (Ostrołęka Power Plant). In 2016 the Group's generation units consumed 1,288 thousand tons of hard coal and only 30 thousand tons of biomass (burning 406 thousand tons of biomass the year before). The Group was supplied with hard coal mainly by 3 key suppliers, i.e. Lubelski Węgiel "Bogdanka", Polska Grupa Górnicza and Jastrzębska Spółka Węglowa.

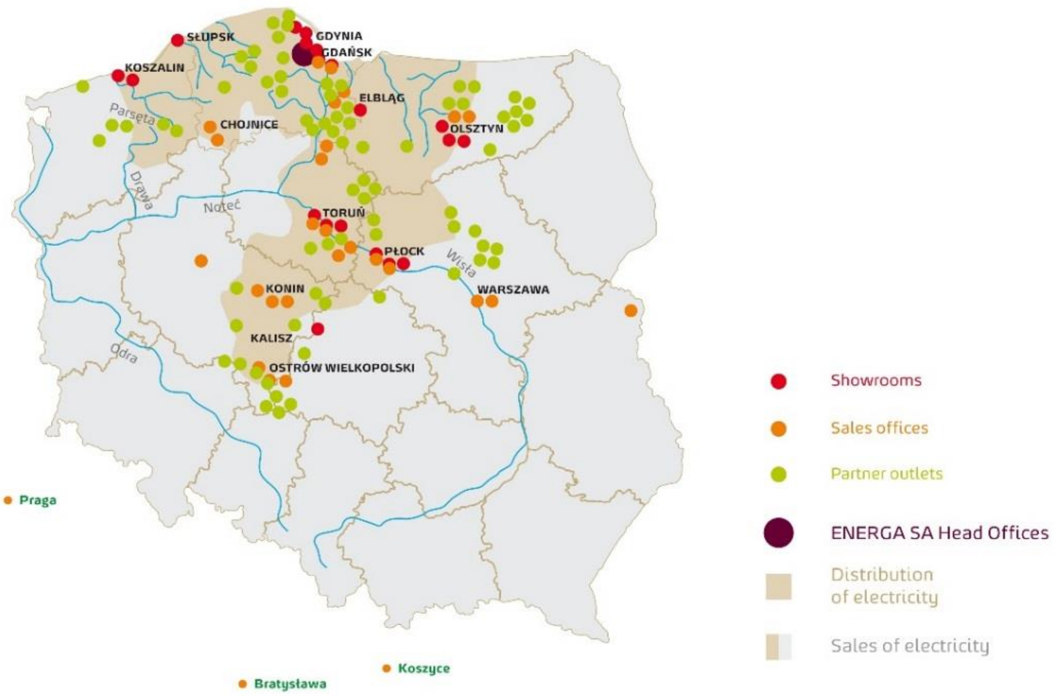
Sales Segment, with ENERGA-OBRÓT SA as its leader, conducts sale of electricity, gas and additional services both as separate products and in packages to all customer segments – from industry, through big, medium-sized and small business, to households. At the end of 2016, the ENERGA Group supplied 3 million customers, out of which over 2.7 million were G tariff customers and the remainder were customers from tariff groups: C, B and A, in a decreasing order.

Figure 4 : Structure of ENERGA-OBRÓT's end buyers by customer type



The Sales Segment is focused on increasing efficiency of its sales activity and continues to grow its customer service infrastructure, which currently comprises 9 own showrooms and 1 showroom operated by an external partner in cities with the largest concentration of ENERGA-OBRÓT customers, 11 sales points (retail islands) in shopping centers in selected cities across Poland and 44 Partnership Outlets of a sales and service-provision nature located in the operating area of ENERGA-OPERATOR.

Figure 5: Location of ENERGA-OBRÓT SA's Showrooms and Partnership Outlets



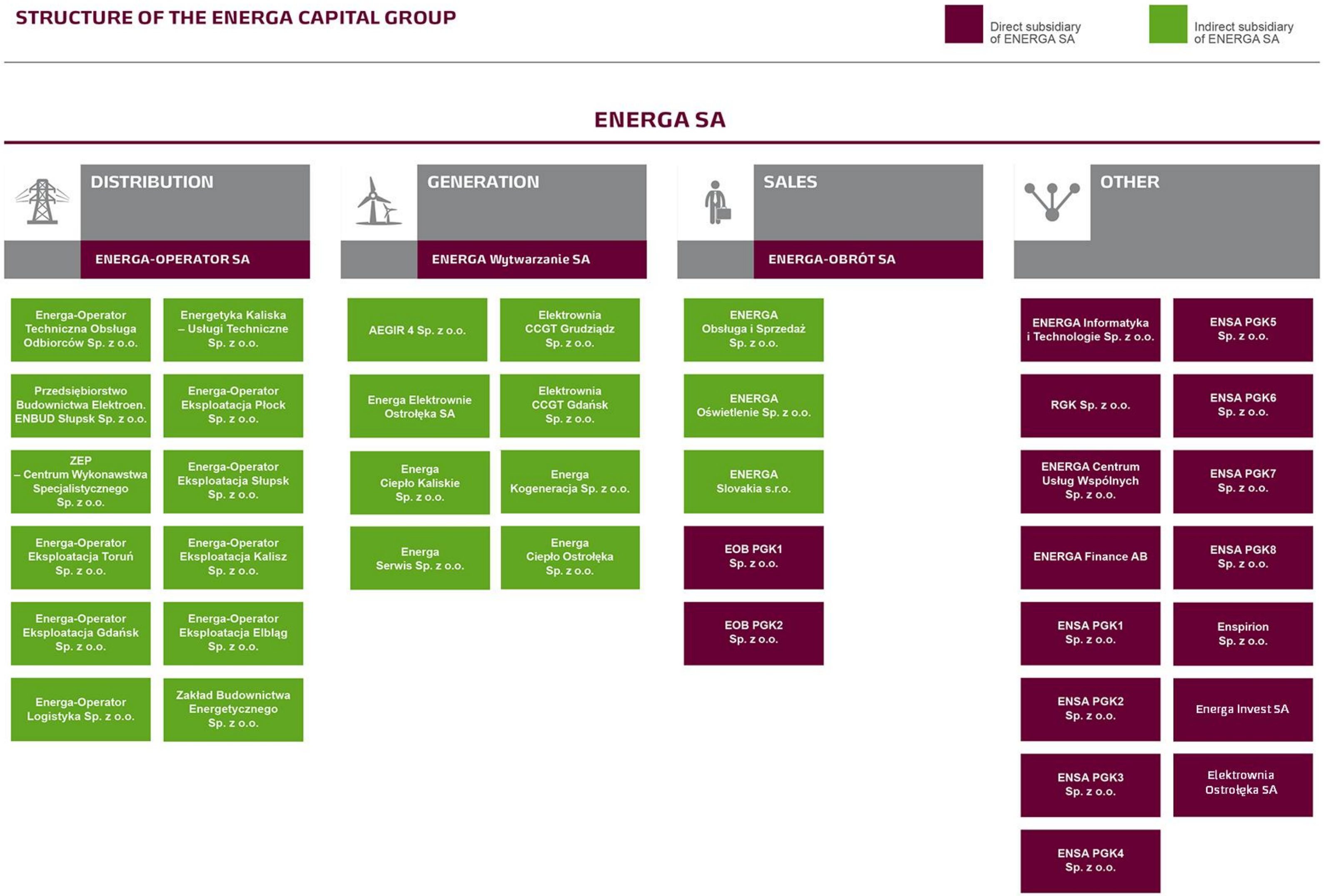
The Sales Segment has a rich product portfolio addressing the needs of specific customer groups. ENERGA-OBRÓT keeps looking for new business areas, strategic partnerships and innovative products adapted to customer expectations. In 2016, mechanisms and actions improving the sales dynamics of the dual-fuel offering based on electricity and gas were introduced. The company launched product labeled “Po prostu gaz dla domu” [Simply gas for your home] dedicated to retail clients. The full product offering of the company is available at the website www.energa.pl.

The Segment concentrates on the high quality of customer service in all contact channels and on implementation of solutions improving the efficiency of service processes and tools. This allows for increase of customer satisfaction while optimizing costs. In 2016 the company enabled customers to book appointments in the showrooms through the website – ENERGA-OBRÓT is the first energy seller in Poland to have launched such service. In addition, eCommerce transaction environment has been built to develop the sale of electricity, gas and energy-related products in a modern and attractive way through the Internet, including the company’s eShop which has been expanded to offer new functionalities.

Key changes in the Group’s structure and organization

As at 31 December 2016, the ENERGA Group was composed of the parent company ENERGA SA and 44 subsidiaries. The Group companies are grouped in 3 business segments managed by ENERGA SA’s direct subsidiaries which are Segment Leaders. The fourth group comprises the so-called Other Companies, ENERGA SA’s direct subsidiaries providing shared services for the Group and performing tasks for ENERGA SA.

Figure 6: Simplified organizational structure chart of the ENERGA Group as at 31 December 2016



On 25 January 2016, the process of liquidation of Zakład Energetyczny Toruń - ENERGOHANDEL Sp. z o.o. was completed and the company was deleted from the National Court Register.

On 1 February 2016, ENERGA Kogeneracja Sp. z o.o. (acquiring company) merged with ZEC Żychlin Sp. z o.o. without increasing the share capital of the acquiring company. Following the merger, ZEC Żychlin Sp. z o.o. was deleted from the National Court Register.

In connection with the fact that ENERGA Kogeneracja Sp. z o.o. purchased 3 shares from the prior shareholder of ENERGA Ciepło Ostrołęka Sp. z o.o. (a natural person), as of 6 April 2016, ENERGA Kogeneracja Sp. z o.o. became the only shareholder of ENERGA Ciepło Ostrołęka Sp. z o.o.

On 27 April 2016, in connection with the resolution adopted by the General Meeting of ENERGA Kogeneracja Sp. z o.o. to increase the company's share capital by PLN 215,606,000, ENERGA SA submitted a representation of accession to ENERGA Kogeneracja Sp. z o.o. as a new shareholder (previously, ENERGA Kogeneracja was an indirect subsidiary of the Issuer) and subscription to 431,212 new shares, which were covered by a cash contribution of PLN 510 m, with a reservation that the surplus of the cash contribution over the aggregate nominal value of the new shares in the amount of PLN 294.4 m was allocated to ENERGA Kogeneracja's supplementary capital. On 22 June 2016, the increase in the share capital of ENERGA Kogeneracja Sp. z o.o. was registered by the National Court Register.

On 20 June 2016, ENERGA SA acquired from ENERGA-OBRÓT SA all shares in Enspirion Sp. z o.o., becoming the latter's sole shareholder.

On 31 August 2016, the National Court Register registered the merger of ENERGA Invest SA (acquiring company) and Bora Sp. z o.o.

On 28 September 2016, all the shares in Elektrownia Ostrołęka SA were transferred by ENERGA Wytwarzanie SA to ENERGA SA, in exchange for the redemption of ENERGA Wytwarzanie SA's bonds, which were bought by ENERGA SA.

On 19 October 2016, ENERGA SA together with ENEA SA, TAURON Polska Energia SA and PGE Polska Grupa Energetyczna SA established a company under the name ElectroMobility Poland SA.

On 16 December 2016 the Shareholder Meeting of ENERGA Kogeneracja Sp. z o.o. adopted a resolution to increase the company's share capital in exchange of a contribution in kind in the form of a Pilot Cogeneration System in Żychlin worth approx. PLN 13 m. The capital increase was registered on 3 February this year.

On 27 December 2016, the merger of ENERGA Wytwarzanie SA (acquiring company) and Ekologiczne Materiały Grzewcze Sp. z o.o. was registered.

On 28 December 2016, all the shares in ENERGA Invest SA were transferred by ENERGA Wytwarzanie SA to ENERGA SA, in exchange for the redemption of ENERGA Wytwarzanie SA's bonds, which were bought by ENERGA SA.

2.3. ENERGA Group's management model

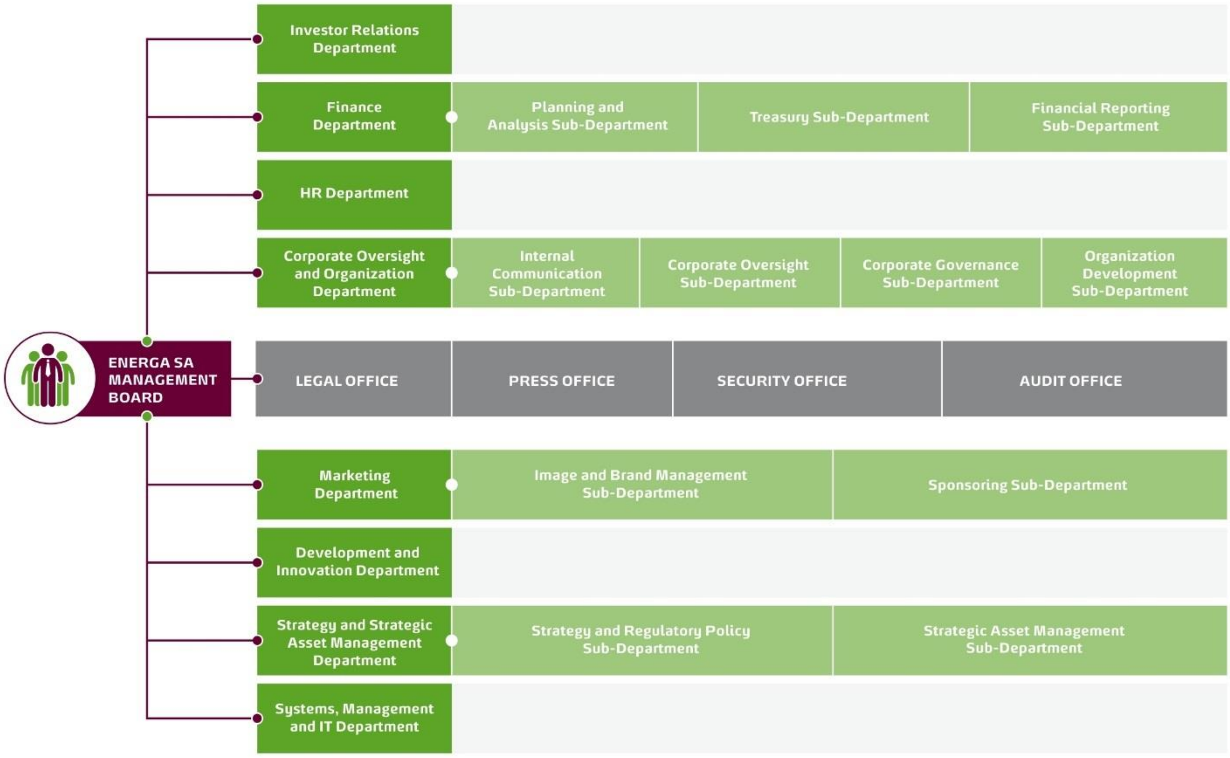
Since 2013 Energa Group's Organizational Governance has been the basic document defining the general rules of the ENERGA Group's management. In 2016 the document was not updated. In October 2016 a team was appointed to develop a new document defining the cooperation rules between the Group companies.

Changes to the Group's and ENERGA SA's management rules

In managing the Group, it is ENERGA SA that determines the Segments and defines their objectives. The leader managers the Segment, defines the objectives of the Segment Companies and evaluates their attainment, is responsible for the Segment's performance and the Segment's capability to generate dividends. The leader is obligated to cooperate with other Segments and ENERGA SA in the areas in which the Group may reduce costs and improve efficiency.

In 2016 the Company's structure was subject to dynamic changes. The current ENERGA SA Organizational Bylaws together with the organizational structure was approved in December 2016. The chart below shows the structure of ENERGA SA up to the level of organizational units directly reporting to Management Board members, as at 31 December 2016.

Figure 7: ENERGA's organizational structure chart as at 31 December 2016



The key organizational changes relative to 2015 are as follows:
- eliminating the function of Managing Director – the powers to issue decrees were handed over to the Corporate Oversight and Organization Department Director,
- direct reporting of organizational units to Management Board Members in accordance with the functional division,
- increasing the powers through establishing separate Departments in the following areas: Legal, IT, R&D and HR.

The standing advisory bodies supporting the ENERGA SA Management Board in making strategic decisions, have not changed relative to 2015. These include: the Group Council for Counteracting Mobbing and Discrimination, Risk Committee, Council for Counteracting Mobbing and Discrimination, Ethics Council, Financial Risk Management Committee, IT Coordination Council, Program Council, and Security and Critical Infrastructure Council.

2.4. ENERGA Group's Strategy for 2016–2025

On 15 November 2016 the Company's Supervisory Board adopted resolutions accepting the documents: "Strategy of the ENERGA Group for 2016-2025" and "Long-Term Strategic Investments Plan of the ENERGA Group for 2016–2025".

Grounds for updating the Group's Strategy

The recent decline in profitability throughout the power sector has forced leading European and Polish utility groups to revise their strategies. The conduct of business activity based on the previous business model could result, in the medium term, in deteriorated performance and lower valuation of utility companies. Continuing operations solely on the basis of existing assets while preserving the previous business model could lead to a gradual decline in the ENERGA Group's earnings, both in the medium and long-term. Efforts aimed at maintaining or improving the financial results will require adaptation to new trends: development of distributed generation and renewable energy sources, attempts at improving energy efficiency and emergence of new technologies, players and business models in the market. Accordingly, it was necessary to adjust the ENERGA Group's business model to the new challenges.

Strategic objectives and programs

The ENERGA Group's objective is to increase EBITDA to PLN 2.4 bn in 2020 and PLN 3.0 bn in 2025, with stable market conditions.

In order to solidify the position of the ENERGA Group as an innovative customer-oriented utility group, taking into account a stable business foundation based on predictable regulations, the Strategy assumes two areas of business development and value creation, namely Infrastructure and Customer, within which the following strategic objectives and programs of the ENERGA Group have been identified:

Objective 1. Developing modern energy infrastructure in a way that makes it possible to have a stable revenue base, dependent mainly on the quality of services provided rather than on typical market drivers. The infrastructure will respond to the future requirements of the Polish electrical power system, and its development will enable to keep a balance between the interests of all stakeholders of the ENERGA Group.

Program 1 / Expansion of a smart and reliable electricity distribution grid affording opportunities to market energy storage and local management services.

Program 2 / Development of infrastructure for broadband web access.

Program 3 / Utilizing regulations to stabilize revenues in the Capacity Market and tariffs on heat.

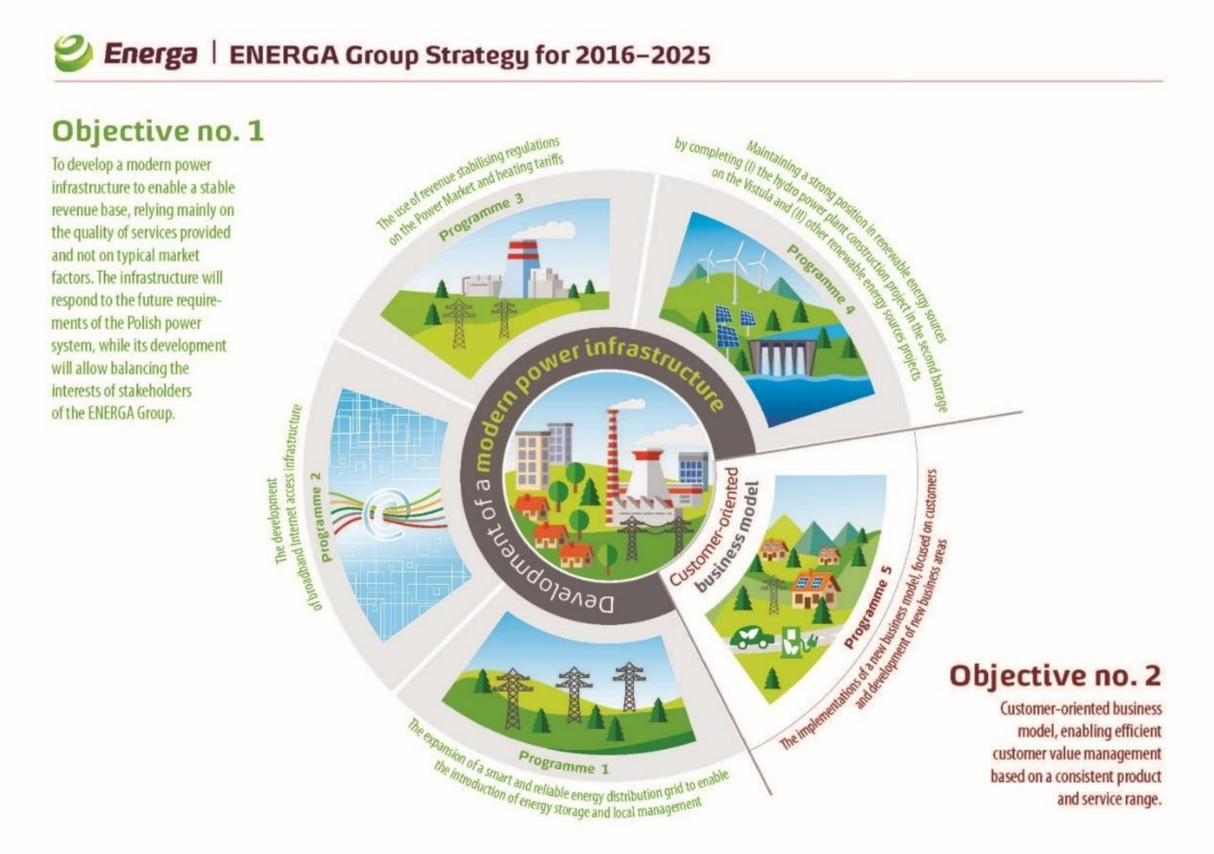
Program 4 / Maintaining a solid position in the RES area through the execution of (1) a hydro power plant construction project as part of the development of the second step dam on the Vistula River and (2) other RES-related projects.

Objective 2. Customer-focused business model facilitating effective customer value management based on a coherent product and service offering.

Program 5 / Rolling out a new customer-oriented business model and developing new business areas – the program will result in the creation of approx. 100 new products dedicated to three customer segments: individual customers, business customers and local government and public administration units.

A visualization of the strategy is presented in the chart below.

Figure 8: Chart illustrating the objectives and programs under the updated ENERGA Group's Strategy



Dividend

The dividend policy will be adapted to the financial needs of the investment process which assumes the cessation of key spending items by 2023. At the same time, the provisions included in the Company's Prospectus approved by the Polish Financial Supervision Authority on 15 November 2013 regarding declarative dividend payments have gone out of date.

Implementation of the investment program in 2016

In 2016, the consolidated capital expenditures in the ENERGA Group were PLN 1,567 m, of which investments in the Distribution Segment consumed PLN 1,263 m.

The projects in the Distribution Segment included expansion of the grid to connect new clients and producers as well as modernization, which is aimed at improving the reliability of electricity supply. Expenditures were also incurred for innovative grid technologies and network solutions, including the implementation of smart grids and AMI metering.

In the Generation Segment, the main achievement was the completion of the work associated with the general overhaul of unit no. 3 in Ostrołęka B Power Plant and adaptation of the facility to environmental standards. In addition, construction of the Parsówek wind farm (26 MW) was settled.

Table 1: Execution of the capital expenditure program in 2016

Description of the project	Location	Capital expenditures (PLN m)	Execution stage
DISTRIBUTION SEGMENT			
Grid development related to connection of new customers	Distribution areas	475.9	In progress continuously
Grid development related to the flows in the HV grid and connection of new sources	Distribution areas	31.0	In progress continuously
Distribution grid modernization to improve reliability of supply	Distribution areas	562.0	In progress continuously
Smart meters and other elements implementing the smart grid concept, including AMI.	Distribution areas	48.7	In progress continuously
Other capital expenditures.	Distribution areas and Distribution Segment companies	145.1	In progress continuously
GENERATION SEGMENT			
General overhaul of the unit in Ostrołęka combined with work on increase of its efficiency	Ostrołęka	85.5	Completed
Construction of a NOx emission reduction installation at the Ostrołęka B Power Plant.	Ostrołęka	62.2	Completed
Modernization of electrostatic precipitators for boilers at the Ostrołęka Power Plant B.	Ostrołęka	33.4	Completed
Construction of the Parsówek Wind Farm with the capacity of 26 MW	Parsówek	19.0	Completed
Modernization of heat sources and grids in the CHP business line	Elbląg, Kalisz, Ostrołęka, Żychlin	11.8	-
Modernization of hydro power plants	Włocławek, Żydowo, other (small hydro power plants)	11.8	-
Other and adjustments	-	24.7	-

2.5. Research and development

The ENERGA Group consistently implements innovations in key areas of its operations. The performed projects make it possible for the Group to improve effectiveness of operations and for its clients to gain measureable benefits. ENERGA has the ambition to be the most advanced energy group in Poland, both in implementing innovative technical, organizational and procedural solutions, and in shaping the market model and regulatory environment.

From the Group's perspective, the most prospective directions of development are associated with the smart grid, smart city, energy storage, electrical mobility areas, or new technologies in generation sources (including RES). In the aforementioned areas, projects associated with, among others, AMI, Demand Side Response (DSR), energy storage, eMobility or improving the effectiveness of energy conversion processes, were continued in 2016. In 2016, the ENERGA Group allocated in total PLN 189 m, i.e. approx. 1.9% of its consolidated operating expenses, for research and development and implementation of innovative solutions; PLN 62 m was allocated for investments in ENERGA SA itself.

Key projects in ENERGA Group's innovative activity

NEDO Project – the objective of the project is to gain expertise and experience on the possibility of using the energy storage technology to increase the flexibility of operation of the NPS, their impact on improving the operating reliability of the NPS and identification of the energy storage warehouse operating scenarios which stand an opportunity to develop in Poland with the existing and future legal and economic regulations. The planned completion date is 31 December 2020 (with possible extension of the duration of the project). In 2016, the project feasibility study was completed and presented to the Japanese governmental agency NEDO, which funds most of the project. The next step is to obtain the approval of all the parties involved in the project for the feasibility study and declaration of further cooperation on the project. The project will test the possibility of using an energy storage facility connected to the HV grid to increase the flexibility and reliability of the operation of the NPS and the SPS IT system making it possible to limit the capacity of generation sources (wind farms) to improve the security of electricity supplies and avoid failures in the NPS.

Pilot with 3City Electronics – project completed in 2016. As part of the commissioned research and development works, 4 controller prototypes were developed using state-of-the-art communication technology solutions to be applied in MV/LV stations.

LOB Project – the objective of the project is to build the first in Poland virtual power plant equipped with an energy storage facility, which will translate into gaining expertise and experience on the possibility of building local balancing areas, familiarization with the energy storage control technologies and the possibilities offered by solutions based on the Lithium-ion technology. In 2016 work associated with installation of energy storage facilities was completed. The expected project completion date is mid-2018. The next task to be performed is installation of software for controlling the energy storage facility and commencement of research and analyses.

"Energy for Saving" Project – project completed in 2016; it resulted in development and testing the effectiveness of soft management of the behaviors and habits of end users. Based on the information provided by the AMI system, personalized reports and analyses on energy consumption were prepared and delivered to selected customers together with the electricity bill. The analyses have confirmed the effectiveness of the methods used in the project.

Upgrid Project, i.e. municipal grid of the future – subsidized by the European Union under the Horizon 2020 program. The project is aimed at analyzing selected technologies in terms of the possibility of improvement of reliability and optimization of the operation of the MV and LV grids on the selected grid area, with special focus on development of new IT solutions and utilization of data from IT systems, in particular the AMI system. The project will be completed in 2018.

Construction of a local balancing area as an element enhancing security and energy efficiency of the operation of the distribution system – the project is aimed at developing and implementing the Local Balancing Area technology which, in a specified area of the electrical power system, allows for integrated management of its power resources. Implementation of the solution developed in the project will make it possible to increase the capability of connection to the distributed generation network based on RES, improve the efficiency of the use of electricity, reduce the costs of operation of the electrical power system and improve reliability and security of energy supplies, leading as a result to an environmental effect in the form of reduction of national CO_2 emissions. In August 2015 an agreement on subsidizing the project by Narodowe Centrum Badań i Rozwoju (National Centre for Research and Development) under the Gekon Program was signed. The project will be performed until the end of 2017.

Smart Grid Demonstration Project – the objective of the project is to develop grid management systems increasing the security of the work of the National Power System in a situation of significant penetration of wind sources, through implementation of new solutions for TSO, DSO (SPS – Special Protection Scheme) and generation companies (BESS - Battery Energy Storage System). Stage I of the project will deliver a Feasibility Study on the basis of which the stakeholders will be able to make a decision on continuation of the project at Stage II, i.e. demonstration (which requires concluding separate agreements).

Energa Living Lab - the essence of the Energa Living Lab project implemented by Enspirion is to demonstrate the effectiveness and to popularize demand-side response tools, using the formula of tests in a live laboratory consisting of 300 households in Gdynia. The project is co-financed by the European Commission (50%) and the National Fund for Environmental Protection and Water Management (45%) within the LIFE+ Instrument.

eMobility – in 2016 Enspirion continued the eMobility project which in the next decade is expected to bring about a significant increase in demand for electricity and development of new services associated with construction and operation of the required power infrastructure. In 2016, as part of the project, another fast charging terminal with the capacity of approx. 50 kW was built in the Tri-City for CHAdeMO and Combo 2 standard cars. In practice this means that the ENERGA network charging points support all mass production models of electric cars. In addition a fleet of electric vehicles accumulating energy in Lithium-ion batteries with the capacity from 16 to 30 kWh has been organized and an IT system for remote management of the terminals and accumulation of measurement data has been tested.

Cooperation with partners

As part of its research and development projects, the ENERGA Group cooperates with numerous scientific entities, including: the Energy Institute in Gdańsk, the University of Gdańsk, Gdańsk Technical University, Opole Technical University, the Fluid-Flow Machinery Institute of the Polish Academy of Sciences, the Warsaw University, the University of Varmia and Masuria, the Science and Technology Park in Gdańsk and the Pomeranian Science and Technology Park.

ENERGA SA, as the leader of one of two Partnerships affiliated within the Smart Specialization in Pomerania (Inteligentne Specjalizacje Pomorza, ISP3). entitled "Eco-efficient technologies in production, industry, distribution and consumption of energy and fuels and in construction" signed an agreement on development of ISP3 with the representatives of the Marshall's Office.

Research findings and practical implementations in power engineering are presented in the Scientific Quarterly of Power Engineers "*Acta Energetica"*, published by ENERGA SA in cooperation with Gdańsk Technical University since 2009. The quarterly is one of the highest-ranking science magazines about power engineering in view of the Ministry of Science and Higher Education.

Research and development prospects

New development opportunities for ENERGA pertain in particular to the customer and comprise: response to demand, smart grids, provision of services and introduction of new technologies and significant development of distributed generation.

The main areas determining the development of the ENERGA Group also include R&D efforts focusing on the following areas:

- smart grid, active customers, RES and balancing clusters;
- energy storage;
- improvement of reliability and continuity of supply;
- customer service and marketing actions;
- production and sale of energy;
- system services for network operators;
- development of diagnostic systems;
- improvement of energy efficiency.

Development prospects and strategy implementation in 2017

ENERGA's overriding objective is to grow the goodwill in aw way guarantees return on the capital invested by the shareholders. In addition, the Group carries out tasks related to ensuring energy security of the Republic of Poland. Due to the large share of regulated activity in the business structure, the Group continues to be a low risk profile enterprise. As a result, it is relatively immune to unfavorable changes on the electricity market.

Distribution Segment

The ENERGA Group consistently strives to win the leader position among distribution system operators through improving its efficiency and reliability of the network, combined with top quality customer service. In 2017 the Distribution Segment is planning to spend capital expenditures in the amount of PLN 1.3 bn. The key directions for investments in 2017 are associated with execution of initiatives contributing to improvement of the SAIDI/SAIFI indicators, connection time, and continuation of implementation of the AMI smart metering system and the TETRA trunked communication system.

2017 will be another year of application of the "Distribution System Operator Regulation Strategy for 2016-2020". These principles introduced far-reaching changes, among others, in calculation of return on employed capital, amount of operating expenses included in the tariff and qualitative regulation. The actual level of the efficiency indicators will have impact on the allowed revenue in the next periods – the actuals in 2016 will be reflected in the 2018 tariff.

The Distribution Segment aspires to be a leader in implementing innovative technical, organizational and process solutions. The ENERGA Group introduces innovative solutions in such areas as: implementation of smart grid, smart metering, construction of a local balancing zone, international UPGRID project, whose main objective is development in a DSO these functionalities that serve integration of low- and medium-voltage networks with demand side management and dispersed generation.

Generation Segment

In the Generation Segment, capital expenditures planned to be incurred in 2017 amount to PLN 0.3 bn, however approx. one third of their level depends on the timing and outcomes of the RES energy auctions. In 2017 new projects are planned to be put to RES auctions and some existing RES generation sources are to migrate to the auction system. The remaining expenditures result from the necessity to modernize the existing assets.

In accordance with the prevailing ENERGA Group Strategy, the key investments in the generation area are: Ostrołęka C coal-fired power plants with the capacity of approx. 1,000 MWe and the plan to build a hydro power plant based on the second step dam on the Vistula River with the capacity of approx. 80 MWe. In 2017 efforts will be continued to execute the Ostrołęka C project. In addition, overhaul of unit no. 1 in the Ostrołęka B power plant will be conducted, comprising a general overhaul of the boiler and the turbine set and ancillary equipment. In the Vistula hydro power plant project issuance of the decision on the environmental conditions of the consent to perform the project is expected.

Sales Segment

In 2017 it is expected that the competitiveness of the energy market will continue to increase, stimulated both by competition between the largest sellers belonging to 4 vertically integrated capital groups as well as by new smaller entities entering the market, whose number keeps increasing and, as at the end of 2016, exceeded 160.

From among external factors in 2017, the biggest impact on the activity of the Sales Segment will be exerted by the regulations pertaining to the "Obligated Offtaker" discharged by ENERGA-OBRÓT. This is related to increase in the cost of purchase of electricity relative to market conditions. This results from the fact that a considerable part of the Polish generating capacity from wind sources is found within the area of DSO ENERGA-OPERATOR. This situation significantly impairs the competitiveness of the company's offering in comparison to companies that are not subject to the above requirements.

ENERGA-OBRÓT takes actions aimed at improving the profit levels and increasing the number of customers in the portfolio. The most important internal development initiatives comprise:

- implementation of a new client-focused business model and developing new business areas (in accordance with Program 5 of the new ENERGA Group Strategy for 2016-2025),
- development of an offering for end customers,
- localization and acquisition activities aimed at development of the customer portfolio,
- undertaking initiatives and implementing tools streamlining and enhancing customer service efficiency.

Construction of the customer portfolio is based both on acquisition activities outside the ENERGA DSO and loyalty-enhancing actions protecting the existing customer base against competitors. At the same time improvements are implemented to increase the effectiveness of sales activities and improvement of the quality of customer service, guaranteeing satisfaction of the main customer expectations at the lowest possible cost.

The new areas of activity will enable ENERGA-OBRÓT to diversify the profit sources, financial benefits and utilization of the potential of dynamically developing areas of economy. In 2017 development of the Indexed Offering Platform (launched in 2016) is planned - it is the first platform in Poland for big customers enabling them to independently manage their electricity purchases.

In the wholesale area ENERGA-OBRÓT is planning to increase the share in the so-called proptrading on the products with physical supply of electricity and gas. In addition, undertaking activity in trading in financial contracts at EEX and ICE exchanges is assumed.

The next actions planned to increase the efficiency of the wholesale activity include: entering the Financial Instruments Market at the Polish Power Exchange, and undertaking activity in the Intersystem Exchange Market in IntraDay, on the Polish-German and Czech-Slovak borders.

The customer focus defined in the Strategy, together with ensuring top level services with simultaneous use of innovative solutions and tools will enable the Company to both expand the customer portfolio and effectively defend the existing consumer base. The aforementioned actions, combined with the effective policy reducing the Company's financial burdens (through optimizing the customer service processes, implementation of modern IT solutions, regulatory dialogue aimed at eliminating unfavorable RES solutions) and launch of new activity areas are expected to increase profits and strengthen the position of ENERGA-OBRÓT in the market.

Material factors relating to development of the ENERGA Group

In the opinion of the ENERGA SA Management Board, the following factors will have impact on the results and activity of the Company and the ENERGA Group at least for 2017:

Figure 9: Material factors relating to ENERGA Group's development at least for 2017

Change of the structure of distributed energy in relation to the structure set in the tariff	**Incurring expenditures on the grid in connection with the quality regulation requirements in the Distribution Segment**	**Long-term contracts for purchase of "green" certificates based on the substitution fee in the environment of low market prices for such rights**
Increasing competition in the electricity suppliers market	**Impact of the function of the Obligated Offtaker and RES source balancing**	**Electricity prices on the spot and balancing markets**
Must-run production level at ENERGA Elektrownie Ostrołęka	**Expected increase of coal prices**	**Prices of CO_2 emission allowances in the face of decreasing number of free allowances**
Actual rate received and the operating reserve volume	**Share in the net result of PGG and Polimex-Mostostal**	**Weather and hydrometeorological conditions**

2.6. Risk management in the ENERGA Group

Integrated Risk Management System in the ENERGA Group

The risk management in the ENERGA Group is aimed at obtaining comprehensive knowledge on the threats and opportunities following from individual areas of the Group's operations and its environment, conscious responding to identified risks, and thus facilitating the planning and decision-making processes, and supporting the attainment of the Group's strategic and operating objectives.

In 2016, no material changes were made to the Integrated Risk Management System (ERM) in place in the ENERGA Group. It still operates on the basis of commonly used risk management standards, such as COSO II, FERMA and ISO 31000. The system consists of: the Risk Management Policy in the ENERGA Group, the Risk Management Methodology in the ENERGA Group, and the risk management process presented in the chart below:

Figure 10: Risk management process

In the Integrated Risk Management System, Risk Owners on an ongoing basis manage the risks allocated to them, among others, through implementation of new control mechanisms (securities). In connection with entry into force of the act on wind power plant investments the related risk has materialized and it was necessary to apply the predefined action plan aimed at mitigating the negative consequences of the risk. In addition, new risks have been identified, mainly associated with the investments, e.g. in Polska Grupa Górnicza, or re-launch of the project to build the new unit in Ostrołęka and the related risk of no implementation of the capacity market concept.

In accordance with the Risk Management Policy in the ENERGA Group, risk identification is based on a uniform risk model, i.e. a set of the main risk areas and categories, ensuring comprehensive risk identification in all areas of activity.

Below are presented the most important risks identified on the level of Segments and the Group, with specification of the control mechanisms and risk response.

Strategic area

Distribution Segment

In the Distribution Segment, incorrect handling of customer notifications is a material risk that may impair the Company's image or revenues. The risk is associated with complying with the customer service quality standards as regards provision of the distribution service. Problems with integration of the IT systems, in particular as regard implementation of new tools, may cause an increase in the number of queries from the ERO President regarding the errors and result in financial penalties. To mitigate this risk, actions are taken to improve the customer service process, among others through stabilizing the implemented functionalities, developing the system to include additional customer service quality mechanisms or temporary manual problem resolution in the system.

Generation Segment

For the Generation Segment, investor oversight over Polska Grupa Górnicza Sp. z o.o. is a key issue. The risk pertains to on-going monitoring and control of fulfillment of the investment conditions. The high valuation of the risk follows from the level of capital committed to the investment and catastrophic effects for ENERGA Kogeneracja Sp. z o.o. (direct investor), if any, if the business plan or restructuring plan PGG fails. In addition, deeming the capital involvement to amount to public aid by the European Commission may impair the return on investment and thus impair the Group's financial result. To mitigate the risk, ongoing monitoring of the fulfilment of investment conditions is conducted and ENERGA's representatives sit on the Investor Committee in accordance with the Investor Agreement, and in the Monitoring Committee at the PGG Supervisory Board.

The next risk pertains to strategic management in ENERGA Elektrownie Ostrołęka SA (planning the methods of the company's operations in the future, ensuring funding for implementation of the strategy) and operational management (ensuring correct operation of the processes and appropriate resources for their execution). Lack of a long-term strategy for the power sector affects the effectiveness of the company's management. The macroeconomic situation, electricity and fuel prices, and demand for electricity in the National Power System impact the current value of the company's assets. As part of the applied control mechanisms, among other things, analyses of the external environment and internal conditions are carried out to support flexible response and adaptation to changing environment (scenario-based analysis). The monitoring covers also quantitative risk measures, such as: indicators following from the adopted objectives, EBITDA, return on invested capital (ROIC), availability factor (AF), failure rate (FOR) or increase of capacity in relation to the base period, efficiency of generation or level of fixed costs excluding amortization and overhaul costs per 1 MW of installed capacity.

Sales Segment

The market risk factors associated with trading in electricity and fuels, such as: unexpected price volatility, lack of sufficient liquidity in the forward and spot market, volatility of RES generation, mismatch of the electricity and gas contracting strategy or incorrect forecasts of the buyers' demand for electricity and gas fuel are important from the standpoint of the Sales Segment, impacting the strategic objective associated with high financial efficiency. Materialization of this risk may lead to increase of operating expenses, because large volatility of wind generation, combined with the purchase obligation under the "Offtaker of Last Resort" mechanism, is negatively correlated with the electricity price. The control mechanisms used in this respect comprise primarily all internal policies, rules and processes pertaining to purchase of electricity, which are aimed at management of global risk through its measurement and limitation of the value at risk (VaR). The quantitative measures used include primarily: financial and economic indicators, market ratios, VaR level, or levels of contracting for the needs of end buyers. With the existing safeguards, materialization of the risk is limited to the extent to which the company has influence on them. In the event of occurrence of signals pointing to the necessity to verify the adopted long-term and medium-term contracting strategy the actions are updated in order to adjust them to changing market conditions. In 2016 an audit with the participation of an external consultant was completed to provide a comprehensive analysis of the wholesale area, including the approach to market and credit risk management and control in the wholesale of electricity and related products. Based on completed analyses a report was prepared, outlining the directions of development of the area and recommending changes. The implementation of the recommendations is gradual; it will make it possible to update the adopted strategy to adapt the actions to the current conditions and good market practices in order to manage the risk in this area more effectively.

ENERGA Group

On the ENERGA Group level, material risk in the strategic area also pertain to: corporate governance system, supervision and coordination of the actions in the area of relations with the Group's customers, image of the Group and development and operation of the Ostrołęka C unit.

The risk associated with the corporate governance system pertains to the process of issuing corporate authorizations in the ENERGA Group, including the policy for employing and remunerating members of the Group companies' governing bodies and collecting information about material activities undertaken by the Group companies. Materialization of the risk impacts the effectiveness of operation of the Segments and the Group, and formal errors or delays may result in legal ineffectiveness of the decisions made and the possibility of suing them by the shareholders. The control mechanisms in place define the scopes of responsibilities in the corporate governance area, and ineffective internal communication and continuing works on the internal regulations in the Group may impair their effectiveness. Timeliness of execution of corporate decisions, completeness and up-to-dateness of basic information about the companies and materiality of formal defects in the corporate decisions made are monitored on an ongoing basis. To mitigate the risk the internal regulations are adjusted to ensure clear division of responsibilities in the corporate governance area, and in the transition period - there is enhanced activity of the staff of the ENERGA SA Corporate Governance Sub-Department.

The next risk is associated with supervision and coordination of the actions in the area of relations with the ENERGA Group's customers. The number and structure of serviced customers, product offering, organization and structure of sales service points, or operation of the IT systems have direct impact on the customer satisfaction level. The ongoing work on changes to the Group's IT systems and the related transitional problems with issue of invoices cause an increase in the number of customer complaints and thus translate into high assessed probability of materialization of this risk. To mitigate the risk, actions are taken to identify any defects of the customer service systems by teams in ENERGA-OBRÓT SA and ENERGA-OPERATOR SA and jointly develop in the Group a package of customer service measures.

Customer service in the Group has direct impact on the next material risk associated with the image of the ENERGA Group. Use of inappropriate or ineffective marketing and communication actions, or conduct of actions by the Companies without estimating their impact on the image may lead to deterioration of the Group's credibility and thus impair the Group's value and its rating. Among the measures of this risk, the following may be listed: results of marketing research, results of promotional actions, or results of qualitative analysis of the brand's presence in the media relative to other names in the industry. The plan of actions taken in response to the risk comprises, among others, update and adoption of a new marketing strategy and communication strategy, intensification of the communication efforts in response to negative image-related effects resulting from customer service problems, or development of a new customer-focused product offer.

These risk associated with development and operation of the Ostrołęka C unit concerns possible failure to achieve an appropriate level of project profitability, financing structure and unsatisfactory technical parameters of the unit as well as delays in project implementation. Due to scale of the investment project, materialization of the risk may translate into high debt levels in the Group and liquidity. To mitigate the risk optimal finance parties and contractors are sought, and deviations of the expenditures relative to the base assumptions are monitored.

Legal and regulatory area

Since the State Treasury is the majority shareholder of ENERGA SA, the decisions taken by the Polish authorities and administrative bodies may have a material impact on the operations of the entire Group. Increase of the investment or acquisition plans in the face of decreasing energy prices and increasing CO_2 prices may lead to failure to attain the expected financial results and operational benefits. Political decisions taken by the state and EU administrative bodies shape also the amendments of legal regulations. Unstable legal environment as regards the operation of the power sector is a material threat to the ENERGA Group. Adoption of regulations by legislative bodies at the domestic and EU level that materially change the thus far energy policy or introduction of changes to the tariff system, in Poland's climate policy and other regulations related to environmental protection for generation entities, may have negative impact on the activity of individual Group companies and result in suspension of financing of the investments by banks and the necessity to reformulate the investment plans. The new legal regulation pertaining to investments in wind power plants significantly impacted the profitability of this area of operations. The ENERGA Group has a leading position in Poland in terms of the share of electricity from renewable sources in total generated energy, hence changes to the interpretation of the RES Act by the ERO President or Ministry of Energy in matters associated with supporting and operation of RES in Poland may lead to decline of the rates of return on executed investments. The planned amendments to the Water Law assume introduction of additional fees associated with RES operations, which will also have impact on the financial, operating and strategic activity of the Generation Segment. The involvement of ENERGA SA and Segments in the legislative process for the legal acts and work of industry organizations is a security mechanism in this respect. A qualitative analysis of the proposed changes to the law is carried out on an ongoing basis and their impact on the Group's financial result is measured, however due to the significant exposure of this risk to external factors, the Company has very limited possibility of mitigating it.

The claims put forward against ENERGA Group companies, in particular those following from the unsettled legal status of real properties used for the electric infrastructure are other elements of legal risk. The decisions of the public authorities imposing significant obligations on the companies (in particular as regards protection of competition and consumers) may lead to increase in the number of disputes and entail a requirement to pay compensations or penalties. Due to the continuing nature of the risk and the value of currently pending litigations, the risk score is high. Coordination of court, arbitration and administrative proceedings at the Group level, monitoring and reporting of values of subjects of litigation as well as other actions taken by ENERGA SA and the companies which are part to such proceedings, are aimed at mitigation of risk. Last year the Group implemented appropriate internal regulations pertaining to coordination of legal aid. In addition work is under way to implement new IT solutions and roll out the Compliance system aiming at ensuring even more effective and comprehensive compliance with internal and external regulations, ethical standards and organizational culture, as well as compliance with other regulations required of the Group.

Absence of a comprehensive regulation of the Compliance area in the ENERGA Group may affect the loyalty and motivation of the employees, impair the Group's credibility among its business partners, and result in financial losses as a result of abuse. Internal and external audits have not shown any Compliance incidents, however one may not rule them out completely. To mitigate the risk, the Group plans to review the existing procedures and supplement shortcomings, if any, in the context of management of abuse risk.

Operating area

Due to the large size of ENERGA Group's assets and the age of some facilities, the activity of the Group companies is exposed to such fortuitous events as: breakdowns, weather anomalies, atmospheric factors or acts of third parties, which may affect security or continuity of generation and supplies to customers of electricity of sufficient quality parameters. Interrupted operations of generation or distribution units lower their performance and involves disturbances to attainment of strategic objectives and entails, among others, danger to safety of people and property as well as the necessity to incur additional costs of repair/replacement of damaged components or activities connected with the buyers' disaster recovery. The risk in the distribution area is measured by the SAIDI and SAIFI ratios. In the generation area, the key data include, in turn, data on deviations from the production plans, and indicators pertaining to the number of failures / events impairing the availability or duration of the failure / events impairing the availability. To prevent the materialization of these risks, extensive regulation of this area has been introduced. In addition, ongoing reviews, maintenance, monitoring of technical condition and failure rates of equipment. Also, the technical emergency service is available. All Segments and selected companies, such as ENERGA SA, ENERGA Elektrownie Ostrołęka SA or ENERGA Informatyka i Technologie Sp. z o.o. perform tasks to ensure continuity of their operation in the event of occurrence of an emergency.

The advanced age of the production equipment operated by ENERGA Kogeneracja Sp. z o.o. may generate the risk of non-performance of certain sales contracts and production plans while failing to satisfy the requirements specified by the integrated permit and environmental regulations, e.g. emission norms. Monitored in the context of this risk are deviations from the adopted plans and deviations from the parameters agreed upon in the contracts. To mitigate this risk, it is planned that IT systems will be rolled out to support production management, accompanied by modernization expenditures on basic production equipment.

The efficiency of production equipment is also a significant aspect in the operation of wind farms. The risk is associated with ensuring the proper production process and turbine availability at a level of 96.5%. Significant risk factors include: weather conditions, decisions issued by local governments as well as legal and environmental circumstances that may affect the operation of the facility and auxiliary infrastructure. The risk assessment depends on the number of wind turbines in operation, the frequency of failures, the cost of their removal and the cost of foregone production.

Also potential failures and unreliability of ICT infrastructure are extremely important, because their occurrence translates into serious difficulties or even inability to pursue the basic tasks of individual companies. The risk associated with ensuring the availability, integrity and confidentiality of ICT systems, including their integration, has increased recently as a consequence of problems arising from the operation of the sales service system. The absence of operational continuity of IT systems in this area may also cause inefficient management of measurement data and complaints handling and improper processing of seller requests. Due to the absence of invoices for purchasers caused by the migration of billing systems, there is a risk that the ERO President may initiate administrative proceedings aimed at clarifying the matter or, possibly, punishing the ENERGA Group. Efforts aimed at managing this risk include measures taken to stabilize the system and the implemented functionalities and to create an ICT security roadmap. The manner of communication between consultants and sellers has also changed. Also planned is the implementation of new control mechanisms and creation of new functionalities.

Another risk is related to the management of the central portfolio of projects, including IT projects in the ENERGA Group, which may lead to the emergence of redundant IT solutions in Group companies and a greater complexity of integration causing an increase in IT spending throughout the Group. Among the planned measures aimed at mitigating this risk is the development of a new IT Strategy at Group level and IT Action Plans for the Segments.

Finance area

The macroeconomic situation impacts the conditions in which the ENERGA Group conducts its activity. Variations in business conditions measured by GDP change rates, inflation or unemployment rates translate to electricity, heat and gas prices and shape demand for products supplied by Group companies.

Correct calculation of sales prices translates directly into the results attained by ENERGA-OBRÓT SA. As a result of the obligation to obtain the ERO President's approval for the tariff rates, in the event a negative decision is issued and the procedure closed, customers cannot be invoiced for the completed sales and, as a consequence, no revenues are earned. As far as this risk is concerned, there may be a situation where the rates approved by the ERO President in the tariff will not guarantee profitable sales. Risk control mechanisms include, among others, the current market benchmark and ongoing analysis of the impact of the adopted rules for the calculation of electricity and gas prices on the financial performance and selected ratios. In 2016, new internal regulations were developed to govern the rules of shaping the pricing policy and a number of other control mechanisms were implemented to minimize the materialization of risks arising from shaping the pricing policy. The risk measures applied include, among others, the number of accepted offers, financial and economic ratios, including the level of contracted margins, and market ratios such as market value, market share or market growth.

Another significant financial risk is the absence of continuity or incorrect invoicing of sales and distribution services caused by gaps or errors in actual metering data on electricity consumption. This risk may result in the inability of invoicing revenues and, as a consequence, the absence of cash inflows and potential penal and fiscal penalties. A large number of customers subject to settlement translates into a high probability of this risk. In order to mitigate this risk, ongoing work is underway aimed at creating a solution which would enable automatic (partially manual) reconciliation of system differences and filling the gaps in metering data. The current settlement rules applicable to distribution services permit monitoring of settlements on a monthly basis, whereas the full launch of data collection from the Central Metering Database will enable settlement of distribution services on an ongoing basis. In respect of the risk of tax settlements, it is planned that the Tax Risk Management Policy will be implemented to the full extent and that close cooperation will be established with tax advisors aimed at minimizing the Company's risks in this area.

The product price levels (electricity, property rights, CO_2) also has a decisive impact on the Generation Segment. The significant fluctuations observed in the market may translate into failures in the implementation of the Strategy in respect of the achievement of the target values of financial ratios, because they result in deviations of sales revenues. They may also cause the need to post impairment losses on the value of fixed assets in the Segment. To secure against the risk, the Group constantly monitors the price levels in the market and transaction execution is planned in such a way as to avoid accumulation of negative trends of price changes of all products at the same time.

Implementing the provisions of the ENERGA Group Financial Policy, the Group companies conclude different kinds of financial agreements which entail financial and market risks. The most important ones include the interest rate risk, FX risk, credit risk and liquidity risk. The above risk categories determine the financial results of individual companies and the ENERGA Group.

Interest rate risk

The ENERGA Group companies finance their operating or investing activity with debt liabilities bearing interest at a floating or fixed interest rate. Interest rates are also associated with investment of surplus cash in floating or fixed interest rate assets.

The floating interest rate risk resulting from concluded debt liabilities applies to WIBOR-based rates only. In respect to liabilities denominated in EUR, the ENERGA Group has contracted financial debt under issued fixed-coupon Eurobonds.

According to the interest rate risk policy, risk of variation in interest rates is mitigated by maintaining a portion of debt with fixed interest rate. Under these assumptions, IRS floating interest rate hedging transactions are executed.

In connection with implementation of hedge accounting, the ENERGA Group also identifies interest rate risk related to the concluded CCIRS and IRS hedging transactions, which however has no effect on the Group's financial result.

Moreover, the level of interest rates has a direct effect on the WACC stated by the ERO President to calculate the return on RAB, which is included in the tariffs of ENERGA-OPERATOR SA. Low interest rates result in a lower return on RAB and an increase in actuarial provisions.

Foreign exchange risk

In the financial area the FX risk is associated mainly with incurring and servicing ENERGA Group's debt liabilities in foreign currencies under the EMTN Eurobond Issue Program. Additionally, selected ENERGA Group companies had foreign currency surpluses resulting from their operating activity or investing activity. The ENERGA Group monitors the foreign exchange risk and manages it primarily through contracted CCIRS hedge transactions and implemented hedge accounting.

Credit risk

Credit risk is associated with the counterparty's potential permanent or temporary insolvency with regard to financial assets such as cash and cash equivalents and financial assets available for sale. The risk arises due to the contractual counterparty's inability to make the payment and the maximum exposure to this risk equals the carrying amount of acquired instruments.

In this respect, the ratings of financial institutions with which the ENERGA Group cooperates are monitored on a regular basis to minimize credit risk. Credit risk is also incurred in the case of funds involved in participation units in the ENERGA Trading SFIO fund dedicated to the ENERGA Group.

According to the adopted investment policy, the fund invests in assets such as treasury bills and bonds and commercial debt instruments. Credit risk associated with investments in treasury bills and bonds is referred to the solvency risk of the State Treasury. Credit risk associated with investments in commercial debt instruments is mitigated through the fund's properly defined investment policy. The fund may invest its monies only in assets characterized by an investment rating awarded by rating agencies or internally by the fund manager.

Liquidity risk

Risk of loss of financial liquidity – associated with the possibility of losing the ability to pay liabilities on time or losing possible benefits resulting from over-liquidity.

ENERGA Group companies monitor the liquidity risk using a regular liquidity planning tool. The tool takes into account the payment due/maturity dates both for investment liabilities and financial assets and liabilities and projected cash flows from operating activity. The Group aims at maintaining the balance between continuity and flexibility of financing through use of various sources of financing, such as working capital and investment loans, local bonds and Eurobonds. Since the Group's debt is centralized in ENERGA, this company monitors the fulfillment of covenants on an ongoing basis and their forecasts in the long term, which allows it to determine the ENERGA Group's debt capacity, its capability to conduct capital expenditures and affects its capacity to pay liabilities on a timely basis in the longer term.

To efficiently manage the liquidity of Group companies, the ENERGA Group used the mechanism of issuing short-term bonds offered by the issuer – a Group company – only to other Group companies. The procedure was coordinated by ENERGA, which made it possible to optimize the entire process in terms of its organization. As of January 2016, the ENERGA Group implemented the zero-balancing cash pooling service, which comprises functions associated with issue of short-term bonds, and additionally maximizes the possibility of using the Group's cash surpluses to finance the current operations of individual Group companies.

Moreover, ENERGA has concluded loan agreements with several financial institutions, which represent an immediate liquidity reserve in case of any liquidity needs.

2.7. Information on material agreements and transactions

Material contracts

Signing of coal supply contracts with PGG

On 2 December 2016, the subsidiary Elektrownia Ostrołęka SA entered into a Long-Term Contract for coal supplies with Polska Grupa Górnicza Sp. z o.o. The signed Agreement is for the supply of the base volume of approx. 2 million tons per annum to the planned Ostrołęka C power plant by PGG. The Agreement has a 10-year term, starting from the date of commencement of operations of the aforementioned power plant. According to the provisions of the document, there is a possibility of extending it for the next 10 years with the consent of the Parties. In accordance with the Agreement, the pricing formula for the coal purchased for the Ostrołęka C power plant will depend on profitability of the Ostrołęka C project, ensuring its economic optimization. The formula links the cost of coal to a specified rate of return on the investment and provides for an appropriate mechanism for sharing the future benefits from the capacity market and potential award of free CO_2 emission rights. The Agreement will be performed according to the prices calculated in accordance with the formula for each quarter, but for the needs of estimation of the value of the Agreement for its 10-year term, the price was calculated according to the average rate of the Polish Steam Coal Market Index (PSCMI1) from September 2016 and the volume of supplies of 2 million tons per annum; the value of the Agreement at real prices from September amounts to PLN 3.9 bn. The effective date and performance of the Ostrołęka C coal supply agreement will depend on fulfillment, among others, of the following conditions precedent: (i) issue of an instruction to the General Contractor to commence the works, (ii) financial closing, i.e. confirmation by Elektrownia Ostrołęka SA of the execution of all agreements required to finance the construction and commencement of operation and the fulfilment or waiver of all conditions precedent for the commencement of the use of funds under such agreements (Current Report No. 47/2016).

On 27 December 2016, the subsidiary Elektrownia Ostrołęka SA signed a Contract to supply coal to Ostrołęka B from PGG. The Contract was signed for a definite term from 1 January 2017 to 31 December

2030, with an option to extend its term upon agreement of the Parties. The signed Contract envisages the supply of no less than 350 thousand tons of coal annually by PGG to the Ostrołęka B power plant. For 2017, the Parties agreed on the supply of 450 thousand tons of coal. The estimated value of the Contract throughout its term, including the price of coal and transport, is PLN 1.26 bn. According to the Contract, the price of steam coal will be negotiated by the Parties for each successive calendar year of the Contract's term (Current Report No. 53/2016).

Earlier, on 19 September 2016, the Company signed a Letter of Intent with PGG on launching cooperation in the supply of coal to the existing Ostrołęka B power plant and the planned Ostrołęka C power plant (Current Report No. 34/2016) and on 14 October 2016 the Company informed about the signing of a document entitled General Terms and Conditions of Cooperation (GTCC) with PGG defining the rules governing the supply of coal to the planned Ostrołęka C power plant (Current Report No. 36/2016).

Agreements for loans and borrowings

Loan agreements with multilateral financial institutions

Loans to finance the capital expenditure program at ENERGA-OPERATOR SA for the years 2009-2012

In the years 2009-2010 ENERGA SA together with its subsidiary ENERGA-OPERATOR SA entered into the following loan agreements to finance the expansion and modernization of the distribution grid in 2009-2012:

- with the European Investment Bank (EIB) with the limit of PLN 1,050 m;
- with the European Bank for Reconstruction and Development (EBRD) with the limit of PLN 800 m;
  in 2014, ENERGA SA with ENERGA-OPERATOR SA and EBRD amended the above loan agreement, as a result of which, among others, the available loan amount increased by PLN 276 m and is to be used to fund ENERGA-OPERATOR SA's capital expenditures, with the funds available for drawdown by the end of 2016.
- with the Nordic Investment Bank (NIB) with the limit of PLN 200 m.

The above funding has been fully utilized by the Company, of which the following amounts are still outstanding and remain to be repaid to:

- EIB – PLN 720 m with final maturity of 15 December 2025,
- EBRD – PLN 741 m with final maturity of 18 December 2024,
- NIB – PLN 119 m with final maturity of 15 June 2022.

Loans to finance the investment program at ENERGA-OPERATOR SA for the years 2012-2015

In 2013 ENERGA SA together with its subsidiary ENERGA–OPERATOR SA entered into the following loan agreements to finance the capital expenditure program of ENERGA–OPERATOR SA for the period of 2012-2015 associated with the expansion and modernization of the distribution grid:

- agreement with EBRD with a limit of PLN 800 m – as at 31 December 2016, PLN 762 m of the loan was utilized (of which PLN 302 m by ENERGA SA and PLN 460 m by ENERGA-OPERATOR SA). The final maturity of the loan is 18 December 2024;
- agreement with EIB with a limit of PLN 1,000 m – as at 31 December 2016, PLN 1,000 m of the loan was utilized (of which PLN 800 m by ENERGA SA and PLN 200 m by ENERGA-OPERATOR SA). The final maturity of the loan is 15 September 2031.

Nordic Investment Bank

On 23 October 2014, ENERGA SA signed a loan agreement with a limit of PLN 67.5 m with the Nordic Investment Bank to finance a wind farm construction project in Myślino. The aggregate use of the loan as at 31 December 2016 was PLN 61 m. The final maturity of the loan is 15 September 2026.

Loans granted

No loans were granted in the ENERGA Group in 2016. Only two loans from 2013 for a total amount of EUR 499 m were continued; they were granted to ENERGA by the Group's special purpose vehicle, ENERGA Finance AB (publ), using the funds raised under an Eurobond (EMTN) issue carried out in March 2013.

Moreover, during the reporting period, the ENERGA Group used the short-term bond issue facility, in which, to achieve efficient liquidity management, the Group company issuing the debt securities offered their purchase only to other Group companies.

Acting on the basis of the Financial Policy adopted by the ENERGA Group and under the terms and conditions of internal bond issue facilities, in 2016 ENERGA purchased bonds issued by Group companies. The main purpose of the issues was for the issuers, ENERGA Group companies, to raise funds to execute their capital expenditure programs.

The table below presents the nominal value of bonds subscribed by ENERGA and outstanding, broken down into individual issuers from the ENERGA Group, as at 31 December 2016.

Table 2: Nominal value of bonds subscribed by ENERGA SA and outstanding, by issuer, as at 31 December 2016

No.	Company name	Nominal value of subscribed bonds (PLN 000s)
1.	ENERGA-OPERATOR SA	4,124,606.5
2.	ENERGA Wytwarzanie SA	842,200.0
3.	ENERGA Kogeneracja Sp. z o.o.	50,512.5
4.	ENERGA Elektrownie Ostrołęka SA	114,000.0
	TOTAL	**5,131,319.0**

Domestic bond issue program

No changes in respect of the issue volume were made in the domestic bond issue program established in September 2012, in which the first issue of PLN 1,000 m was executed in October of that year. As part of the actions taken in 2016, the subsidiary ENERGA-OPERATOR SA purchased on the secondary market 55,812 bonds issued by ENERGA with a total par value of PLN 558,120,000 (in June ENERGA-OPERATOR purchased a majority of those bonds, i.e. 55,795 with a total par value of PLN 557.95 m).

Eurobond issue program

In Q1 2017, a subsidiary ENERGA Finance AB (publ) carried out a public subscription for the Eurobonds issued under the updated EMTN Program (the bookbuilding process was closed on 1 March 2017). It was a EUR 300 m bond issue with the issue price of 98.892% and 10-year maturity. The 2.125% coupon will be payable annually, after the discount rate is taken into account, the yield for bondholders is 2.25%. The Eurobonds are listed on the Luxembourg stock exchange. The final settlement of the transaction was effected on 7 March 2017. ENERGA SA acts as the guarantor of the issue. The funds raised through the bond issue will be applied to general corporate purposes.

Insurance contracts

The Group has in place a joint insurance policy, which ensures insurance cover for the companies and their activities against risks, with sums insured at levels typical for the profile of energy sector companies in Poland. In cooperation with insurance brokers, a joint property and liability insurance scheme has

been concluded for the period from 1 July 2014 to 30 June 2017. The Scheme allows for a standardized insurance cover for relevant risks with customized extensions negotiated for unique needs of individual companies.

Insurance contracts are concluded with the leading insurance companies operating in Poland. As a principles, the key insurance contracts for critical risks and with the highest sums insured are concluded with insurance consortiums underwritten by two or more insurance companies.

Guarantees and sureties given

Table 3: Information on sureties and guarantees extended by ENERGA as at 31 December 2016

No.	Extension date of the surety or guarantee	Term of the surety or guarantee	Entity for which the surety or guarantee was granted	Entity in favor of which the surety or guarantee was granted	Form of the surety or guarantee	Surety or guarantee amount (PLN m)	Amount of liability secured by the surety or guarantee as at 31 December 2016 (PLN m)
1	2012-11-15	2024-12-31	ENERGA Finance AB	bondholders	surety agreement*	5,530.0	2,110.8
2	2015-04-03	2019-05-02	ENERGA Invest SA	PKO BP SA	surety** - agreement to extend a guarantee	89.4	62.5
3	2015-01-08	2024-12-31	ENERGA Wytwarzanie SA	WFOŚiGW Gdańsk	surety - loan agreement	15.0	8.9
4			Other ENERGA Group Companies		surety** - agreement to extend a guarantee	28.0	16.4
	TOTAL					**5,662.4**	**2,198.6**

** On 15 November 2012, an EMTN Eurobond issue program was established for the amount up to EUR 1 bn. Under the program, ENERGA Finance AB (publ) registered under the Swedish law, acting as a subsidiary of ENERGA SA, may issue Eurobonds with maturities from 1 year to 10 years. Pursuant to the surety agreement, ENERGA SA undertook, unconditionally and irrevocably to guarantee liabilities of ENERGA Finance AB (publ) resulting from Eurobonds up to EUR 1,250 m until 31 December 2024 inclusive. On 19 March 2013, ENERGA Finance AB (publ) issued one series of Eurobonds of EUR 500 m and maturing on 19 March 2020.*

*** Civil law sureties extended by ENERGA SA for liabilities of Group companies arising from bank guarantees granted by PKO BP SA under guarantee facilities dedicated to Group companies. The facility may be used until 19 September 2017. Terms of validity of the guarantees granted under the facility limit may extend beyond this date. Repayment of liabilities is secured by a civil law surety.*

Other guarantees granted at the request of the Group's companies included the following:

- bank guarantees totaling PLN 176.9 m granted by Pekao SA, ING Bank Śląski SA and mBank SA to ENERGA-OBRÓT SA,
- bank guarantee of PLN 17.7 m granted by PKO BP SA to ENERGA-OPERATOR SA.

Information on transactions of material importance with related parties on terms other than an arm's length basis

All the transactions within the ENERGA Group are made on the basis of the market prices of goods, products or services based on their manufacturing costs. Detailed information on this subject is presented in Note 32 to the consolidated financial statements for the year ended 31 December 2016.

Evaluation of financial resources management

During the financial year, ENERGA Group had at its disposal cash guaranteeing timely service of all current and planned expenditures related to conducted operating and investing activity. Cash on hand as well as available credit facilities ensure that the liquidity management policy may be conducted in a flexible manner.

The execution of investment projects was based on the use of own funds and debt financing. The structuring of projects assumes the maintenance of financial security for the ENERGA Group manifesting itself in the use of long-term debt financing, pursuit of a dividend policy consistent with the adopted strategy, maintenance of financial covenants at levels agreed upon with debt financing providers and maintenance of investment-grade ratings.

The Company monitors the liquidity risk using a periodic liquidity planning tool. The tool takes into account the payment due/maturity dates both for investment liabilities and financial assets and liabilities and projected cash flows from operating activity.
The objective is to maintain balance between continuity and flexibility of financing through the use of various sources of financing, such as current account overdrafts, working capital loans, investment loans, local bonds and Eurobonds.
To improve the quality of management of the financial surpluses of the Group companies as of 4 January 2016 the zero-balancing cash pooling service was implemented. It is a tool for optimum utilization of the surpluses generated by the ENERGA Group to fund the current activities of the companies in the structure.

2.8. Proceedings pending before the court, arbitration bodies or public administration bodies

As at 31 December 2016, the ENERGA Group was a party to 9,015 court procedures. The Group acted as a plaintiff in 7091 cases where the aggregated value of the disputed matters was approx. PLN 517 m. The Group acted as a defendant in 1,873 cases where the aggregated amount of the disputed matters was approx. PLN 430 m.

As at 31 December 2016, the total amount of claims for locating power installations on properties of other parties without the necessary legal title, awarded by final judgments, was approx. PLN 15.8 m in 2,668 cases.

Based on the available data about the value of pending procedures, we assume that the actual amount to be paid after the disputes are resolved may reach PLN 81.7 m, with a reservation that this amount may change if new court cases related to the placement of power installations on third party's real properties without the necessary legal title are launched against ENERGA-OPERATOR.

These data do not include the cases in which court and enforcement-based collection is conducted on behalf and for ENERGA-OBRÓT SA as the company pursues amounts due from its customers and bankruptcy cases, with the exception of the case filed by ENERGA-OBRÓT against ERGO ENERGY Sp. z o.o. in the amount of PLN 13 m. The aggregated amount of all such cases as at 31 December 2016 was approx. PLN 167 m.

None of the aforementioned proceedings pertaining to the liabilities or receivables of the Issuer or its subsidiary exceeded the minimum of 10% of the Issuer’s equity. Also, no pecuniary penalty, fine or other financial liability measures were imposed that would be equivalent to at least 5% of the consolidated EBITDA for the last financial year.

The table below presents the continuation of proceedings with the highest value of the dispute, which remained pending in 2016. Detailed description of the disputes is presented in Information to the Condensed Consolidated Report of the ENERGA Group for Q1 2016.

Table 4: Proceedings pending before the court, arbitration bodies or public administration bodies

Parties	Subject matter	Description of the case
Boryszewo Wind Invest Sp. z o.o. (plaintiff) ENERGA-OBRÓT SA (defendant)	Partial termination by ENERGA-OBRÓT of the agreement to purchase electricity and property rights to certificates of origin for electricity generated in RES.	On 26 October 2015, ENERGA-OBRÓT filed a response to the cassation complaint, in which it petitioned for refusal to accept the complaint for examination or, alternatively, for dismissing the complaint in its entirety and awarding the costs of proceedings against the plaintiff in favor of the defendant. The Supreme Court accepted the plaintiff's cassation complaint for examination. The Supreme Court's session to rule invalidity of a partial termination of long-term contracts was held on 16 September 2016. The Supreme Court repealed the judgment of the Court of Appeal in Gdańsk and returned the case to that court for re-examination. The verbal justification of the Supreme Court's judgment were inconsistent and unclear; therefore the precise justification of the judgment will be provided only after its written version is received. ENERGA-OBRÓT SA is awaiting delivery of the justification of the Supreme Court's judgment. The date of the session before the Appellate Court in Gdańsk regarding the reconsideration of the case in the scope specified by the Supreme Court was scheduled for 24 January 2017, but it subsequently changed. The date of the court session was set at 22 March 2017.
T-Matic Systems S.A., Arcus S.A., (requesting parties) with the participation of ENERGA-OPERATOR SA	Call for a settlement attempt in connection with ENERGA-OPERATOR SA's claims	On 14 March 2016, ENERGA-OPERATOR received a request from T-matic Systems SA and ARCUS SA with a call for a settlement conference regarding ENERGA-OPERATOR's claims for payment by contractors of the amount of PLN 157 m under the execution agreement of 1 February 2013 to supply and launch a meter infrastructure. At a session on 5 August 2016, the Court agreed to the joint request of the parties to defer the session in connection with the mutual talks being conducted. The Court set the date of the hearing at 20 December 2016. The Court informed the parties that the settlement must concern only the claims covered by the application to make a summons for a settlement attempt. If the settlement contains other claims that are not included in the request, e.g. from other proceedings or additional work not included in the request then the Court will not approve such a settlement. A conciliatory meeting was held on 20 December 2016. The parties did not conclude a settlement.
T-Matic S.A., Arcus S.A. (defendants) ENERGA-OPERATOR SA (plaintiff)	Lawsuit for payment of contractual penalties arising from the agreements to supply and launch the metering infrastructure (re: stage I of AMI).	On 18 December 2015 the defendant filed a second rejoinder comprising similar argumentation to the one presented in the statement of defense, but extended to include a charge of invalidity of the agreements due to their lack of precision and contractual inequality of the parties. On 13 January 2016, a hearing was held at which the Court obligated ENERGA-OPERATOR to file a reply to the defendant's second rejoinder within 45 days. The plaintiff's pleading was sent on 25 February 2016. In H1 2016, a number of witness hearings were held. The court has set a new hearing date on 23 November 2016. At the hearing on 23 November 2016, the Court, in accordance with the petition of the parties, issued a Decision to delay the hearing due to the pending settlement negotiations. The court set the date of the hearing at 6 February 2017. On 8 February 2017, a hearing was held during which the parties declared that they closed the negotiations. The parties did not reach an agreement. The court set another hearing date for 7 April 2017.

T- Matic S.A., Arcus S.A. (plaintiff) ENERGA-OPERATOR SA (defendant)	Lawsuit to rule invalidity of an agreement (re: stage II of AMI)	On 8 February 2016, the statement of claim filed by T-Matic Systems SA and ARCUS SA was delivered to ENERGA OPERATOR SA. The case is pending before the Regional Court in Gdańsk, under file ref. IX GC 893/15. The defendant's representative filed a pleading to extend the court deadline for responding to the replication. In connection with the fact that the deadline for the response passed on 1 July 2016 and the Court failed to issue a decision to extend the deadline, the defendant sent a pleading of 1 August 2016 responding to the legal issues. A pleading responding to the technical issues was sent on 1 September 2016. The court set another hearing date at 7 November 2016 On 7 November 2016, a counterclaim was filed against Arcus, T-matic to pay PLN 157 m on account of the payment of contractual penalties of PLN 156 m and PLN 1 m of a reduction in remuneration, in accordance with the demand for payment of 9 November 2015. The parties filed a joint petition to suspend the proceedings. The court suspended the proceedings as per request of the parties. On 12 January 2017, the plaintiff filed a petition to secure the claim in the form of a prohibition on the use of the insurance guarantee. On 23 January 2017, the Court dismissed the petition filed by T-matic, Arcus for the establishment of such security. On 23 January 2017, ENERGA-OPERATOR paid a fee of PLN 100 thousand to cover the court entry of a counterclaim. On 30 January 2017, the Court issued a decision to resume the suspended proceedings. On 9 February 2017, the District Court in Gdańsk received a complaint against the decision to dismiss the petition for security.
T- Matic S.A., Arcus S.A. (plaintiff) ENERGA-OPERATOR SA (defendant)	Unconditional demand for payment and cessation of further breaches of the contract	On 17 October 2016, ENERGA-OPERATOR received a demand for payment of compensation for damages incurred by Arcus S.A. as a result of the unlawful and culpable commission by the Awarding Entity of a tort/act of unfair competition to the detriment of Arcus S.A. On 19 January 2017, ENERGA-OPERATOR SA received a request for a settlement attempt concerning payment of PLN 4.7 m to T-matic and PLN 174 m to Arcus S.A. The request concerns payment of the claims described in the demand of 17 October 2016. ENERGA-OPERATOR does not admit the justifiability of this claim. The date of the hearing is set for 11 April 2017. On 23 January 2017, ENERGA-OPERATOR submitted the insurance guarantee issued in its favor for execution. On the said date, a request was submitted to STU Hestia to pay PLN 9.6 m due to the improper performance of the Contract by the Consortium. By letter of 31 January 2017, STU Hestia requested EOP to reconsider the execution of the guarantee due to the petition to secure the claim filed by T-matic, Arcus and the assertion of unjustifiability of EOP's claim. In its reply, EOP upheld its stance regarding the obligation of STU Hestia to execute the guarantee and pointed out that the claim to secure the claim had been dismissed by the District Court in Gdańsk.
ENERGA OPERATOR SA (plaintiff); PKN ORLEN SA (defendant)	Guarantee	On 19 April 2016, the Appellate Court in Warsaw announced its judgment in the case brought by ENERGA-OPERATOR SA Branch Office in Płock against PKN Orlen S.A. The Court partially dismissed the defendant's appeal and therefore the judgment of the Regional Court in Warsaw issued on 27 October 2014, case file no. XVI GC 782/11, awarding PLN 16.1 m with interest since 30 June 2004 to the plaintiff became final and legally binding. The judgment is final and the parties may file a cassation complaint against the Appellate Court's judgment to the Supreme Court. ENERGA-OPERATOR applied for delivery of the judgment with a justification, which

	Suit for payment	was delivered to the Plaintiff's representative on 1 August 2016. On 29 September 2016, ENERGA-OPERATOR filed a cassation complaint with the Supreme Court against the judgment of 19 April 2016 handed down by the Appellate Court in Warsaw. On 24 October 2016, the representative of ENERGA-OPERATOR received PKN ORLEN's cassation complaint filed against this judgment of the Appellate Court in Warsaw. ENERGA-OPERATOR responded to the complaint in a pleading sent on the same date to the Appellate Court in Warsaw.
ENERGA OPERATOR SA (plaintiff); PKN ORLEN SA (defendant)	Suit for payment on account of unpaid system fee	After examining the Defendant's response to the appeal, the Appellate Court in its judgment of 16 September 2016 dismissed the appeal filed by ENERGA-OPERATOR, arguing along with the Regional Court that ENERGA-OPERATOR's claim has expired. The Company requested the judgment to be delivered along with the justification. It was delivered to the representative on 12 October 2016. At present, the justification to the judgment is analyzed in the context of the possible cassation complaint. By decision of the ENERGA-OPERATOR Management Board adopted on 23 November 2016, the cassation complaint against the judgment of the Appellate Court in Łódź was not prepared. Accordingly, this judgment has become final and ends this thread of the dispute with PKN Orlen SA.
ENERGA OPERATOR SA (party); PRESIDENT OF THE ENERGY REGULATORY OFFICE (authority)	Pecuniary penalty imposed by the authority	ENERGA-OPERATOR SA received a decision dated 21 December 2016 in which the President of the Energy Regulatory Office imposed a pecuniary penalty of PLN 11 m on ENERGA-OPERATOR SA for misleading the ERO President. The company appealed against the decision within the prescribed time limit.
Office for Competition and Consumer Protection (UOKiK) (authority) vs. ENERGA-OBRÓT SA (party)	Proceedings against ENERGA-OBRÓT SA in the matter of practices violating collective consumer interests involving the sale of the "Fixed price guarantee" package	On 9 March 2016, proceedings were initiated by the Office for Competition and Consumer Protection (UOKiK) in the matter of practices violating collective consumer interests. UOKiK put forward 7 allegations concerning failure to comply with reporting duties, misrepresentation of the identity and circumstances of a contract, failure to deliver a counterpart of a contract or annexes to or confirmation of a contract, misrepresentation of the time limit for withdrawal from a contract, activation of a contract despite formal defects, demand for payment for electricity sold in breach of the law, provision of information on a grossly excessive contractual penalty for terminating a contract before the end date of the offer. On 24 March 2016, ENERGA-OBRÓT requested an extension of the time limit until 11 April 2016 due to the need to examine the matter thoroughly and the need to get familiar with the extensive material gathered in the case. On 11 April 2016, ENERGA-OBRÓT submitted an application for a binding decision, pursuant to Article 28 Section 1 of the Act on Competition and Consumer Protection, to take or discontinue certain actions aimed at ending the violation of collective consumer interests or removing the effects of such violations, together with a request to set a date for a meeting. Between April and October, the company held several meetings with UOKiK to present its arguments and determine the directions for commitments that the company would make

to satisfy UOKiK's requirements to reduce the amount of the penalty to a minimum.

In 2016, the term of the proceedings was extended 3 times. Eventually, on 29 December 2016, UOKiK sent a notice of extension of the proceedings until 31 March 2017. Another negotiating meeting is scheduled for 6 March 2017 at the UOKiK head office.

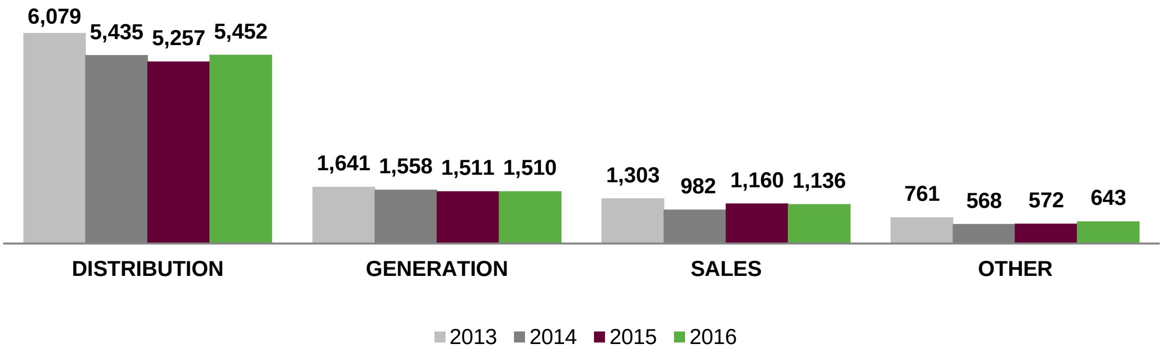
2.9. HR and payroll situation

Headcount in the ENERGA Group

As at the end of 2016, the ENERGA Group employed 8,741 persons. Compared to the end of 2015, the headcount decreased by 241 persons or 2.8%. The largest increase in headcount, by 195 persons, was recorded in the Distribution Segment, mainly as a result of the takeover of more than 80 employees of ENEVA Energy Sp. z o.o. and hiring staff for a specified term due to the pending stabilization of the sales system.

In Q4 2016, the Group recorded a headcount increase by 20 persons or 0.2%.

Figure 11: Headcount in the ENERGA Group as at 31 December 2013, 2014, 2015 and 2016 (persons)*

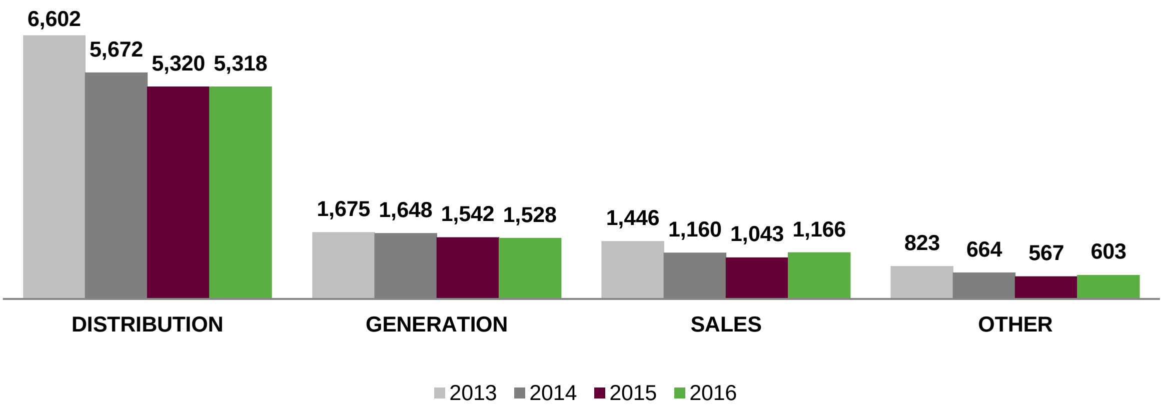


* excluding unpaid, parental or rehabilitation leaves

The average headcount (FTEs) in the ENERGA Group in the January-December 2016 period was 8,615 FTEs, compared to 8,472 FTEs in the corresponding period of the previous year. The chart below presents the average headcount by segment.

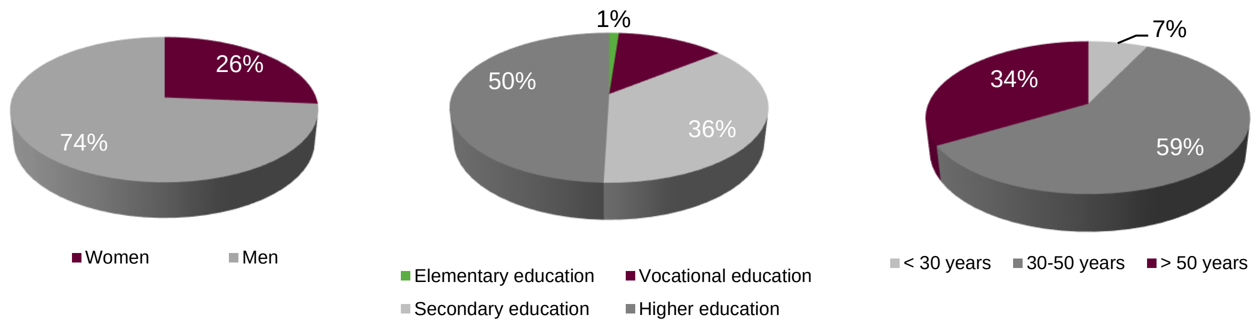
Figure 12: Average headcount in the ENERGA Group in 2013, 2014, 2015 and 2016 (FTEs)*

* excluding unpaid, parental or rehabilitation leaves



Detailed information about the headcount by gender, age and education is presented in the charts below.

Figure 13: Headcount in the ENERGA Group as at 31 December 2016 (persons) by gender, education and age



Remuneration systems

The remuneration system in the ENERGA Group is decentralized and diversified. It is regulated, in addition to the Labor Code, the Company Collective Bargaining Agreements, Remuneration Bylaws and the social contracts with trade unions. In 2016, there were no significant changes in the remuneration systems of any ENERGA Group companies.

Important information affecting the HR and payroll situation

Rules for setting and monitoring objectives in the ENERGA Group

Strategic objectives were set with Segment leaders and directors of ENERGA SA's departments in the arrangement process in accordance with the 'top to bottom' principle which recognizes the Group's strategic objectives as the basis for setting all objectives for managers covered by the system. The values of performance indicators measuring the achievement of the Group's objectives were based on the expectations of ENERGA SA, budgetary data and objectives of segments leaders and of directors of the departments. These objectives form the basis for payment of bonuses to the ENERGA Group's managers.

Standardization of personnel processes in the ENERGA Group

In 2016, actions were started in the ENERGA Group aimed at the standardization of personnel processes at Group level. Last year, the Group developed an IT tool to manage this area.

Employee benefits

ENERGA Group has in place an extensive employee benefits system, of which the most important elements include:

(1) 'Employee tariff' for electricity, available to employees with one year of professional experience in the utilities sector;
(2) The company social benefits fund authorizing charges in the amount three times higher than the basic charge defined in the Act on Company Social Benefit Fund (ZFŚS).
(3) Holidays gift certificates issued to employees for the Easter Holiday, the Power Industry Employee's Day and Christmas,
(4) The Employee Pension Plans operating in Group companies and funded by the employer in an amount equal to 7% of the remuneration of employees;
(5) Additional Medical Care Program under the agreement concluded with AXA Życie Towarzystwo Ubezpieczeń SA; all employees are eligible for additional medical benefits under the Guaranteed Package funded by the employer;

(6) Training offered by all ENERGA Group employers; various forms of employee development are aimed at preparing staff to perform tasks in the workplace, improve performance and increase the knowledge, motivation and commitment to work.

In the ENERGA Group companies subject to the Multi-Company Collective Bargaining Agreement of 13 May 1993, despite the fact that the Group companies resolved not to apply this Agreement as of 31 December 2014, vested rights and additional remuneration elements apply, among others:

(1) Annual bonus constituting 8.5% of the annual payroll fund from last year, paid out pro rata to the length of employment;
(2) Addition to base salary depending on seniority,
(3) Cash equivalent of coal allowance;

Changes of the terms of remuneration

In 2016, there were no significant changes in the prevailing Company Collective Bargaining Agreements with respect to the terms of remuneration.

Group layoffs

The Group companies did not carry out any group layoffs in 2016.

Collective disputes

As at the end of 2016, there were 30 trade union organizations in ENERGA Group companies. More than 5 thousand Group employees were members of the trade unions as at 31 December 2016. In 2016, trade unions sent a number of statements to individual employers containing, among others, demands concerning:

(1) raising wages and salaries in Group companies,
(2) payment of awards or bonuses,

In 2016, 15 collective disputes under way (including 2 started in previous years). All the disputes ended with signing collective agreements. At present, there are no pending collective disputes in the ENERGA Group.

2.10. Corporate social responsibility of the ENERGA Group

The ENERGA Group pursues its vision, mission and objectives and builds shareholder value in an ethical, transparent and open-to-dialog manner, while striving to maintain an appropriate balance between operational, ethical and environmental activities and the interests of its stakeholders: shareholders, customers, employees and local communities. Accordingly, our business objectives are supported by goals pursued in the area of sustainable development as laid down in the “Sustainable development and corporate social responsibility report” prepared by the ENERGA Group, which assumes the following:

- building responsible relationships with customers – development of relations with customers based on fair practices, transparency and openness, and ensuring the highest standards of service.
- reduction of environmental impact – improving energy efficiency, reducing harmful emissions, rational use of resources, environmental investments,
- development of distribution activity to improve the reliability and security of supplies
- care for employees and their safety – efforts aimed at reducing the number of accidents at work, ensuring a friendly and safe workplace, increasing satisfaction and commitment
- responsibility towards local communities – supporting local communities in consideration of their needs, building social partnerships and involvement in charitable activities
- national responsibility – contribution to the security of the country’s power system and social development, support for strategic resources.

Every year, the Group publishes information about all its activities associated with corporate social responsibility in CSR reports. Such reports are prepared on the basis of the guidelines from Global Reporting Initiative G4.0 at the CORE level (giving consideration to the ratios included in the supplement for utility sector companies). The basis for preparing such reports takes the form of a dialog with stakeholders, both internal and external. This year's document entitled "Our Responsibility 2016" will cover the whole calendar year 2016 and all ENERGA Group companies. Corporate social responsibility in the ENERGA Group also translates into our approach to environmental protection which forms one of the pillars of the Group's strategy for 2016-2025. Development of new and modernization of the existing generation and grid infrastructure, climate-related obligations and diversification of supplies are the tasks that have a direct impact on the business pursued by the Group companies.
To support this business, since 2014 in the main companies of the Group's value chain an environmental management system compliant with the EMAS Regulation has been in place. In October 2015, the Group companies received an ISO 14001:2004 certificate, and in June 2016 they were entered in the EMAS register kept by the General Directorate for Environmental Protection. A simultaneous registration of such a large number of companies and installations in the EMAS register for a single group of companies (not only in the energy sector) is a precedent on a European scale. Due to the measurable benefits obtained as a result of the implementation of the system, work is underway on extending it to the other Group companies. Following the entry into force of new energy efficiency regulations in 2016, the Group companies launched the process of implementation of the ISO 50001 standard which defines the best practices in energy management.

In December 2016, ENERGA SA was included for the third time in the RESPECT index (which groups listed companies committed to social responsibility and managed according to the best standards) and in the FTSE4Good Emerging Index. This is an index grouping companies from more than 20 emerging economies that are selected on the basis of compliance of their operations with the environmental, social responsibility and corporate governance criteria.

ENERGA SA was also included in the "70 Emerging Markets" ranking compiled by the rating agency Vigeo Eiris. The ranking presents 70 companies from emerging markets with the highest environmental, social and corporate governance scores. The study included more than 850 companies from 37 sectors in 31 countries.

2.11. Awards and recognitions for the ENERGA Group

Table 5: Prizes, awards and certificates received in 2016

2016
13.04.2016 The title "Seller of the Year" awarded to ENERGA-OBRÓT by EuroPOWER for the Energa365 product, an innovative sales and loyalty offer.
18.04.2016 ENERGA SA received an Eagle 2016 award from the "Wprost" weekly for a company with the highest average net profit in the Pomeranian region in 2012-2014.
22.04.2016 ENERGA Elektrownie Ostrołęka SA received an Accreditation Certificate confirming compliance with the general requirements for testing and calibration laboratories. The certificate was granted by the Polish Center for Accreditation.

19.05.2016

The CSR Golden Leaf Award granted to the ENERGA Group by the “Polityka” weekly for implementing the ISO 26000 guidelines as a key element of strategic actions in business and relationships with stakeholders.

15.06.2016

The ENERGA Group received an EMAS Certificate confirming its registration in the Eco-Management and Audit Scheme. The certificate is granted by the Ministry of the Environment.

10.10.2016

The “Przetargi Publiczne” [“Public Procurement”] monthly granted the “Public procurement crystals” award to ENERGA Oświetlenie Sp. z o.o. for construction projects improving road and transportation infrastructure and for modernization of street lighting in Bydgoszcz.

27.10.2016

A Patron of Culture award granted to ENERGA SA by the Marshal’s Office in Olsztyn for sponsoring the activity of the Warmia and Mazury Philharmonic Orchestra.

02.12.2016

A “Silver Paper Clip” award for the ENERGA Group in the Corporate PR category of the Golden Paper Clips contest organized by the Association of Public Relations Firms.

12.2016

The Federation of Consumers granted a Consumer Service Quality Certificate to ENERGA-OPERATOR SA for a positive result of the Consumer Audit conducted in November 2016 among employees of the Connection Service Centers and Consumer Service Departments.

Analysis of the financial situation and assets

3. ANALYSIS OF THE FINANCIAL STANDING AND ASSETS

3.1. Rules for preparing the annual consolidated financial statements

The Consolidated Financial Statements of the ENERGA Group for the twelve-month period ended 31 December 2016 were prepared:

- in accordance with the International Financial Reporting Standards and IFRS approved by the European Union;
- on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives;
- in PLN million ("PLN m");
- based on the assumption that the Group would continue as a going concern in the foreseeable future. As at the date of the financial statements there is no evidence indicating significant uncertainty as to the ability of the Group to continue its business activities as a going concern.

The Management Board of the Parent Company used its best knowledge in the application of standards and interpretations as well as measurement methods and principles for the individual items of the consolidated financial statements of the ENERGA Group in accordance with IFRS EU as at 31 December 2016. All the tables and explanations have been prepared with due care.

The accounting (policy) principles used to prepare the annual consolidated financial statements are presented in Note 9 to the consolidated financial statements of the ENERGA Group for the year ended 31 December 2016.

3.2. Explanation of the economic and financial data disclosed in the annual consolidated financial statements

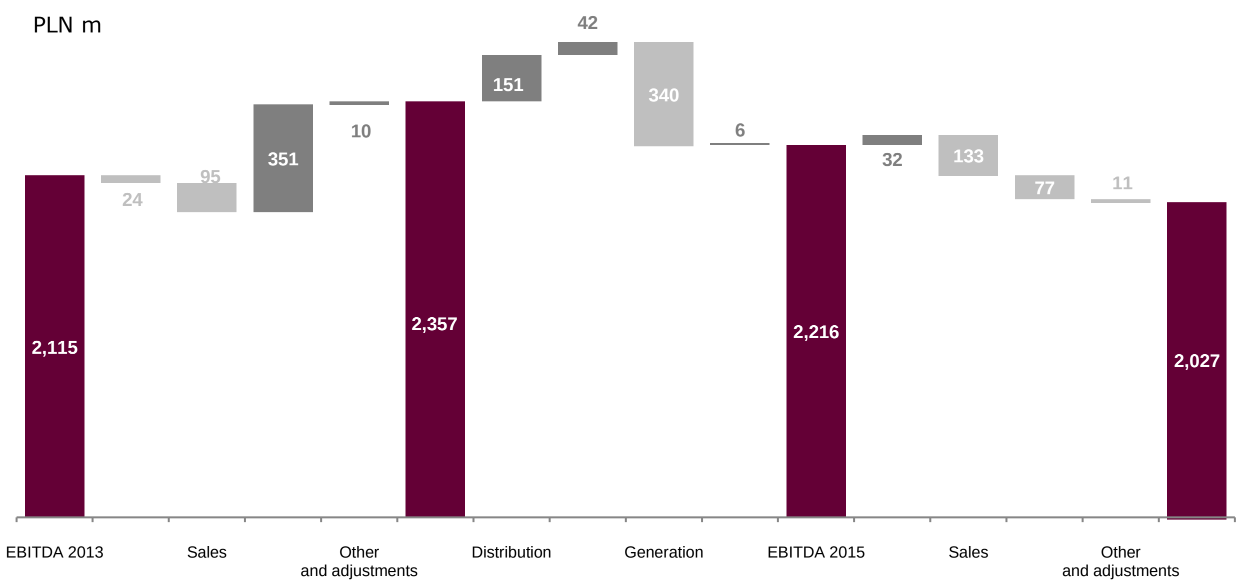
Table 6: Consolidated statement of profit or loss

PLN m	2013	2014	2015	2016	Change 2016/2015	Change 2016/2015 (%)
Revenue	**11,429**	**10,590**	**10,804**	**10,181**	**(623)**	**-6%**
Cost of sales	(9,455)	(8,464)	(8,786)	(8,846)	(60)	-1%
Gross profit on sales	**1,974**	**2,126**	**2,018**	**1,335**	**(683)**	**-34%**
Other operating income	156	107	91	117	26	29%
Selling and distribution expenses	(294)	(312)	(336)	(338)	(2)	-1%
General and administrative expenses	(412)	(350)	(344)	(318)	26	8%
Other operating expenses	(228)	(125)	(149)	(309)	(160)	< -100%
Operating profit	**1,195**	**1,446**	**1,280**	**487**	**(793)**	**-62%**
Result on financial activity	(172)	(198)	(228)	(230)	(2)	-1%
Share in profit/(loss) of the entities measured by the equity method	(1)	-	-	(52)	(52)	-
Profit or loss before tax	**1,022**	**1,248**	**1,052**	**205**	**(847)**	**-81%**
Income tax	(274)	(239)	(212)	(58)	154	73%

Net profit or loss on continuing operations	**749**	**1,009**	**840**	**147**	**(693)**	**-83%**
Net profit or loss on discontinued operations	(6)	(3)	-	-	-	-
Net profit or loss for the period	**743**	**1,006**	**840**	**147**	**(693)**	**-83%**
EBITDA	**2,115**	**2,357**	**2,216**	**2,027**	**(189)**	**-9%**

PLN m	Q4 2015	Q4 2016	Change	Change (%)
Revenue	**2,847**	**2,808**	**(39)**	**-1%**
Cost of sales	(2,374)	(2,459)	(85)	-4%
Gross profit on sales	**473**	**349**	**(124)**	**-26%**
Other operating income	30	36	6	20%
Selling and distribution expenses	(99)	(95)	4	4%
General and administrative expenses	(98)	(78)	20	20%
Other operating expenses	(63)	(109)	(46)	-73%
Operating profit or loss	**243**	**103**	**(140)**	**-58%**
Result on financial activity	(61)	(55)	6	10%
Share of profit (loss) of associates	-	8	8	-
Profit or loss before tax	**182**	**56**	**(126)**	**-69%**
Income tax	(45)	17	62	> 100%
Net profit or loss for the period	**137**	**73**	**(64)**	**-47%**
EBITDA	**490**	**498**	**8**	**2%**

Figure 14: EBITDA bridge, by segment, 2013-2016 (PLN m)



In 2016 the Group’s sales revenues amounted to PLN 10,181m and were 6%, or PLN 623 m lower than in 2015. The lower revenues in the Generation Segment were largely caused by the decline in sales revenues in the business lines of the Ostrołęka Power Plant and Hydro (a total of PLN 198 m). Which resulted primarily from the decline in revenue on the sale of electricity (lower prices and production volume in Ostrołęka) and property rights (loss of support for the Włocławek Hydropower Plant and low market prices of these rights). The drop in revenues of the Distribution Segment by PLN 112 m (3%) was mainly a result of a lower distribution rate (by almost 2%) caused by a decrease in the distribution tariff and lower revenues on connections (by 36%). A decline in revenues was also recorded in the Sales Segment (by 2% or PLN 114 m), which was driven mainly by the lower volume of electricity sales on the wholesale market.

The Group's EBITDA in 2016 was PLN 2,027 m, which was 9% less than in the same period of the previous year. The negative change in the EBITDA of the Sales Segment by PLN 133 m (77%) yoy and of the Generation Segment by PLN 77 m (20%) yoy were the key contributors to this decline. A positive contributor to EBITDA included the Distribution Segment (contribution increased by PLN 32 m or 2% yoy).

The Distribution Segment contributed the most to the Group’s EBITDA in 2016 (85%), while the Generation Segment accounted for 16% and the Sales Segment accounted for 2% (the aggregation of percentages must also include the Other and Adjustments item).

The operating profit in 2016 fell by 62%, i.e. by PLN 793 m compared to 2015. In addition to operating factors (decrease in revenues caused by the drivers described in the revenue analysis, offset in particular by the lower cost of fuel consumption in the Generation Segment and the lower operating expenses in the Distribution Segment), the largest impact on the level of EBIT was exerted by the impairment losses posted in 2016 on non-financial non-current assets presented mainly in the Generation Segment. In 2016, impairment losses for a total amount of PLN 573 m were recognized in the Generation Segment, resulting mainly from regulatory changes (act on investments in wind power plants) and changes in market environment (decline in the prices of energy certificates and persisting low electricity prices) as well as from the recognition of a PLN 117 million goodwill write-down resulting from the acquisition of wind farms. The adverse impact of these write-downs on EBIT was partly offset by the decision on the reversal of the impairment loss on assets in the amount of PLN 117 m in the subsidiary Elektrownia Ostrołęka SA.

In 2016, a share in the loss recognized by Polska Grupa Górnicza Sp. z o.o. (“PGG”) of PLN 52 m was recognized.

The Group's net result in 2016 was PLN 147 m, down 83% from 2015.

The Group's EBITDA in 2016 was PLN 498 m and was 2% higher than in the corresponding period of the previous year. The Group’s EBITDA was driven predominantly by the Distribution Segment (increase in EBITDA by PLN 60 m yoy) mainly due to lower operating expenses (delays in spending and impact of lower actuarial provisions) and the Generation Segment (increase in EBITDA by PLN 34 m yoy, mainly in the Ostrołęka Power Plant business line, which was primarily the result of a higher volume of must-run production). EBITDA was adversely affected by the Sales Segment (decrease in EBITDA by PLN 80 m), where the main disadvantageous factor was a drop in electricity sales margins and non-recurring events (establishment of provisions for disputes).

Presented below is the impact of material events (the applied materiality criterion is PLN 25 m) of an unusual nature on EBITDA.

Table 7: EBITDA adjusted for material non-recurring events

EBITDA (PLN m)	
2016	
EBITDA	**2,027**
Adjusted EBITDA *of which:*	**1,990**
Actuarial provisions	*(63)*
Dispute with a counterparty	*26*
2015	
EBITDA	**2,216**
Adjusted EBITDA	**2,237**

EBITDA (PLN m)	
Q4 2016	
EBITDA	**498**
Adjusted EBITDA *of which:*	**482**
Actuarial provisions	*(42)*
Dispute with a counterparty	*26*
Q4 2015	
EBITDA	**490**
Adjusted EBITDA	**516**

Table 8: Consolidated statement of financial position

PLN m	Balance as at 31 December 2013*	Balance as at 31 December 2014*	Balance as at 31 December 2015	Balance as at 31 December 2016	Change 2016/2015	Change 2016/2015 (%)
ASSETS						
Non-current assets						
Property, plant and equipment	11,761	12,315	12,912	13,053	141	1%
Intangible assets	399	393	395	383	(12)	-3%
Goodwill	157	143	143	26	(117)	-82%
Investments in joint ventures measured by the equity method	-	-	-	390	390	-
Deferred tax assets	245	246	260	396	136	52%

Other non-current financial assets	31	49	60	166	106	> 100%
Other non-current assets	57	96	103	101	(2)	-2%
	12,650	13,242	13,873	14,515	642	5%
Current assets						
Inventories	302	296	513	472	(41)	-8%
Current tax receivables	43	76	47	111	64	> 100%
Trade receivables	1,470	1,551	1,762	1,947	185	10%
Portfolio of financial assets	567	764	322	2	(320)	-99%
Other current financial assets	13	22	38	15	(23)	-61%
Cash and cash equivalents	1,785	1,932	1,669	1,471	(198)	-12%
Other current assets	146	208	232	198	(34)	-15%
Assets classified as held for sale	109	27	-	-	-	
	4,435	4,876	4,583	4,216	(367)	-8%
TOTAL ASSETS	17,085	18,118	18,456	18,731	275	1%
EQUITY AND LIABILITIES						
Equity						
Share capital	4,522	4,522	4,522	4,522	-	-
Foreign exchange differences from translation of a foreign entity	(2)	-	-	4	4	-
Reserve capital	447	447	447	1,018	571	> 100%
Supplementary capital	521	607	661	728	67	10%
Cash flow hedge reserve	27	(17)	6	41	35	> 100%
Retained earnings	2,520	2,957	3,134	2,464	(670)	-21%
Equity attributable to equity holders of the Parent Company	8,034	**8,516**	**8,770**	**8,777**	**7**	**0%**
Non-controlling interest	**14**	**37**	**44**	**40**	**(4)**	**-9%**
	8,048	**8,553**	**8,814**	**8,817**	**3**	**0%**
Non-current liabilities						
Loans and borrowings	1,812	2,390	2,475	3,086	611	25%
Bonds issued	3,119	3,117	3,116	2,639	(477)	-15%

Non-current provisions	549	632	664	578	(86)	-13%
Deferred tax liabilities	544	553	591	593	2	0%
Deferred income and non-current grants	489	526	531	515	(16)	-3%
Other non-current financial liabilities	6	32	25	6	(19)	-76%
	6,520	**7,250**	**7,402**	**7,417**	**15**	**0%**
Current liabilities						
Trade payables	890	869	877	811	(66)	-8%
Current loans and borrowings	274	171	203	334	131	65%
Bonds issued	71	72	76	78	2	3%
Current income tax liability	7	50	2	3	1	50%
Deferred income and grants	159	158	161	170	9	6%
Short-term provisions	444	374	471	711	240	51%
Other financial liabilities	235	229	193	157	(36)	-19%
Other current liabilities	356	363	257	233	(24)	-9%
Liabilities related to assets classified as held for sale	81	29	-	-	-	-
	2,516	**2,315**	**2,240**	**2,497**	**257**	**11%**
Total liabilities	**9,036**	**9,565**	**9,642**	**9,914**	**272**	**3%**
TOTAL EQUITY AND LIABILITIES	**17,085**	**18,118**	**18,456**	**18,731**	**275**	**1%**

** restated data*

As at 31 December 2016, total assets of the ENERGA Group reached PLN 18,731 m and were PLN 275 m higher than on 31 December 2015.

In non-current assets, the most significant change pertained to investments in joint ventures measured by the equity method, which is associated with the ENERGA Group's exposure in Polska Grupa Górnicza Sp. z o.o. In current assets, the most significant changes concerned in particular the following items: cash (the reasons for the change of the balance of cash were described further on, in the part devoted to cash flows) and investments in the financial assets portfolio (a decrease associated with the sale of participation units in the ENERGA Trading Fund).

On the side of liabilities, significant changes pertained to the balance of loans and borrowings (an increase in liabilities on account of loans and borrowings resulted primarily from the provision of financing from EBRD and EIB in 2016 in the total value of PLN 936 m, partly offset by the repayment of liabilities contracted in previous years) and the balance of bonds issued (down by PLN 475 m, mainly due to the redemption of a portion of ENERGA SA's outstanding bonds).

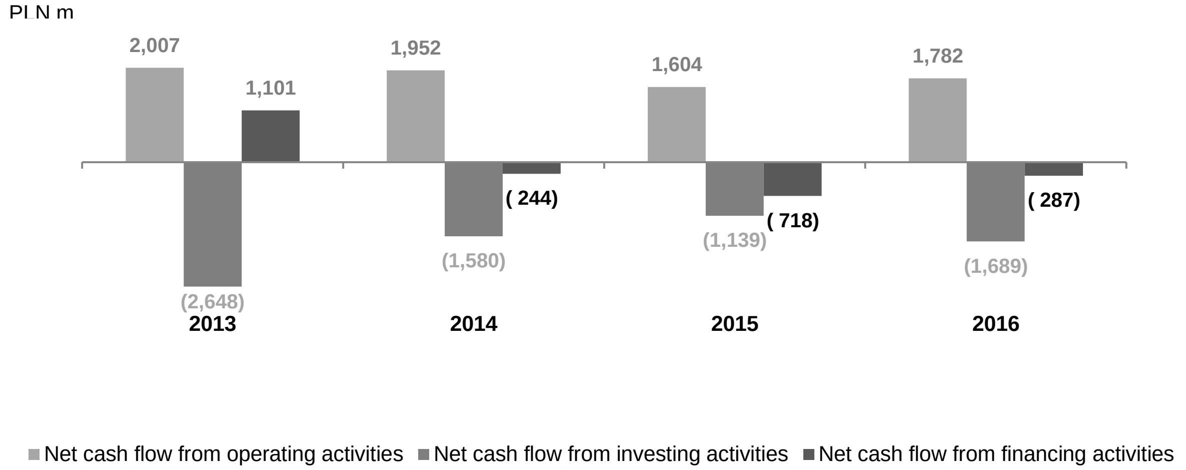
The ENERGA Group's equity as at 31 December 2016 was PLN 8,817 m and financed 47.1% of the Group's assets. The settlement of the ENERGA SA 2015 result increased the reserve capital and supplementary capital, as compared to 31 December 2015, by PLN 571 m and PLN 67 m, respectively. The amount of PLN 203 m was allocated for dividends to the Company's shareholders.

Table 9: Consolidated statement of cash flows

in PLN m	2013*	2014*	2015	2016	Change 2016/2015	Change 2016/2015 (%)
Net cash flow from operating activities	2,007	1,952	1,604	1,782	178	11%
Net cash flow from investing activities	(2,648)	(1,580)	(1,139)	(1,689)	(550)	-48%
Net cash flow from financing activities	1,101	(244)	(718)	(287)	431	60%
Net increase / (decrease) in cash	460	128	(253)	(194)	59	23%
Cash and cash equivalents at the end of the period	1,783	1,911	1,658	1,464	(194)	-12%

** restated data*

Figure 15:



Group's cash flows in 2013-2015 (PLN m)

As at 31 December 2016, the balance of the Group's cash was PLN 1,464 m and was PLN 194 m (or 12%) less than the cash balance one year earlier.

The total net cash flows from the Group's operating, investing and financing activities in 2016 were negative at PLN 194 m, compared to the negative cash flows of PLN 253 m in 2015.

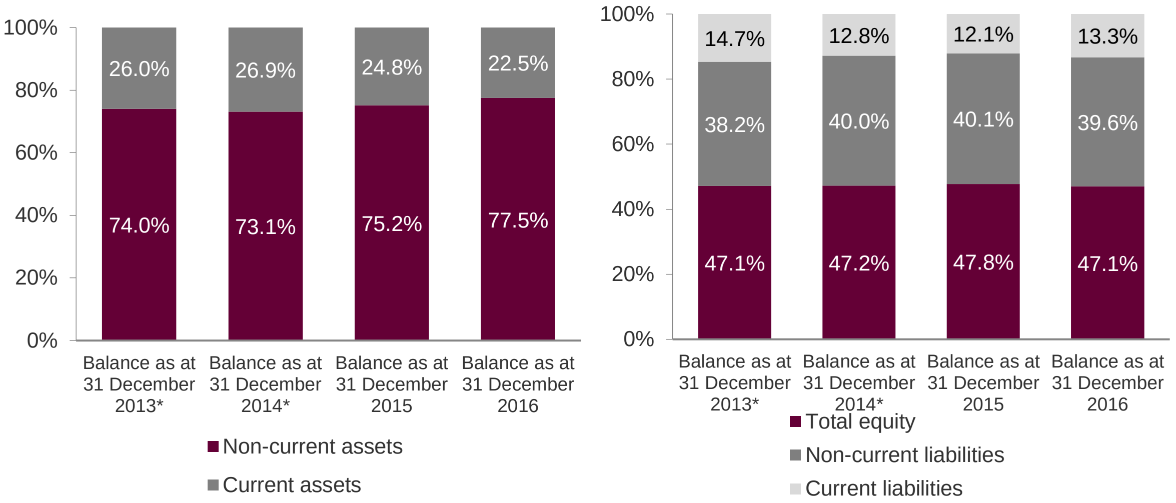
Cash flow from operating activities increased by PLN 178 m (11%) compared to the previous year. This was driven predominantly by a lower growth in working capital compared to the previous year. Compared to 2015, last year there was a lower growth in receivables and a decline in energy certificate inventories, whereas in 2015 there was a significant increase in this item. The impact of changes in working capital was partly offset by a lower operating result adjusted for non-cash items and higher amount of income tax paid.

Net cash flows from investing activities in 2016 decreased in total by PLN 550 m (i.e. 48%), driven mainly by acquisition of a stake in Polska Grupa Górnicza Sp. z o.o. and lower proceeds from the sale of shares in the ENERGA Trading fund.

In the period in question cash flows from financing activities were negative and amounted to PLN 287 m, or PLN 431 m (or 60%) more than in 2015. The drawdown of financing from EIB and EBRD in an aggregate amount of PLN 936 m contributed the most to the movement in cash flows in the period under analysis, whereas in 2015 EIB and NIB provided financing in the amount of PLN 268 m. In addition, the dividend paid out in 2016 was PLN 393 m lower than in 2015. These changes were partly offset by the outflow of funds resulting from the redemption of bonds issued by ENERGA SA in the amount of PLN 578 m.

3.3. Structure of assets and liabilities in the consolidated statement of financial position

Figure 16: Structure of assets and liabilities



** restated data*

Table 10: Financial ratios of the ENERGA Group

Ratio	Definition	2013	2014	2015	2016
Profitability					
EBITDA margin	operating result + amortization and depreciation + impairment losses on non-financial non-current assets / revenue	18.5%	22.3%	20.5%	19.9%
return on equity (ROE)	net profit for the period / equity at the end of the period	9.2%	11.8%	9.5%	1.7%
return on sales (ROS)	net profit for the period / sales revenues	6.5%	9.5%	7.8%	1.4%
return on assets (ROA)	net profit for the period / total assets at the end of the period	4.3%	5.6%	4.6%	0.8%

Ratio	Definition	Balance as at 31 December 2013*	Balance as at 31 December 2014*	Balance as at 31 December 2015	Balance as at 31 December 2016

Liquidity					
current liquidity ratio	current assets/current liabilities	1.8	2.1	2.0	1.7
Indebtedness					
financial liabilities (PLN m)	sum of liabilities under loans and borrowings and under long- and short-term debt securities	5,276	5,750	5,870	6,137
net financial liabilities (PLN m)	financial liabilities - cash and cash equivalents	3,491	3,818	4,201	4,666
net debt / EBITDA ratio	net financial liabilities / EBITDA	1.7	1.6	1.9	2.3

** restated data*

The level of impairment losses on the net value of non-financial non-current assets in 2016 significantly affected the profitability ratios compared to the same period of the previous year. On the other hand, in connection with the changed definition of EBITDA, the EBITDA margin remains at a similar level.

The Group's exposure to PGG, redemption of bonds and lower operating results affected the level of current assets (decrease of cash and investments in the financial assets portfolio - ENERGA Trading units) translating into yoy lower current liquidity ratio.

Compared to the end of 2015, financial liabilities increased (by 5%). The higher level of the net debt to EBITDA ratio in relation to the end of last year was attributable to the change of net financial liabilities (up by 11%) and a decline of the Group's results for 2016 compared to the previous year (by 9%).

3.4. Description of significant off-balance sheet items

Information in this respect is presented in chapter 2.7. *Information material agreements and transactions* in this Report and in the consolidated financial statements – note 35: *Contingent assets and liabilities*. Operational leasing liabilities and receivables are described in notes 33.1 and 33. 2 of the consolidated financial statements.

3.5. Key operational data of the ENERGA Group

Table 11: Distribution of electricity, by tariff group

Distribution of electricity, by tariff groups (invoiced sales) in GWh	2013	2014	2015*	2016*	Change 2016/2015	Change 2016/2015 (%)
Tariff Group A (HV)	3,948	4,143	4,280	3,981	(298)	-7%
Tariff Group B (MV)	6,829	7,210	7,531	7,981	450	6%
Tariff Group C (LV)	4,250	4,246	4,283	4,243	(40)	-1%
Tariff Group G (LV)	5,418	5,323	5,392	5,522	130	2%
Total distribution of energy	**20,444**	**20,923**	**21,486**	**21,727**	**241**	**1%**

Distribution of electricity, by tariff groups (invoiced sales) in GWh	Q4 2015*	Q4 2016*	Change	Change (%)
Tariff Group A (HV)	993	814	(179)	-18%
Tariff Group B (MV)	1,967	2,085	117	6%
Tariff Group C (LV)	1,116	1,093	(23)	-2%
Tariff Group G (LV)	1,376	1,451	75	5%
Total distribution of energy	**5,452**	**5,442**	**(10)**	**-0%**

** in the case of the 2015 data (for tariffs C and G), the data on invoiced sales were increased by the volume of supplied electricity (on the basis of readouts) which was not invoiced due to postponement of invoicing in connection with data migration to new billing systems, while data for 2016 (tariffs C and G) were decreased by the volume invoiced during the year for the part pertaining to 2015*

In 2016, the volume of electricity supplied was higher than in the previous year, by 1% on average. The increase in volume was recorded mainly in the low-margin group B (an increase in the number of customers), while in Group A we lost a significant customer (who switched to its own source of supply and the PSE network). The decline in the average distribution rate was almost 2% yoy.

Table 12: SAIDI and SAIFI levels

	SAIDI			SAIFI		
	Unplanned incl. catastrophic	Planned	**Total**	Unplanned incl. catastrophic	Planned	**Total**
	Number of minutes per customer in the relevant period			Disruptions per customer in the relevant period		
Q4 2015	31.4	12.8	44.2	0.6	0.1	0.7
Q4 2016	**59.0**	**15.7**	**74.7**	**0.7**	**0.1**	**0.8**
Change	27.6	2.9	30.5	0.1	(0.0)	0.1
Change (%)	88%	22%	69%	15%	-2%	13%
2013	283.9	71.1	355.0	2.9	0.4	3.4
2014	203.7	58.4	262.2	3.1	0.4	3.5
2015	239.4	46.4	285.8	3.1	0.3	3.4
2016	**177.0**	**50.8**	**227.8**	**2.5**	**0.3**	**2.8**
Change 2016/2015	(62.4)	4.4	(58.0)	(0.6)	(0.0)	(0.6)
Change 2016/2015 (%)	-26%	10%	-20%	-19%	-4%	-18%

As at the end of 2016, the SAIDI level (planned and unplanned with catastrophic) of the ENERGA Group was 20% lower than it did in the previous year. SAIFI decreased by 18% from the previous year. This significant improvement was largely driven by favorable weather conditions in 2016.

In 2016, ENERGA-OPERATOR SA recorded a 1% increase in the number of customers from the previous year. This number increased in tariff groups B and G but declined in tariff group C. As at the end of 2016, the Company had 3,007 thousand customers.

Table 13: Number of ENERGA-OPERATOR SA's customers in 2013-2016 (by tariff group)

Tariff groups ENERGA-OPERATOR	As at 31 December				Change 2016/2015	Change 2016/2015 (%)
	2013	2014	2015	2016		
Tariff Group A	66	72	90	90	-	-
Tariff Group B	6,279	6,540	6,777	7,024	247	4%
Tariff Group C	301,493	299,190	295,030	291,611	(3,419)	-1%
Tariff Group G	2,638,170	2,660,526	2,670,053	2,708,406	38,353	1%
TOTAL	**2,946,008**	**2,966,328**	**2,971,950**	**3,007,131**	**35,181**	**1%**

Tariff group A – the biggest customers connected to the high voltage grid (110 kV), e.g. steelworks, shipyards and other big industrial facilities; Tariff group B – big industrial facilities connected to the medium voltage grid (from 1 kV to 60 kV), e.g. factories, hospitals, shopping centers, recreation and entertainment facilities; Tariff group C – institutional customers connected to the low voltage grid (up to 1 kV), e.g. banks, shops, clinics, points of sale, street lighting; Tariff group G – households and similar customers, regardless of the connection voltage.

Table 14: Gross production of electricity in the ENERGA Group

Gross electricity produced (GWh)	2013	2014	2015	2016	Change 2016/2015	Change 2016/2015 (%)
Power plants - coal-fired	2,944	3,109	2,226	2,580	353	16%
Power plants - biomass co-fired	692	643	609	11	(598)	-98%
CHP plants - coal-fired	144	153	131	114	(16)	-13%
CHP plants - biomass-fired	-	20	24	28	4	15%
Power plants - hydro	1,008	837	687	804	117	17%
Pumped-storage plant	29	34	37	33	(4)	-10%
Power plants - wind	151	308	419	371	(48)	-11%
Power plants - photovoltaics	-	-	4	5	1	18%
Total electricity production	**4,967**	**5,103**	**4,136**	**3,945**	**(191)**	**-5%**
incl. RES	*1,851*	*1,808*	*1,743*	*1,218*	*(525)*	*-30%*

Gross electricity produced (GWh)	Q4 2015	Q4 2016	Change	Change (%)
Power plants - coal-fired	485	795	310	64%
Power plants - biomass co-fired	146	1	(144)	-99%
CHP plants - coal-fired	39	43	4	9%
CHP plants - biomass-fired	6	0	(6)	-99%
Power plants - hydro	141	248	107	76%
Pumped-storage plant	15	12	(3)	-20%

Power plants - wind	133	133	(0)	-
Power plants - photovoltaics	1	0	(0)	-26%
Total electricity production	**964**	**1,231**	**267**	**28%**
incl. RES	*426*	*382*	*(44)*	*-10%*

In 2016, the ENERGA Group's generation companies produced approx. 191 GWh (or 5%) less electricity than they did in the corresponding period of the previous year. The main reason was a decline in production in the must-run power plant in Ostrołęka (by 245 GWh), which was caused, among others, by the general overhaul of one of the units of the must-run power plant (which lasted from March to August 2016) and PSE's lower demand for must-run production. The decrease in energy generation from biomass co-firing (by 598 GWh) was driven, among other factors, by low prices of green market property rights and, as a consequence, the absence of economic incentives for the combustion of this type of fuel (the Ostrołęka power station changed its fuel mix). At the same time, production from the Group's wind farms decreased (by 48 GWh) despite the commissioning of a new 26 MW wind farm in Parsówek, due to lower windiness. On the other hand, higher electricity production was observed in run-of-the-river hydro power plants (by 117 GWh), mainly due to favorable hydrological conditions.

Comparing Q4 on a yoy basis, noticeable is a significant increase in energy generation (by 28%) driven mainly by the higher production from the Ostrołęka power plant (by 166 MWh due to the higher availability of units forced by PSE) and from hydro power plants (better hydrological conditions). Production from wind was at a similar level.

Table 15: Production of heat

Gross heat production in TJ	2013	2014	2015	2016	Change 2016/2015	Change 2016/2015 (%)
ENERGA Kogeneracja Sp. z o.o.*	2,480	2,264	2,226	2,326	99	4%
ENERGA Elektrownie Ostrołęka S.A.	1,468	1,452	1,399	1,470	71	5%
Ciepło Kaliskie Sp. z o.o.	-	137	280	313	34	12%
Total gross heat production	**3,948**	**3,853**	**3,905**	**4,109**	**204**	**5%**

** including EC Kalisz, whose assets were incorporated in ENERGA Kogeneracja Sp. z o.o. in 2014*

Gross heat production in TJ	Q4 2015	Q4 2016	Change	Change (%)
ENERGA Kogeneracja Sp. z o.o.	711	782	71	10%
ENERGA Elektrownie Ostrołęka S.A.	423	493	70	16%
Ciepło Kaliskie Sp. z o.o.	108	106	(2)	-2%
Total gross heat production	**1,242**	**1,380**	**138**	**11%**

2016 saw an increase in the Group's heat production by approx. 204 TJ (or 5%) attributable to much higher heat production by all the dedicated Group companies. The main reason for the higher production volume was the lower average annual temperature in 2016 resulting in higher demand for heat.

In Q4 2016, heat production increased by approx. 138 TJ (or 11%) which was driven mainly by the increased (like in the annual perspective) demand on the local markets recorded by two main companies: Energa Kogeneracja and ENERGA Elektrownie Ostrołęka.

Table 16: Volume and cost* of consumption of key fuels

Fuel consumption*	2013	2014	2015	2016	Change 2016/2015	Change 2016/2015 (%)
Coal						
Quantity (thous. tons)	1,576	1,607	1,157	1,288	131	11%
Cost (PLN m)	455	413	284	283	(1)	-
Biomass						
Quantity (thous. tons)	455	436	406	30	(376)	-93%
Cost (PLN m)	198	176	161	11	(150)	-93%
Total fuel consumption (PLN m)	**653**	**589**	**445**	**294**	**(151)**	**-34%**

Fuel consumption*	Q4 2015	Q4 2016	Change	Change (%)
Coal				
Quantity (thous. tons)	261	400	139	53%
Cost (PLN m)	62	84	22	35%
Biomass				
Quantity (thous. tons)	95	1	(94)	-99%
Cost (PLN m)	36	0	(35)	-99%
Total fuel consumption (PLN m)	**98**	**84**	**(14)**	**-14%**

** including the cost of transportation*

A significant decrease in fuel consumption costs yoy was mainly caused by the change in fuel mix at the Ostrołęka power plant (due to the unprofitability of combustion of this fuel in 2016), hence the biomass consumption in the period under analysis declined by approximately 376 thousand tons (or 93%). Moreover, the volume of coal consumption increased, accompanied by a decrease in the average unit cost (PLN/MWh) of electricity and heat generation (by 13%), due to a lower purchase price of the raw material. Additionally, less electricity was generated in the Ostrołęka power station.

In Q4 2016, the cost of consumption of key fuels was PLN 14 m (14%) lower than in the comparable period of 2015. The main reason was the lower purchase price of coal and the change in the Group's fuel mix (the cheaper coal pushed out the more expensive biomass as a consequence of the low prices of property rights on the market). This effect was partly offset by an increase in production in the Ostrołęka power plant (by 166 GWh).

Table 17: Sales of electricity by the Sales Segment

Sales of electricity by the Sales Segment in GWh	2013	2014	2015	2016	Change 2016/2015	Change 2016/2015 (%)
Retail electricity sales	**18,248**	**16,364**	**16,767**	**19,628**	**2,861**	**17%**
Electricity sales on the wholesale market, of which:	**12,764**	**9,720**	**8,892**	**4,973**	**(3,918)**	**-44%**
Electricity sales to the balancing market	823	331	428	399	(28)	*-7%*
*Electricity sales to ENERGA-OPERATOR to cover network losses**	1,593	1,561	(16)	1,520	1,536	*> 100%*

Other wholesale	10,348	7,828	8,480	3,054	(5,426)	*-64%*
Total electricity sales	**31,012**	**26,084**	**25,658**	**24,602**	**(1,057)**	**-4%**

** the negative volume in 2015 is an effect of settlement of a 2014 contract that was not extended to 2015*

Sales of electricity by the Sales Segment in GWh	Q4 2015	Q4 2016	Change	Change (%)
Retail electricity sales	**4,423**	**5,262**	**839**	**19%**
Electricity sales on the wholesale market, of which:	**2,425**	**1,894**	**(531)**	**-22%**
Electricity sales to the balancing market	244	117	(127)	*-52%*
Electricity sales to ENERGA-OPERATOR to cover network losses	-	398	398	-
Other wholesale	2,181	1,379	(802)	*-37%*
Total electricity sales	**6,848**	**7,156**	**308**	**4%**

In 2016, the total volume of electricity sold by the Segment decreased by 4% (or 1.1 TWh) compared to 2015, which is attributable to the decrease of the sales volume on the wholesale market by 44% (or 3.9 TWh), whereas retail sales volume increased by 17% (or 2.9 TWh) in relation to the previous year.

In retail sales, 2016 saw increases both in volumes sold to business customers, including to Slovak market customers, and in volumes sold to households. The increase of the retail sales volume is the result of higher average number of customers (acquisition of a number of new business buyers and households) and increase in average electricity consumption by customers (in 2016 electricity consumption in Poland increased by 2% yoy). In terms of volume, sales to households (tariff G) in 2016 accounted for 28% of the sales billed to end users by ENERGA-OBRÓT (in 2015 this share was 32%).

In the analyzed period, electricity sales fell in the wholesale market (by 44%), despite the performance of the contract to sell electricity to ENERGA-OPERATOR SA to cover network losses started in the beginning of 2016. Such a significant decline was caused by the lower volume of energy purchased from renewable sources in the area of operation of ENERGA-OPERATOR SA, where ENERGA-OBRÓT SA is obligated to accept such energy as the “Obligated Offtaker” (previously “Offtaker of Last Resort”), which resulted in lower sales of excess volumes in the wholesale market. An additional factor contributing to the lower electricity sales volume on the wholesale market is the change in the forward contracting strategy in effect from 2016.

In Q4 2016, as opposed to the annual data, the overall volume of electricity sold by the Segment increased by 4% (0.3 TWh) when compared to Q4 2015. In quarterly terms, the trends were similar to annual figures, i.e. retail sales clearly increased and sales in the wholesale market clearly decreased. The only difference was the lower decrease rate of energy sales volume in the wholesale market (by 22%). This is attributable to the mandatory purchase of energy from renewable sources, which was significantly higher than in previous quarters of 2016, (as a result of better wind conditions), which translated into sale of excess volumes in the wholesale market.

3.6. Financial results by operating segments

Table 18: EBITDA of the ENERGA Group, by Segment

EBITDA (PLN m)	2013	2014	2015	2016	Change 2016/2015	Change 2016/2015 (%)
DISTRIBUTION	1,561	1,537	1,688	1,720	32	2%
GENERATION	381	732	392	315	(77)	-20%
SALES	226	131	173	40	(133)	-77%
OTHER and consolidation eliminations and adjustments	(53)	(43)	(37)	(48)	(11)	-30%
Total EBITDA	**2,115**	**2,357**	**2,216**	**2,027**	**(189)**	**-9%**

EBITDA (PLN m)	Q4 2015	Q4 2016	Change	Change (%)
DISTRIBUTION	350	410	60	17%
GENERATION	86	120	34	40%
SALES	57	(23)	(80)	< -100%
OTHER and consolidation eliminations and adjustments	(3)	(9)	(6)	< -100%
Total EBITDA	**490**	**498**	**8**	**2%**

Distribution Segment

Figure 17: Results of the ENERGA Group's Distribution Segment (PLN m)

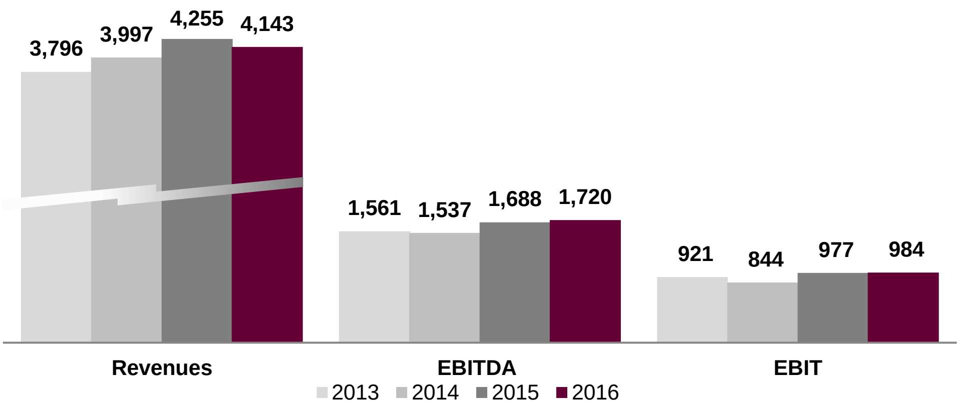
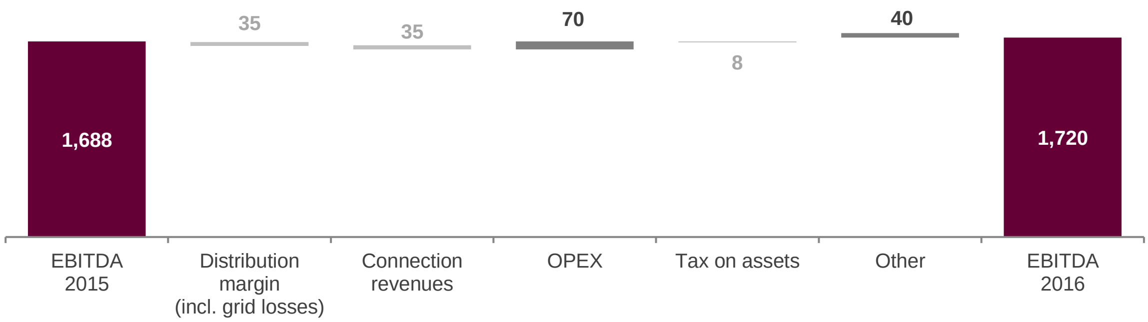


Table 19: Results of the Distribution Segment

PLN m	2013	2014	2015	2016	Change 2016/2015	Change 2016/2015 (%)
Revenue	3,796	3,997	4,255	4,143	(112)	-3%
EBITDA	**1,561**	**1,537**	**1,688**	**1,720**	**32**	**2%**
amortization and depreciation	640	692	711	736	25	4%
impairment losses on non-financial non-current assets	-	1	-	-	-	0%
EBIT	921	844	977	984	7	1%
Net result	612	599	667	703	36	5%
CAPEX	1,397	1,148	1,123	1,263	140	12%

PLN m	Q4 2015	Q4 2016	Change	Change (%)
Revenue	1,118	1,066	(52)	-5%
EBITDA	**350**	**410**	**60**	**17%**
amortization and depreciation	182	190	8	4%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	168	220	52	31%
Net result	104	151	47	45%
CAPEX	404	388	(16)	-4%

Figure 18: EBITDA Bridge of the Distribution Segment (PLN m)



During the entire 2016, the Distribution Segment contributed approx. 85% to ENERGA Group's EBITDA (nearly 76% in 2015).

Revenues of the Distribution Segment in 2016 were less than 3% lower than in the corresponding period of the previous year. The decrease in revenues was driven by a decrease of the average distribution rate (by almost 2%) resulting from a decrease of the distribution tariff, despite higher volumes of distributed electricity (by 1%). In addition, revenues from connection fees were PLN 62 m, or 36% less than in 2015. This resulted from connection of a smaller number of wind farms due to amendment of the regulations pertaining to RES.

EBITDA grew by nearly 2% yoy. Important contributors to the operating result of PLN 984 m included: a decrease in the distribution margin including network losses by PLN 35 m (due to a yoy decrease in tariff margin by ca. PLN 43 m, with simultaneous increase in the volume, primarily in the low-margin tariff group B), property tax costs higher by PLN 8 m, OPEX lower by PLN 70 m (the effect of actuarial provisions lower by PLN 60 m, mainly as a result of two factors – reversal of some of the provisions when there were no more grounds for disbursement of the energy equivalent benefits and lowering of the retirement age, as well as delays in OPEX spending) and a better result on other operations. An important contributor to other operating income was the awarded principal receivable received from PKN Orlen in the amount of PLN 16 m on account of the litigation pertaining to the system fee. Additionally, the results were improved by a decrease in the provisions for claims in connection with erection of power infrastructure on third party land.

Net profit in 2016 was almost PLN 36 m higher than the year before. This was a consequence of a better operating result of the Segment, better financial activity balance and slightly lower tax burden. In financial income in the analyzed period a significant contribution was made by the interest received from PKN Orlen on account of a court case in the amount of PLN 23 m which, together with the amount of the principal receivable, was nearly PLN 39 m.

Capital expenditures of the Distribution Segment amounted to PLN 1,263 m, that is almost PLN 140 m more than the year before.

The Q4 2016 EBITDA was shaped primarily by the distribution margin, which was lower than in Q4 2015 (by PLN 14 m), lower connection revenues (by PLN 16 m), and lower OPEX (by PLN 97 m, due to actuarial provisions in Q4 2016 which were lower by PLN 47 m, and delays in OPEX expenditures). As a result, EBITDA increased from PLN 350 m to PLN 410 m.

Generation Segment

Figure 19: Results of the ENERGA Group's Generation Segment (PLN m)

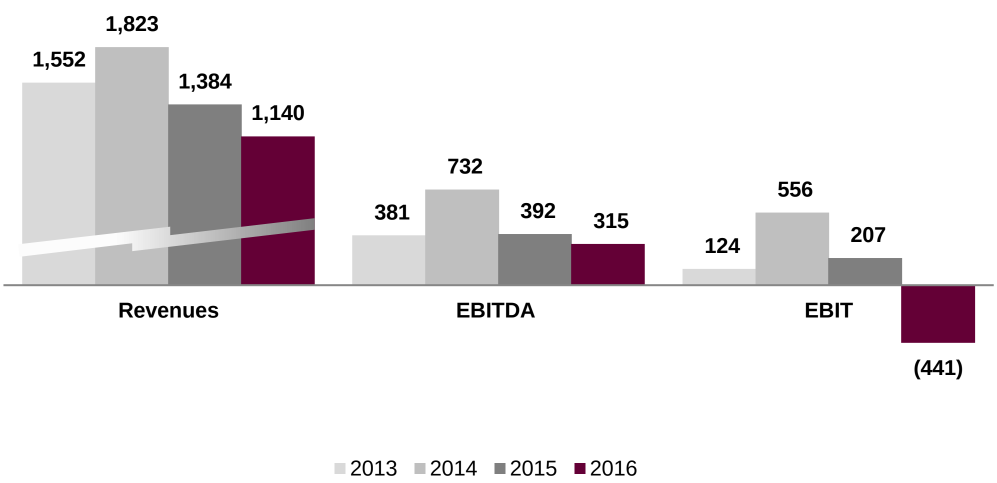
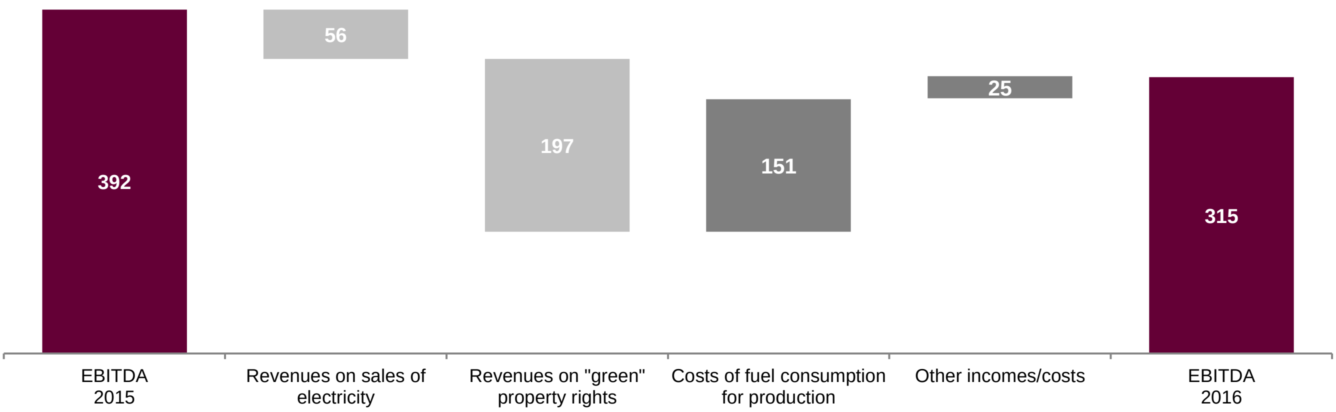


Table 20: Results of the ENERGA Group's Generation Segment

PLN m	2013	2014	2015	2016	Change 2016/2015	Change 2016/2015 (%)
Revenue	1,552	1,823	1,384	1,140	(244)	-18%
EBITDA	**381**	**732**	**392**	**315**	**(77)**	**-20%**
amortization and depreciation	110	142	168	183	15	9%
impairment losses on non-financial non-current assets	147	34	17	573	556	> 100%
EBIT	124	556	207	(441)	(648)	< -100%
Net result	75	384	115	(303)	(418)	< -100%
CAPEX	1,333	271	392	248	(144)	-37%

PLN m	Q4 2015	Q4 2016	Change	Change (%)
Revenue	332	352	20	6%
EBITDA	**86**	**120**	**34**	**40%**
amortization and depreciation	47	50	3	6%
impairment losses on non-financial non-current assets	6	132	126	> 100%
EBIT	33	(62)	(95)	< -100%
Net result	17	(28)	(45)	< -100%
CAPEX	147	64	(83)	-56%

Figure 20: EBITDA Bridge of the Generation Segment (PLN m)



The table below presents a breakdown of EBITDA of the Generation Segment by business lines. This table includes unit data plus the management cost charge for managing the Generation Segment, elimination of transaction concluded between individual business lines and consolidation adjustments.

The data presented may be different than the presented historical data, because the methodology for allocating Segment results to individual business lines changed slightly.

Table 21: EBITDA of the Generation Segment, by business line

EBITDA (PLN m)	2013	2014	2015	2016	Change 2016/2015	Change 2016/2015 (%)
Hydro	374	283	155	93	(61)	-40%
Wind	41	79	73	26	(47)	-64%
Ostrołęka Power Plant	(53)	339	149	152	4	3%
Other and adjustments	19	32	15	43	28	> 100%
Total Generation	**381**	**732**	**392**	**315**	**(77)**	**-20%**

EBITDA (PLN m)	Q4 2015	Q4 2016	Change	Change (%)
Hydro	23	26	3	15%
Wind	27	15	(12)	-45%
Ostrołęka Power Plant	33	71	38	> 100%
Other and adjustments	4	8	4	> 100%
Total Generation	**86**	**120**	**34**	**39%**

In 2016, the Generation Segment's contribution to total EBITDA of the ENERGA Group was 16% (18% in the corresponding period of the year before). The drop in EBITDA was PLN 77 m and was caused primarily by the lower revenues on sales of electricity and property rights, which were offset by lower fuel consumption expenses.

The decrease in revenues on sales of electricity was caused by two major factors: First of all, electricity sale prices in the Ostrołęka Power Plant and Hydro business lines fell. Second, there was a yoy decrease in energy production in the Ostrołęka Power Plant (by 9%) due to lower must-run production for PSE. This impact was additionally enhanced by the decrease in production from wind farms (by 11%) due to worse wind conditions. These decreases in revenues were partially offset by the higher production from hydro power sources (by 16%).

Lower revenues on sales of property rights are associated, on the one hand, with the entry into force of the new RES Act as of 1 January 2016, which suspended support for hydro power plants with the capacity exceeding 5 MW (which resulted in the loss of green certificates for electricity production in the run-of-river power plant in Włocławek) and reduced support for large biomass co-fired sources (Ostrołęka Power Plant). On the other hand, the market price of property rights fell (the weighted average OZEX_A index in 2015 was 124 PLN/MWh, compared to 74 PLN/MWh in the corresponding period of 2016). The third negative factor was a delay in the sale of inventories of green property rights by the Segment, which due to the falling prices pushed EBITDA further down.

The costs of consumption of key fuels (including transportation) in the Generation Segment in 2016 fell by PLN 151 m, or 34% yoy. The significant reduction of the Group's fuel consumption expenses was caused by: change of the fuel mix (following from the RES Act coming into force and the current market prices of green property rights), lower unit fuel purchase cost by the Segment and lower electricity production in the Ostrołęka power plant.

In addition to the above factors contributing to the yoy pre-tax results of the Generation Segment, one should emphasize the recognition, in 2016, of impairment losses on non-financial non-current assets in the Segment with the total value of PLN 573 m following from:

- change of the price paths in Q1 2016 and the related losses regarding operating and planned wind assets (PLN -305 m), including a goodwill loss resulting from the purchase of the wind farm portfolio in 2013 with the value of PLN 117 m;
- entry into force of the act on wind farm investment projects in Q2 2016 (PLN -247 m);
- reversal of the loss recognized in 2012 for the Ostrołęka C power plant construction project, in connection with the decision on execution of the project made in Q3 2016 (PLN +117 m);
- from the new business model of the power plant adopted in the Group's strategy and from the change of the price paths in Q4 2016 and the related loss on the Ostrołęka power plant assets (PLN -132 m).

From the perspective of Q4 2016, one should note the increased revenues on sales of electricity caused by higher production in the Ostrołęka Power Plant (due to higher must-run production; no general overhaul of the unit) and in the hydro power plants (better hydrological conditions). In addition, there was a decrease in revenues on the sale of property rights as a result of entry into force of the RES Act and decrease in market prices of the green property rights. At the same time the costs of consumption of key fuels dropped due to the aforementioned change of the fuel mix and lower unit fuel purchase cost. Other factors improving the result of the Segment in Q4 yoy include, inter alia, PLN 7 m increase of revenues on the sale and distribution of heat (higher demand on local markets) and PLN 9 m increase of revenues from the Operating Reserve in connection with availability of a higher number of units in Ostrołęka (in 2015 one of the units was undergoing a general overhaul throughout the entire Q4).

Hydro

Table 22: Results of the Hydro business line

PLN m	2013	2014	2015	2016	Change 2016/2015	Change 2016/2015 (%)
Revenue	480	374	247	180	(68)	-27%
EBITDA	**374**	**283**	**155**	**93**	**(61)**	**-40%**
EBIT	348	255	124	61	(63)	-51%
CAPEX	40	32	15	12	(3)	-21%

PLN m	Q4 2015	Q4 2016	Change	Change (%)
Revenue	49	53	4	8%
EBITDA	**23**	**26**	**3**	**15%**
EBIT	15	18	3	23%
CAPEX	3	8	4	> 100%

Wind

Table 23: Results of the Wind business line

PLN m	2013	2014	2015	2016	Change 2016/2015	Change 2016/2015 (%)
Revenue	58	120	112	69	(43)	-39%
EBITDA	**41**	**79**	**73**	**26**	**(47)**	**-64%**
EBIT	22	39	29	(279)	(308)	< -100%
CAPEX	1,033	4	9	1	(9)	-91%

PLN m	Q4 2015	Q4 2016	Change	Change (%)
Revenue	35	28	(7)	-20%
EBITDA	**27**	**15**	**(12)**	**-45%**
EBIT	15	3	(12)	-80%
CAPEX	-	1	1	-

Ostrołęka Power Plant

Table 24: Results of the Ostrołęka Power Plant business line

PLN m	2013	2014	2015	2016	Change 2016/2015	Change 2016/2015 (%)
Revenues	862	1,159	844	715	(130)	-15%
EBITDA	**(53)**	**339**	**149**	**152**	**4**	**3%**
EBIT	(254)	289	88	(56)	(144)	< -100%
CAPEX	123	42	175	182	7	4%

PLN m	Q4 2015	Q4 2016	Change	Change (%)
Revenues	190	215	25	13%
EBITDA	**33**	**71**	**38**	**> 100%**
EBIT	11	(86)	(97)	< -100%
CAPEX	62	38	(24)	-39%

Other and adjustments

Table 25: Results of the business line Other and adjustments

PLN m	2013	2014	2015	2016	Change 2016/2015	Change 2016/2015 (%)
Revenues	152	171	180	177	(4)	-2%
EBITDA	**19**	**32**	**15**	**43**	**28**	**> 100%**
EBIT	7	(27)	(35)	(168)	(133)	< -100%
CAPEX	138	193	193	54	(139)	-72%

PLN m	Q4 2015	Q4 2016	Change	Change (%)
Revenues	59	57	(2)	-3%
EBITDA	**4**	**8**	**4**	**> 100%**
EBIT	(8)	2	10	> 100%
CAPEX	82	18	(64)	-78%

Sales Segment

Figure 21: Results of the ENERGA Group's Sales Segment (PLN m)

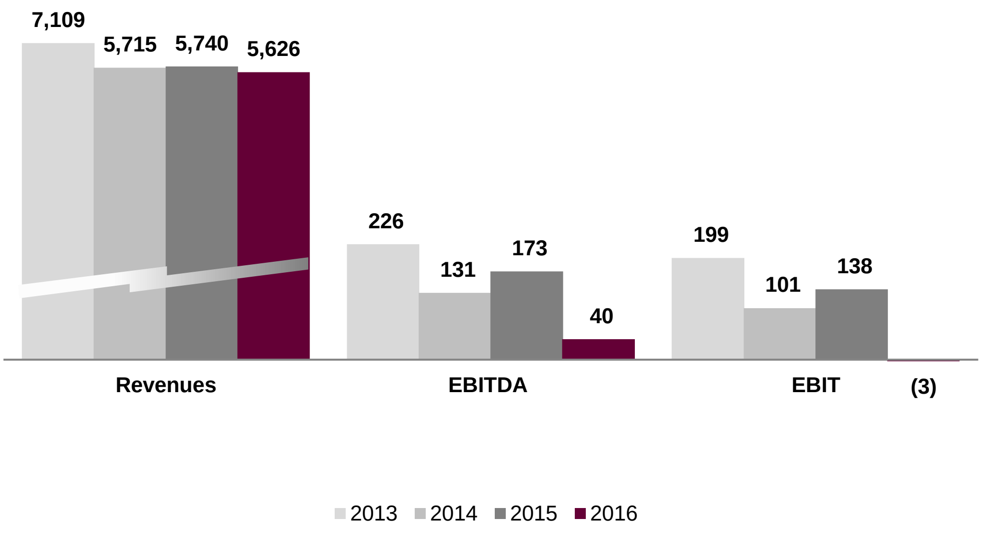


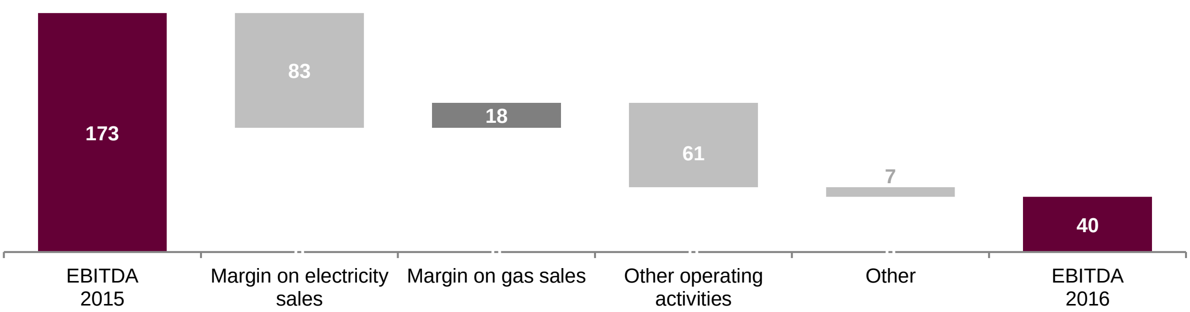
Table 26: Results of the ENERGA Group's Sales Segment

PLN m	2013	2014	2015	2016	Change 2016/2015	Change 2016/2015 (%)
Revenues	7,109	5,715	5,740	5,626	(114)	-2%
EBITDA	**226**	**131**	**173**	**40**	**(133)**	**-77%**

amortization and depreciation	27	30	34	39	5	15%
impairment losses on non-financial non-current assets	-	-	1	4	3	> 100%
EBIT	199	101	138	(3)	(141)	< -100%
Net result	186	108	119	(2)	(121)	< -100%
CAPEX	43	38	58	92	34	59%

PLN m	Q4 2015	Q4 2016	Change	Change (%)
Revenues	1,543	1,608	65	4%
EBITDA	**57**	**(23)**	**(80)**	**< -100%**
amortization and depreciation	9	12	3	33%
impairment losses on non-financial non-current assets	1	4	3	> 100%
EBIT	47	(39)	(86)	< -100%
Net result	35	(30)	(65)	< -100%
CAPEX	19	16	(3)	-16%

Figure 22: EBITDA Bridge of the Sales Segment (PLN m)



In 2016, the Sales Segment earned EBITDA of PLN 40 m, i.e. 2% of the ENERGA Group's total EBITDA, compared to PLN 173 m in 2015, when the Segment's contribution to the Group's EBITDA was 8%.

The Sales Segment's revenues in 2016 stood at PLN 5,626 m, i.e. decreased by PLN 114 m (by 2%) compared to 2015. This was driven mainly by a 4% decrease in the Segment's total electricity sales volume. Revenue on retail electricity sales increased by 12% compared with the previous year thanks to a 17% hike in volume, partially offset by a 5% decline in average sales price. On the other hand, revenue on wholesale electricity sales fell by as much as 44% in 2016 due to sales volume plummeting by 44% and the average sales price level similar to that of the previous year. It was exactly the lower volume of trade on the wholesale market that drove down the Segment's sales revenues on a yoy basis despite almost 2.5 times higher revenues on gas sales.

The margin on electricity sales, which is the key component generating the Segment's results, fell by PLN 83 m yoy. This was the effect of a lower unit margin: average electricity sales prices to end users fell faster (-5% yoy) than the average unit variable cost, composed of the purchase cost of electricity, property rights and excise tax (-2% yoy) and the less advantageous structure of sales according to tariff groups. Below are presented the determinants of the margin on the sale of electricity:

a) Volume of retail sales – a 17% increase in volume contributed to the margin growth yoy.
b) Structure of the sales volume by tariff groups (mix) – the change of the product mix adversely affected the margin, as it increased the percentage of clients from tariff groups with a lower unit margin.
c) Price for end users – the prices follow the changes in variable cost and are determined by market competition. One additional element that increased the negative growth rate yoy of the average sales price was the fact that the cost of white certificates was not taken into account in the 2016 sales contracting process, because the obligation to redeem them in 2016 was unexpectedly extended at the end of December 2015.
d) Cost of electricity purchase – the decrease in the average cost yoy (which fell more slowly than sales prices) is a result of the lower costs connected with the “obligated offtaker” (previously: “offtaker of last resort”) function performed by ENERGA-OBRÓT SA and lower balancing costs. This among others is an effect of the lower volume of electricity purchased as the “obligated offtaker” from wind generation. The purchase cost was significantly impacted by the situation on the spot and balancing markets in June 2016, when as a result of a high load in the electrical power system, electricity prices remained high. This also affected the high level of product prices with delivery in later periods of 2016.
e) Cost of redemption of property rights – the average unit cost in 2016 was slightly higher than in 2015 despite a significant drop (by 40%) in the prices of green certificates. This was caused predominantly by long-term contracts for the purchase of green certificates entered into many years earlier, under which the purchases are effected at prices based on a fixed substitution fee rather than on market prices. The increase in the cost of property rights was also driven by the introduction, on 1 July 2016, of a new obligation applicable to producers of electricity from biogas (blue certificates) and an increase in the obligation for yellow certificates from 4.9% to 6.0% (support for gas-fired cogeneration).

The net other operations had a negative impact on the Segment’s EBITDA (PLN -61 m) in 2016. This was caused by an adverse effect of non-recurring non-cash events – recognition of provisions in December 2016 in connection with the pending administrative and court proceedings totaling PLN 43 m. Moreover, in 2015 the Segment received non-recurring non-operational revenues (among others, from penalties and compensations), which did not occur in 2016.

A favorable impact on the Segment’s EBITDA in yoy terms was exerted by the activity associated with gas trading. The rapid growth of this business line in terms of volumes and margins was noticeable. In 2016, the margin on gas sales generated by the Segment was PLN 18 m higher than in 2015. This resulted from a 2.5 times increase in sales volume and higher unit margins.

The PLN 34 m yoy increase in capital expenditures in 2016 was driven by higher expenditures in a project associated with the sales service system in the ENERGA Group.

The best EBITDA in the whole year was reported in Q4 2016. It stood at PLN -23 m. This was caused by events of a non-recurring nature (recognition of provisions in December 2016 totaling PLN 43 m), as described above. Adjusted for the effects of these events, the Segment’s EBITDA in Q4 2016 would stand at PLN 20 m, which means that it would not deviate significantly from Q1 or Q3 2016 (Q2 2016 was distorted due to the power sector “crisis” in June). Compared to Q4 2015, the level of EBITDA is significantly lower (by PLN 80 m), which was caused, apart from the said non-recurring events, by the drop in electricity sales margins.

3.7. Projected financial results

The Management Board of ENERGA SA has not published projections of company or consolidated financial results for the financial year 2016.

3.8. Ratings

On 28 November 2016, Fitch Ratings affirmed the Company's long-term ratings at the previous level of BBB: the Company's long-term rating in local and foreign currencies and the rating for the Company's junior unsecured debt in the local and foreign currencies. The rating outlook remained stable (Current Report No. 43/2016).

On 9 February 2017, the Moody's Investors Service rating agency affirmed the Company's ratings at Baa1: the Company's long-term rating in domestic currency and rating for junior unsecured debt in domestic currency extended to the EMTN Program of the subsidiary ENERGA Finance AB (publ) with a total value of EUR 1 bn guaranteed by ENERGA. The rating outlook remained stable (Current Report No. 11/2017).

Table 27: Ratings awarded to ENERGA

	Moody's	Fitch
Company's long-term rating	Baa1	BBB
Rating outlook	Stable	Stable
Rating date	23 December 2011	19 January 2012
Last change of rating	-	12 October 2012
Last confirmation of rating	9 February 2017	28 November 2016

3.9. Dividend

On 24 June 2016, the Annual General Meeting adopted a resolution to distribute the 2015 profit, out of which PLN 203 m, i.e. PLN 0.49 per share, was allocated to a dividend for the Company's shareholders. The total declared dividend was paid out.

3.10. Information about the audit firm auditing the financial statements

The entity authorized to audit the Financial Statements of ENERGA SA and the ENERGA Group is PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością ("PwC").

The agreement between ENERGA SA and PwC was entered into on 18 July 2016 and pertained to an audit of the Company's financial statements and the consolidated financial statements for 2016 and to a review of the financial statements for H1 2016.

Table 28: Auditor's fee for services provided to the Group (PLN 000s)

PLN 000s	Year ended 31 December 2015	Year ended 31 December 2016
Audit of the annual financial statements	377	377
Other assurance services, including a review of financial statements	156	152
Tax consulting services	-	55
Other services	225	135
Total	**758**	**719**

Environment

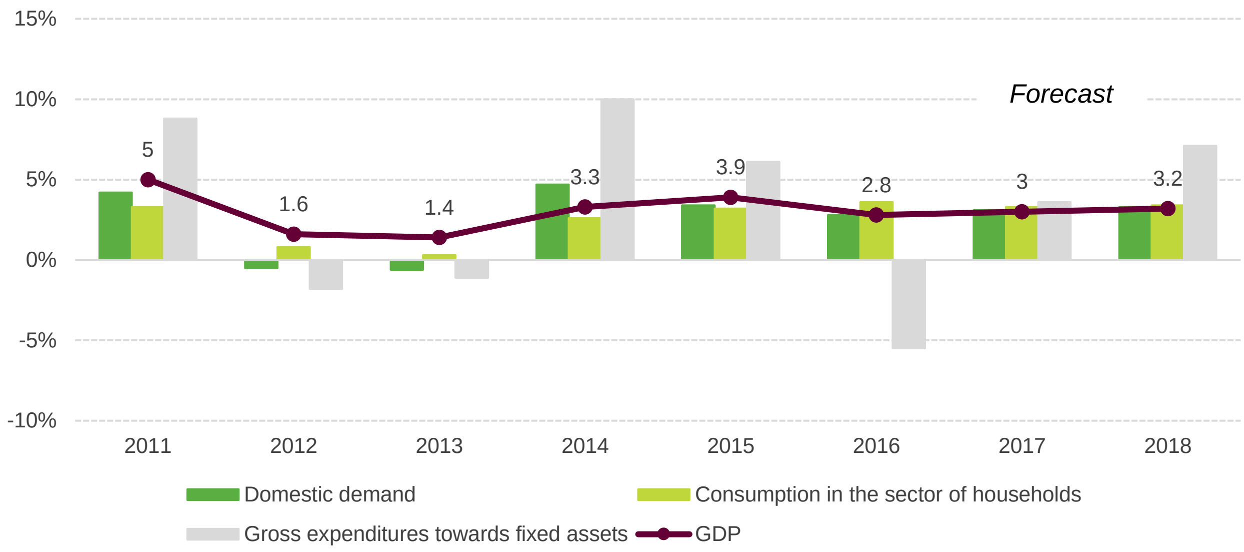
4. ENVIRONMENT

4.1. Macroeconomic situation

The domestic market is the main operating market of ENERGA Group companies and therefore variations in business conditions measured by GDP change rates, inflation or unemployment rates translate to electricity, heat and gas prices and shape demand for products supplied to customers.

In 2016, the national economy grew at the slowest rate in the last three years. According to the preliminary estimate of the Central Statistical Office (GUS), the gross domestic product (GDP) in 2016 grew in real terms by 2.8% per annum. Domestic demand was the main driver of this growth, while investments in fixed assets were an inhibiting factor.

Figure 23: Dynamics of GDP, domestic demand, consumption in the households sector and gross expenditure on fixed assets (YoY)



Source: Own material on the basis of GUS data and IbnGR forecast (February 2017)

Domestic demand in 2016 grew at a rate of 2.8%. The increase in domestic consumption was largely driven by an increase in total consumption, which in 2016 strengthened by 3.6%. The same growth rate of consumption in the households sector was also recorded. Supporting factors included an increase in employment and employee compensations and the disbursement of children's allowances. Among the factors unfavorably affecting economic growth last year were gross expenditures on fixed assets (capital expenditures) which decreased by 5.5%. According to analysts from the Institute for Market Economics (IBnGR), this was due to, among other factors, a smaller inflow of EU funds for infrastructural projects, the suspension of capital expenditure projects by local governments in connection with the electoral cycle and the uncertainty among business operators due to the country's political situation.

As regards foreign trade, in 2016 the growth rate of exports was higher than that of imports: 9% and 8.9% yoy, respectively, which means an improvement in Poland's balance of foreign trade.

Poland's economic growth is confirmed by PMI which is a measure of activity in the Polish industrial sector. In December 2016, this indicator stood at 54.3 points, which was the best result since July 2015. December data demonstrated an increase in production, employment and new orders. For the whole year, the average PMI was at 51.9 points, which was below the previous year's average (52 points in 2014 and 53.2 points in 2015).

In 2016, deflation continued, although it was much shallower than the year before. The average annual decrease in the prices of consumer goods and services was 0.6%, but in December prices were higher than a year earlier for the first time in more than two years. According to preliminary data from the Central Statistical Office (GUS), a decrease in prices was also recorded in sold industrial output where it stood at 0.2% (compared to 2.2% in 2015). Lower prices yoy were recorded in the following sections, among others: electricity, gas, steam and hot water (by 2.3%) and mining and quarrying (by 1.4%).

The basic interest rates of the National Bank of Poland remained unchanged last year: the lombard rate was 2.5%, the rediscount rate was 1.75%, the reference rate was 1.5% and the deposit rate was 0.5%. According to the January communication, the Monetary Policy Council (RPP) takes notice of the rising inflation rate but considers it to be driven mainly by higher prices of energy commodities on global markets. This factor remains outside the direct impact of domestic monetary policy, therefore, in light of available data and forecasts, the Monetary Policy Council is of the opinion that the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and allows it to maintain a macroeconomic balance.

The situation on the domestic labor market was very good last year, providing a boost to consumption. As at the end of 2016, the registered unemployment rate was 8.3% and was the lowest in the last 27 years. The average employment in the enterprise sector also increased by 2.8% yoy, although employment in the electricity, gas, steam and hot water sectors declined by 3.9% compared to the same period of the previous year. The average monthly gross salary in the enterprise sector in 2016 was PLN 4,277.03 and was 3.8% higher than a year earlier.

According to the forecast published by the Institute for Market Economics, GDP growth in 2017 will reach 3% and its quarterly structure will not be very diversified. According to Bank Millennium analysts, certain risk factors are identified which may slow down the economic recovery. Among the internal factors at play, of key importance is the issue of recovery in capital expenditure projects and the legal and institutional uncertainty in the country. Among the external factors, the key issues will be the pace and scale of rate increases by the U.S. Federal Reserve and the implementation of U.S. President Donald Trump's economic program. In 2018, domestic economic growth is expected to accelerate further somewhat to a rate of 3.2% yoy.

As regards the economic forecasts for the world, according to data published by the International Monetary Fund, the global economy will grow at a rate of 3.4% in 2017 and 3.6% in 2018. The IMF estimates that the medium-term balance of risks for the global economy remains negative. Risk factors include an increase in restrictions on global trade and migration, which may adversely affect productivity and income, as well as rising geopolitical tensions and a more severe economic downturn in China.

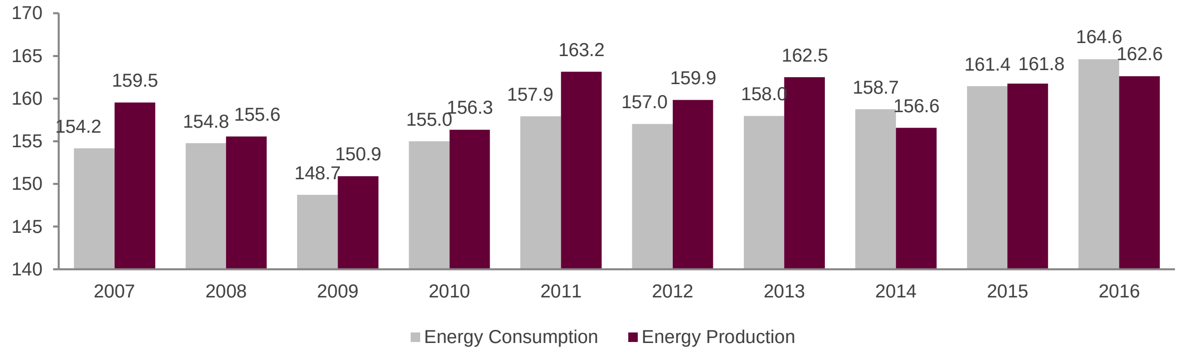
4.2. Electricity market in Poland

The situation in the market environment is vitally important for the Group's financial performance. With this respect, one should mention in particular the prices of electricity, property rights, CO_2 emission allowances and hard coal (which is the basic fuel for production). Also, the regulatory mechanisms in operation on the market, such as the operating reserve, had an impact on the Group results, accompanied by weather conditions, especially hydrometeorological and windiness conditions.

Domestic generation and consumption of electricity

As follows from the data published by PSE, the production of electricity in 2016 was close to its previous year's level and increased only slightly (by +0.8 TWh). The growth in production failed to satisfy the growing demand, which increased by 3.2 TWh compared to 2015, reaching a record high of 164.6 TWh for the last 10 years. The growth in demand was offset by higher imports. While in 2015 Poland was an exporter of electricity, in 2016 the situation reversed and Poland became a net exporter at a level of 2.0 TWh.

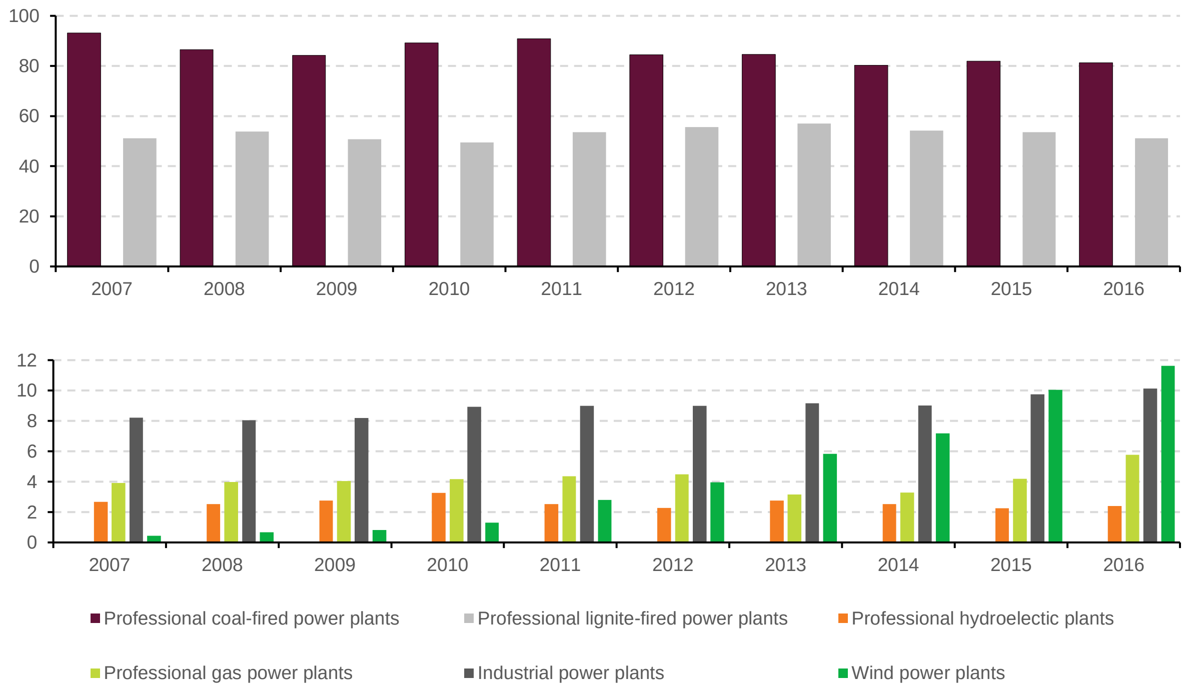
Figure 24: Production and consumption of electricity in Poland in 2007-2016 (TWh)



Source: PSE

2016 was another consecutive year of growth in wind energy generation. The share of wind sources in the production structure was approx. 7.2%, and the generation of electricity by these utilities increased by approx. 16% as compared to 2015. A significant number of wind farms operate in the operating area of ENERGA-OPERATOR SA, which translates into a higher potential risk for the ENERGA Group relating to the fact that the function of the obligated offtaker is performed by ENERGA-OBRÓT SA.

Figure 25: Structure of production of electricity in Poland in 2007-2016 (TWh)



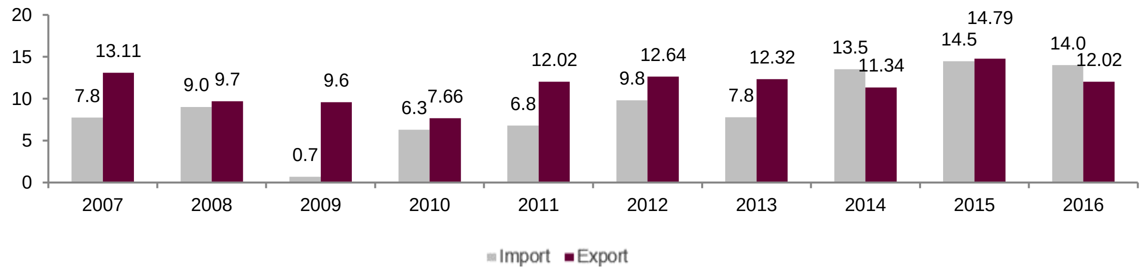
Source: PSE

In the past year, the greatest share in the electricity production structure was held by hard coal-fired public-grid power plants. Their share in total production was 50.1% and the share of lignite-fired commercial power plants was 31.5%. In 2016, an increase in production higher than in wind farms was recorded by gas-fired commercial power plants whose electricity generation increased by 38%, to reach 5.8 TWh.

Poland's inter-system exchange

In 2016, imports declined compared to the previous year by 0.5 TWh. Also exports were lower by 2.8 TWh compared to 2015, which may be explained by the rapidly increasing demand for electricity, which in 2016 reached its record level for the last 10 years at 164.6 TWh. The opening of the new interconnection LitPol Link in December 2015 between Poland and Lithuania and the Nordbalt interconnection between Lithuania and Sweden facilitated the flow of electricity not only between Poland and Lithuania but also increased the volume of electricity exchange with Sweden, treating Lithuania as a transit country.

Figure 26: Annual volumes of inter-system exchange in Poland in 2007-2016 (TWh)

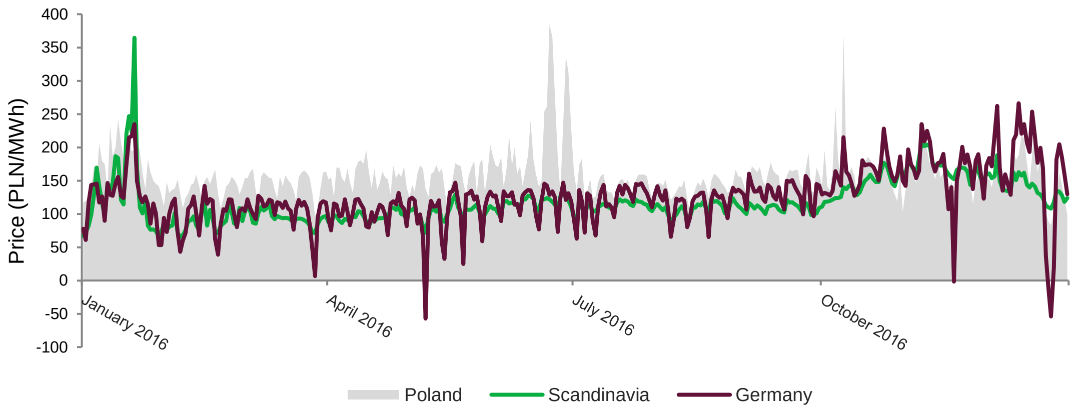


Source: PSE

Energy prices in neighboring countries

In order to compare energy prices in Poland to those in the neighboring countries, spot market prices were used as reference products. The price level in Poland, as compared with previous years, was significantly higher than in the neighboring countries. The lowest spot market prices were recorded in Scandinavia followed by Germany. In particular, in Q4 strong price increases occurred in peak hours on the Polish market and in the neighboring countries. The end of the fourth quarter deserves special attention in this respect due to a decrease in prices and their higher volatility, which was associated with a high production level of electricity from wind farms.

Figure 27: Electricity prices on the spot market in Poland and in neighboring countries in 2016 (PLN/MWh)

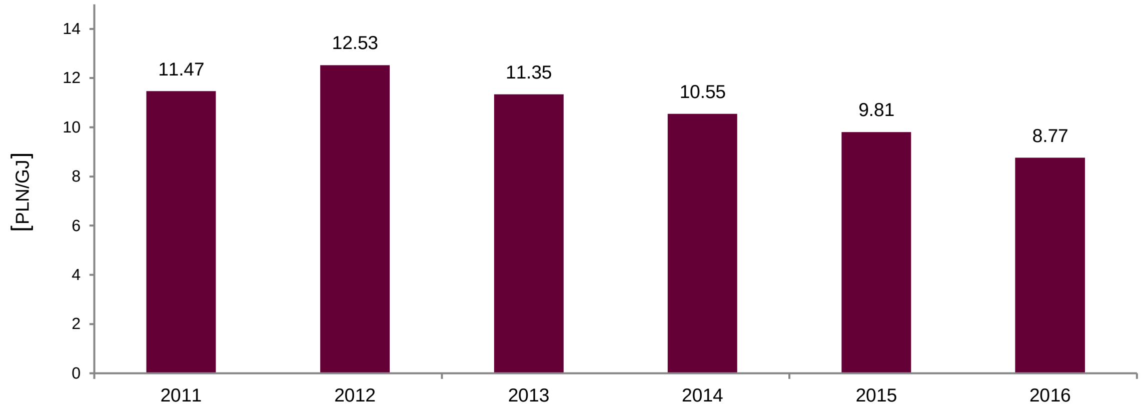


Source: Bloomberg

Prices of hard coal in Poland

In recent years, the prices of hard coal have been systematically decreasing (starting from 2012), due to global factors, i.e. the global reduction of prices of this raw material and its over-supply in Poland. In 2016, the downward trend on the world markets reversed but this phenomenon did not translate into higher sales prices of coal for the commercial and industrial power sector on the Polish market. This had a positive impact on the results of the ENERGA Group.

Figure 28: Prices of hard coal inclusive of costs of transportation to hard coal-fired power plants in 2011-2016 (PLN/GJ).

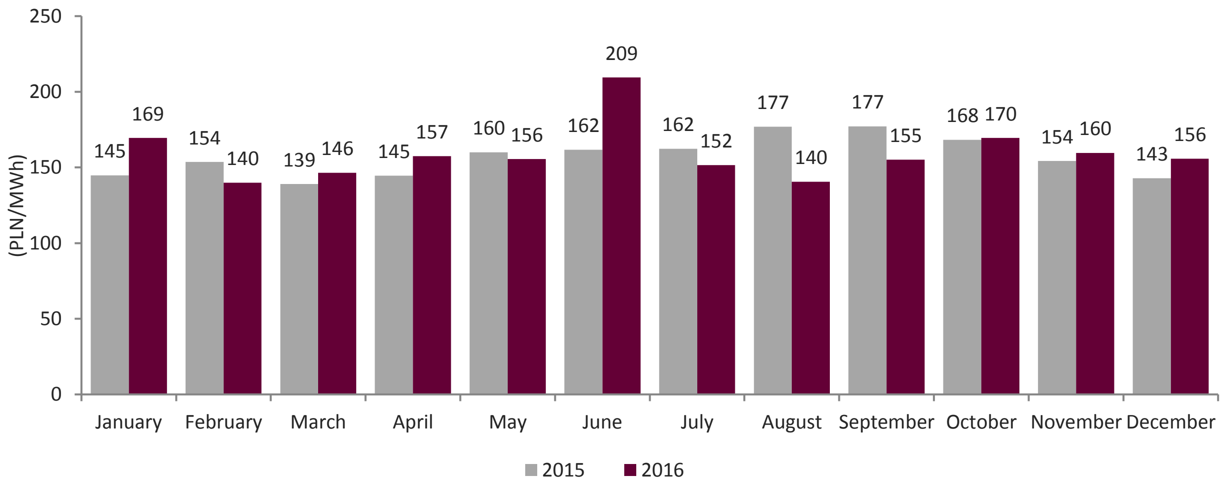


Source: Polski Rynek Węgla

Electricity Day-Ahead Market (DAM) in Poland

The average price of electricity in the DAM in 2016 was higher than the average price in 2015. Undoubtedly, the increase in energy prices in 2016 was driven by the reversal of the downward trend on commodity markets.

Figure 29: Energy prices in the Day-Ahead Market in 2015-2016 (PLN/MWh)



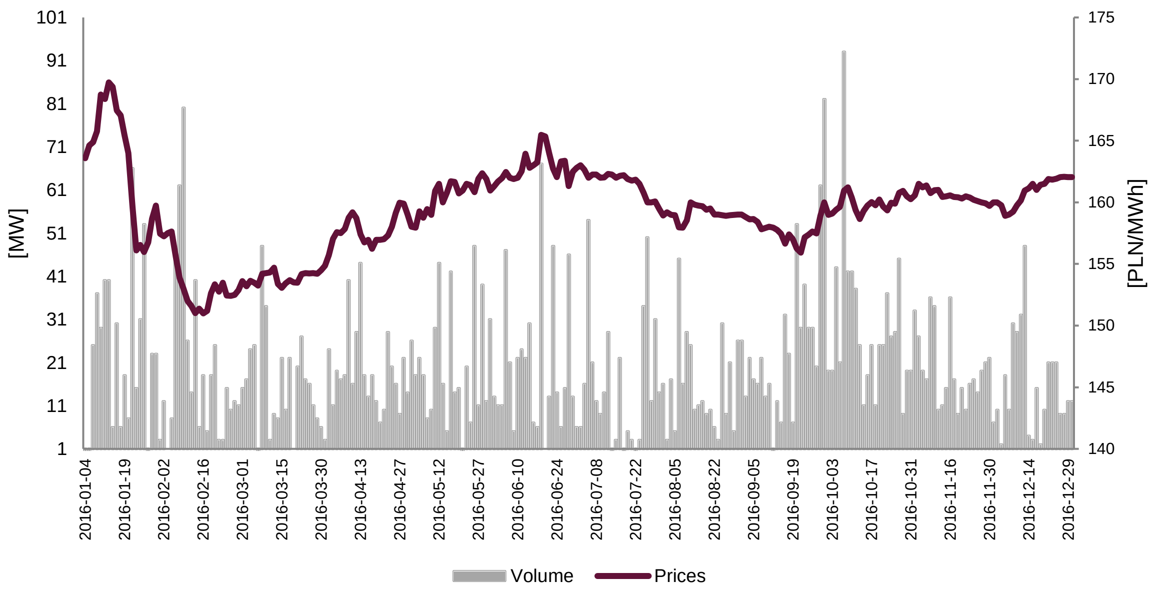
Source: TGE

The highest average monthly price of electricity on the commodities market was recorded in June of last year when the average IRDN index reached 209.43 PLN/MWh. The high level of prices in that month was owed to a periodic capacity shortage in the system caused by increasing demand for energy in a period of very high temperatures. The minimum level of 139.97 PLN/MWh was reached in February 2016.

Electricity forward market in Poland

To assess the forward market in Poland, the annual forward contract for delivery of base energy in the whole 2017 was used as a reference product (BASE 2017). In 2016, the price level was characterized by high volatility, reaching its minimum in February just above 150 PLN/MWh. From that moment, there was a visible rebound attempt on the BASE 2017 market, boosting the prices to above 160 PLN/MWh. The trend on the forward market is particularly important from the perspective of the Group contracting process for the next year.

Figure 30: Forward contract price – base with delivery in 2017



Source: TGE

Emission allowance market

At the beginning of 2016, there was a crash on the market for CO_2 emission allowances, which led to a decline in prices from above 8 EUR/ton to below 4 EUR/ton in the first days of September (3.91 EUR/t, which is the lowest level in 28 months). From mid-September, the market made attempts to increase the prices, ending the DEC 2016 contract price at 5.09 EUR/t. The rebound in prices may be explained by leaks from the works of the European Parliament's Committee on Industry on the 4th phase of the EU ETS system concerning a linear increase of the reduction factor to 2.4% and increased prices of energy market products (oil, coal, gas).

Figure 31: EUA emission allowance prices (DEC 2016) in 2016

Source: Bloomberg

Market for property rights

The table below presents the quarterly prices of property right indices listed on the Polish Power Exchange.

Table 29: Prices of property right indices listed on the Polish Power Exchange

Index (type of certificate)	Index value				% Obligation (%)	Substitution fee (PLN)
	Q1 2016 (PLN/MWh) with 2016 index	Q2 2016 (PLN/MWh) with 2016 index	Q3 2016 (PLN/MWh) with 2016 index	Q4 2016 (PLN/MWh) with 2016 index		
OZEX_A (green)	114.54	91.46	49.12	39.45	15.0 (14.35)**	300,0*
KGMX (yellow)	118.58	119.73	120.60	122.62	6,0*	125,00*
KECX (red)	10.80	10.74	10.63	10.72	23,2*	11,0*

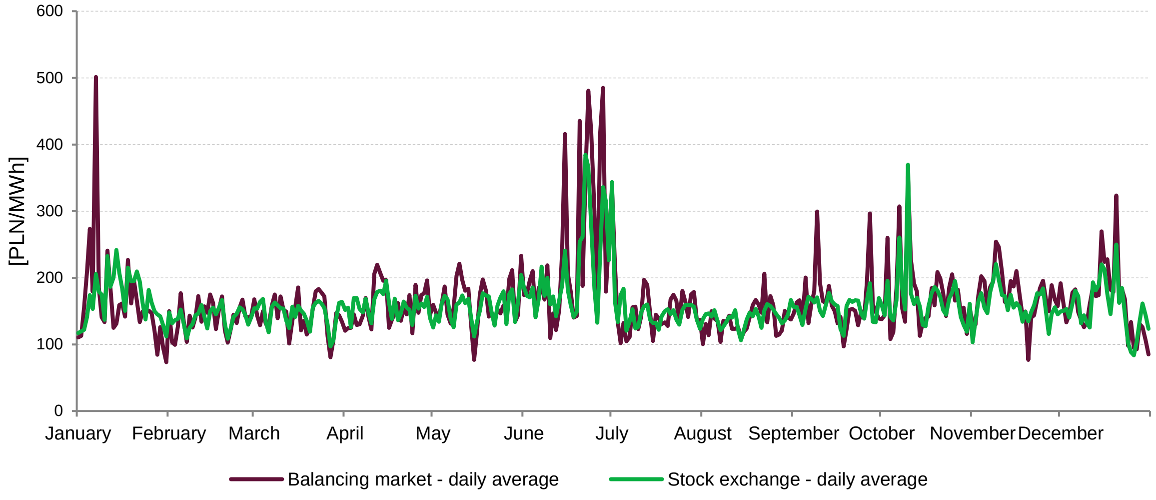
** *redemption obligation in H1 2016 (15%), in H2 broken down into: green 14.35%, blue 0.65%.*
* *value of the substitution fee and redemption obligation in 2016*

From the standpoint of the Group's generation structure (high RES production) the quotations of green property rights were the most important. In 2016 a systematic decrease of prices for this index was observed. This can be attributable to, among other factors, a surplus of certificates in the market. Price decreases slowed down in Q4, stabilizing just below the level of 40.00 PLN/MWh.

Balancing and spot markets

The figure below presents the average daily electricity prices on the balancing market and on the spot market.

Figure 32: Comparison of prices on the balancing market and spot markets (Exchange) in 2016 (PLN/MWh)



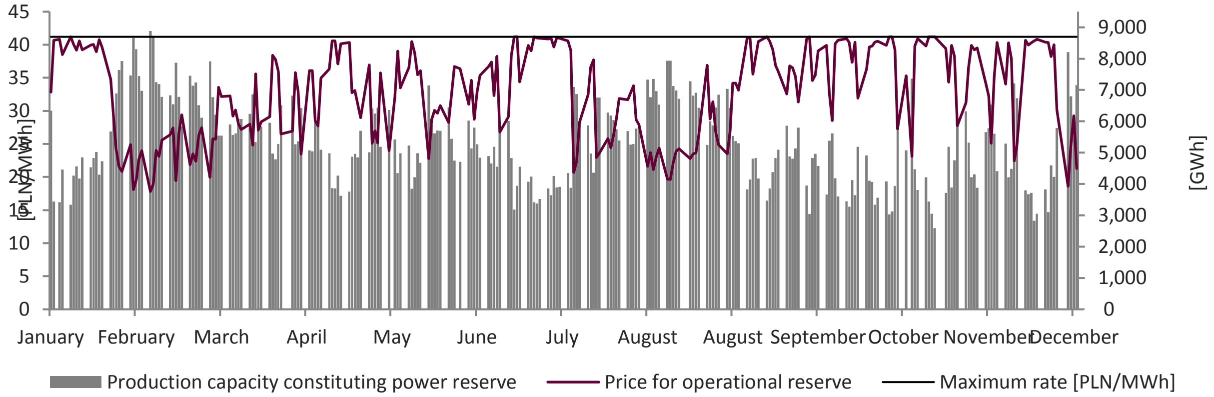
Source: PSE

A quiet first half of 2016 on the balancing market and the stable prices of instruments listed on the spot market were disturbed at the end of June due to problems with NPS balancing. Following the stabilization of prices in Q3, the last three months of the year were marked by higher prices on the balancing and spot markets, mainly due to significant fluctuations in wind generation and stoppages in Western Europe.

Operating reserve

As of the beginning of 2014, the catalogue of system services provided to PSE was expanded to include an operating reserve. The operating reserve is made up by generation units which have free capacity not covered by energy sales contracts.

Figure 33: Prices and generating capacity constituting operating reserve in 2016



Source: PSE

In 2016, the operating reserve service was continued, while its governing rules changed slightly compared to the previous year. The reference price was raised to 41.20 PLN/MWh. Also an additional monthly and annual settlement of the operating reserve, in order to expend the remaining ORM budget in the case that daily settlements do not exhaust it fully.

4.3. Regulatory environment

Regulatory issues pending and completed in 2016

Table 30: List of legal acts affecting the Group

Legal act	Purpose of changes	Opportunities	Threats / Issues
RES act – amendments. Private member's bill to amend the RES Act and Certain Other Acts, Journal of Laws, Item 925	Modification of the new RES support system (auctions)	(1) Reduction of duties of Offtakers of Last Resort / Obligated Offtakers in respect to RES installations as of 1 January 2018 (2) The rules for conducting RES auctions have been defined more precisely (3) The first estimated date of a RES auction has been added to the Act (4) The amendments required for notification of the Act have been added to the Act	(1) only few RES projects at advanced development stages (physically under construction) benefited from the additional 6-month transition period (2) the additional transitional period postponed the practical application of new regulations concerning the obligation to purchase electricity from RES by Offtakers of Last Resort / Obligated Offtakers.
Private member's bill on Wind Farm Investment Projects Journal of Laws Item 961	Systematization of the process of location of wind farms in Poland	(1) costs incurred by Obligated Offtakers have been reduced because of the significant slowdown expected in wind farm investment projects	(1) very high costs arose relating to tax liabilities (local tax on the value of the entire power plant) - a maximum of 2% of the value of the investment project (2) it became impossible to increase an installation's performance parameters and its environmental impact; (3) considerable limitations arose in respect to new investments due to legal restrictions (mainly relating to distance) and administrative restrictions.
Government bill on energy efficiency Journal of Laws Item 831	Implementation of the EED Directive requirements	(1) an opportunity arose to obtain additional funds for the execution of efficiency investments	(1) the extension of the operation of the system of energy efficiency certificates (obligation to redeem) by 1 year will result in potential financial losses for electricity trading companies due to the earlier closing of the

			process of agreeing tariffs with the President of the Energy Regulatory Office
Poland's Electromobility Development Plan and National Framework for Development of the Alternative Fuel Infrastructure	The plan sets out the benefits related to the common use of electric vehicles in Poland and identifies the underlying economic and industrial potential. It emphasizes the improvement in air quality related to development of electromobility, improved energy security, improved stability of the electrical energy grid and development of advanced industry sectors.	Ensure the best possible position of ENERGA on the market and a business advantage in the development of electromobility in Poland	Competition with entities that have well-developed technological and capital resources.

Regulatory issues in progress in 2016 and continuing in 2017

Table 31: List of legal acts affecting the Group

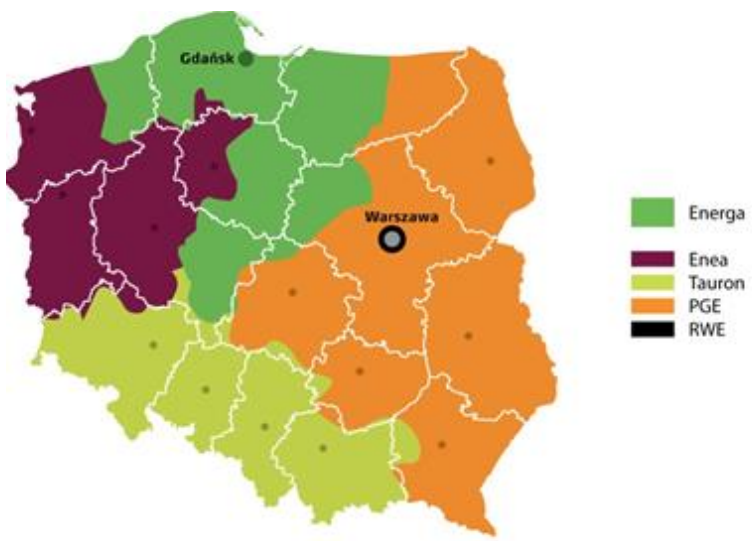
Legal act	Purpose of changes	Opportunities	Threats / Issues
Government Water Law bill RCL No. UC1	Implementation of the requirements of the Water Framework Directive in respect to the principles of water management	(1) strive to (i) keep the current exemptions from new energy installation charges, or (ii) their significant reduction based on fair pricing arrangements during consultations and meetings; (iii) lack of fees or the rates should be statutory rather than based on a governmental regulation. (2) rationalization and stimulation of investments in the area of water management in Poland (3) implementation of the Framework Water Directive to the Polish legal system	(1) elimination of exemptions from fees for business use of water for energy production purposes; (2) unknown level of new fees for business use of water for energy production purposes; uncertainty as to the date of the act coming into force
Government bill on the capacity market RCL No. UD178	Ensures support for the implementation of investment projects that ensure greater stability and security of the National Power System. Ensures the possibility y of executing, on the market terms, the new Ostrołęka C power plant	(1) Ensures long-term energy security of Poland (2) Effect of incentives to build new and modernize existing generation installations. (3) Modernization and construction of new electricity sources to stabilize the National Power System and utilize Polish resources of energy fuels.	(1) Prolonged legislative process implies risk for the implementation of ENERGA Group's capital expenditure plans (2) The bill must be notified to the EC in connection with the plans to introduce a more restrictive climate and energy policy in the EU (among others through the planned Winter Package regulations)
Clean Energy for All Europeans legislative proposals , so-called Winter Package.	Maintenance of EU's competitiveness in the period of transformation of energy markets towards clean energy, the so-called Winter Package Plans to	(1) Implementation of consistent regulations to improve EU's energy security (2) Establishment of a Modernization Fund will enable financing of renewable energy	(1) As of 1 January 2025, reduction of support of capacity market mechanisms for any installations

COM/2016/0860 final	reduce coal subsidies and to increase the energy efficiency target to 30% and reduce CO_2 emissions by 40% before 2030. The new regulations require approval by the EU Council and the European Parliament. The Winter Package also contains solutions that support the development of decentralized electricity production and its storage to develop "civic energy". The key change for the energy markets in the EU is the abolishment of the "priority dispatch", i.e. priority of access to the grid for RES before conventional sources. The amendment will come into effect after 2020.	production projects (such as the Lower Vistula Cascade)	that emit 550 g CO_2/kWh and more (2) Necessity to adapt the RES/CHP and energy efficiency support system to the new EU regulations (3) Impact of the changes planned on the notification processes of the RES Act and the Capacity Market Act
Act dedicated to electromobility	Creation of the legal framework for the implementation of the government electromobility and alternative fuel infrastructure development programs	Opportunity for dynamic growth of the electromobility business (cars, municipal transport, access infrastructure) in which the ENERGA Group has considerable experience	(1) Competition with entities that have well-developed technological and capital resources. (2) The pace of implementation of the legal changes is slow.

4.4. ENERGA vs. the industry

The ENERGA Group is one of the four major vertically integrated energy groups operating in Poland. Companies are separated geographically, in terms of the areas on which they conduct their electricity distribution activities. ENERGA's distribution area covers northern and central Poland.

Figure 34: Distribution area of the main power-generating companies



In the Distribution Segment, the ENERGA Group ranks third, after the PGE and Tauron Groups, in terms of such indicators as the line length and the regulatory value of the distribution assets. ENERGA is the leader in reliability of power supply with the shortest SAIDI and SAIFI among all utility groups. Due to historical conditions, the range of distribution services translates into the number of customers in the Sales Segment. In this respect ENERGA also ranks third.

Compared with other companies, it has a small share in conventional energy generation. The Group has one system heat-generating unit with a maximum capacity of 677 MW (Elektrownia Ostrołęka B) This is significantly less than in the case of the remaining companies, among which PGE has the highest maximum capacity.

A different situation occurs in the renewable energy area, which has been developed dynamically in the Group over the recent years. From the point of view of generating energy from water and wind resources, ENERGA ranks second after PGE.

In the Sales Segment, ENERGA ranks third in terms of sales volume to end-users. Similarly to the Distribution Segment, PGE and Tauron rank first in this area. ENEA was in fourth place after Q3 2016, but it should be noted that its volume of sales is similar to that of ENERGA. In terms of profitability of the Sales Segment, ENERGA was behind ENEA after Q3 2016, taking the last place among companies with a majority State Treasury shareholding. This was driven, among others, by the disproportionately high impact of the function of the obligated offtaker for RES sources on the result.

Figure 35: Comparison of the electricity distribution volumes in Q1-Q3 2016 (TWh)*

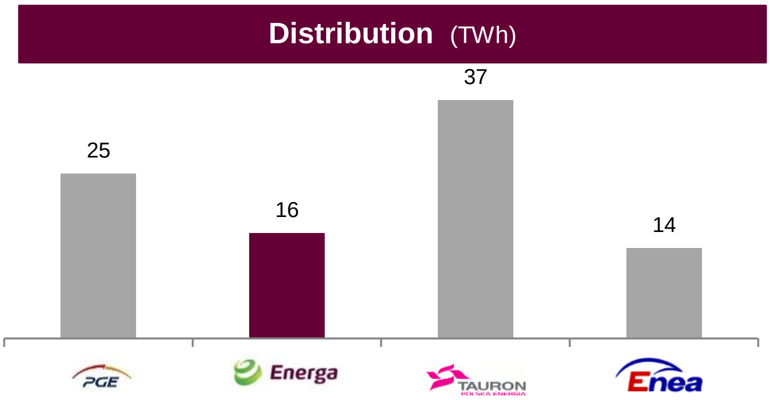


Figure 36: SAIDI and SAIFI comparison with the 2015 figures*

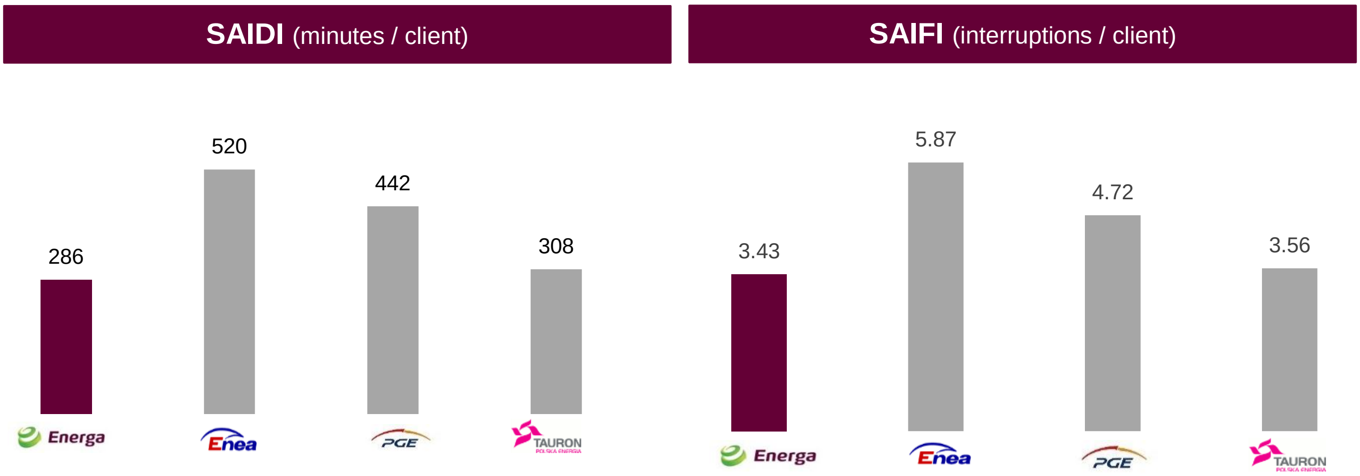


Figure 37: Power line length per employee and EBITDA per line length based on the 2015 figures

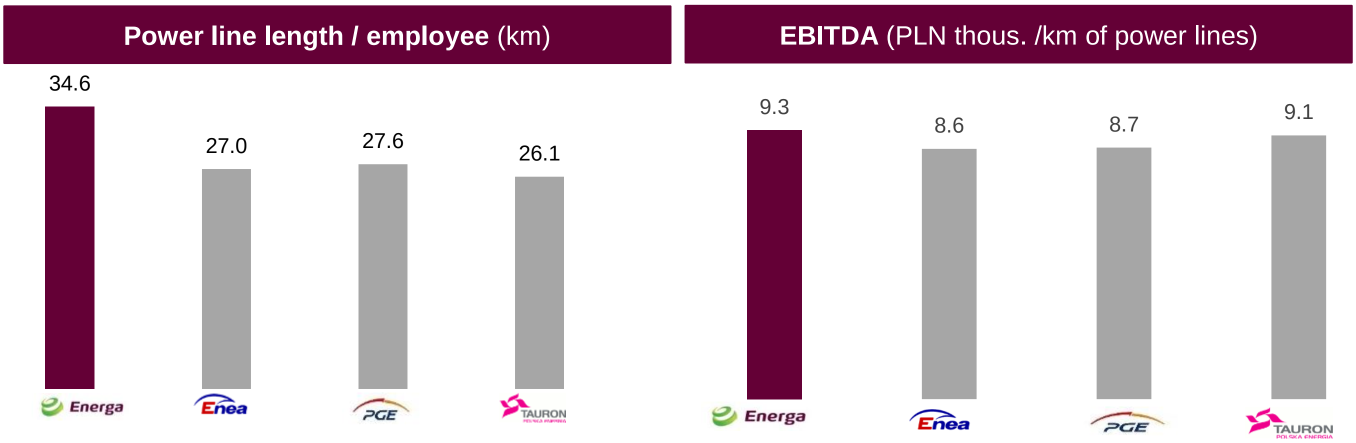
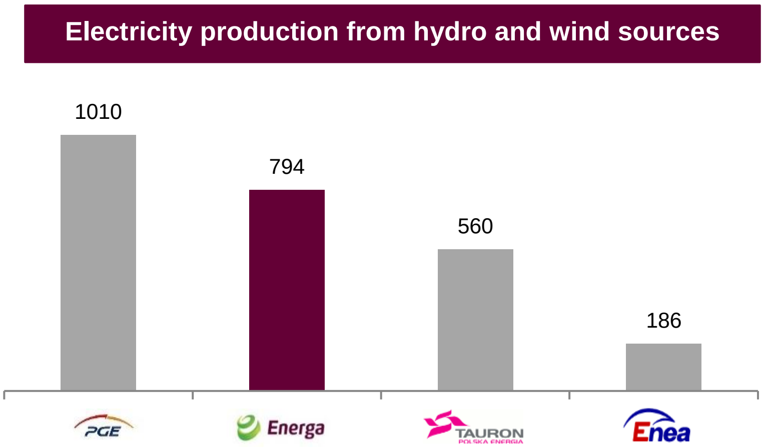
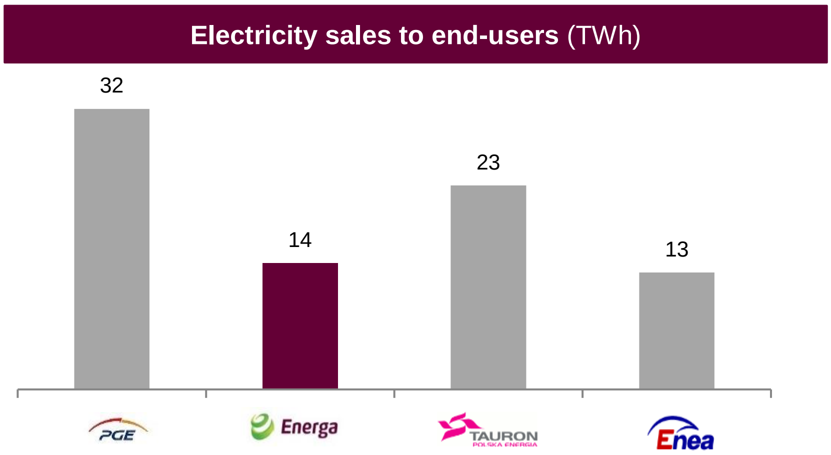


Figure 38: Comparison of the electricity distribution volumes from hydro and wind sources in Q1-Q3 2016 (GWh)*



**As at the date of the report, no comparable data for 2016 are publicly available.*

Figure 39: Comparison of the electricity sales volumes to end-users in Q1-Q3 2016 (TWh)[1]*



**As at the date of the report, no comparable data for 2016 are publicly available.*

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[1] ENEA figures include natural gas sales to end-users

Shares and shareholding structure

5. SHARES AND SHAREHOLDING STRUCTURE

5.1. ENERGA's shareholding structure

Table 32: Issuer's shares by series and types

Series	Type of shares	Shares	(%)	Votes	(%)
AA	ordinary bearer shares	269,139,114	65.00	269,139,114	48.15
BB	registered preferred shares*	144,928,000	35.00	289,856,000	51.85
TOTAL		414,067,114	100.00	558,995,114	100.00

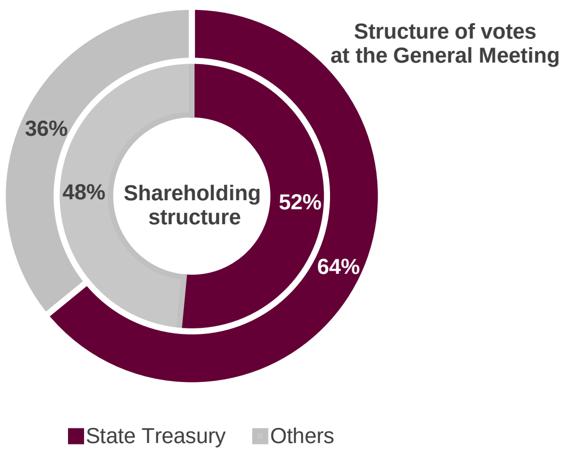
** One preferred share entitles its holder to 2 votes at the General Meeting. These shares are owned by the State Treasury.*

Table 33: Shareholding structure of ENERGA as at 14 November 2016, 31 December 2016 and the date of preparing these financial statements

Shareholder's name	Company's shareholding structure			
	Shares	(%)	Votes	(%)
State Treasury*	213,326,317	51.52	358,254,317	64.09
others	200,740,797	48.48	200,740,797	35.91
TOTAL	414,067,114	100.00	558,995,114	100.00

** The State Treasury holds 144,928,000 series BB registered shares preferred in terms of voting at the General Meeting in such a way that one share entitles the holder to 2 votes at the General Meeting.*

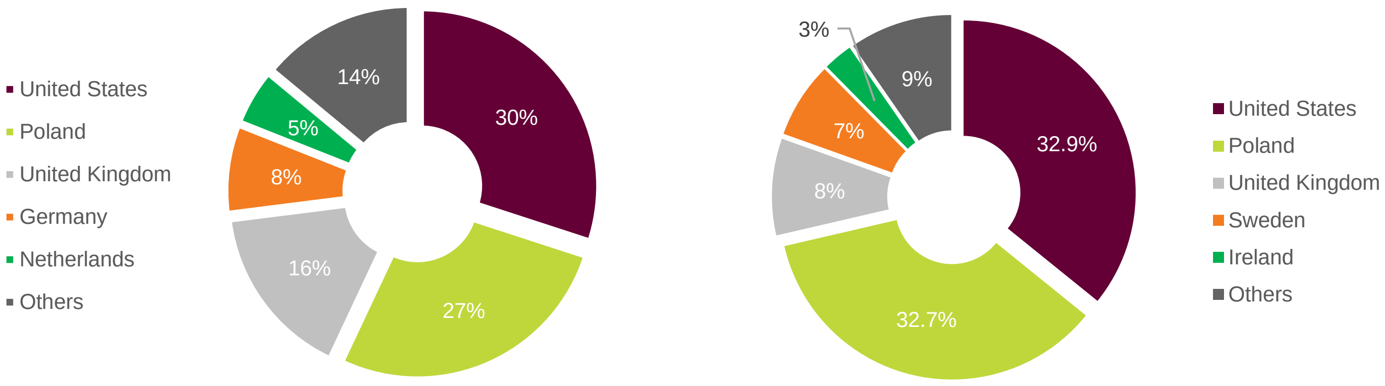
Figure 40: Shareholding structure of ENERGA and structure of votes at the Shareholder Meeting as at 14 November 2016, 31 December 2016 and the date of preparing these financial statements



The State Treasury is the Company's majority shareholder. As at the end of 2016, Open-End Pension Funds (OFEs) held 36,161 thousand shares, which represented a 8.7% stake in the Company. In relation to the last day of December of the year before, OFE's share increased by 1.2%.

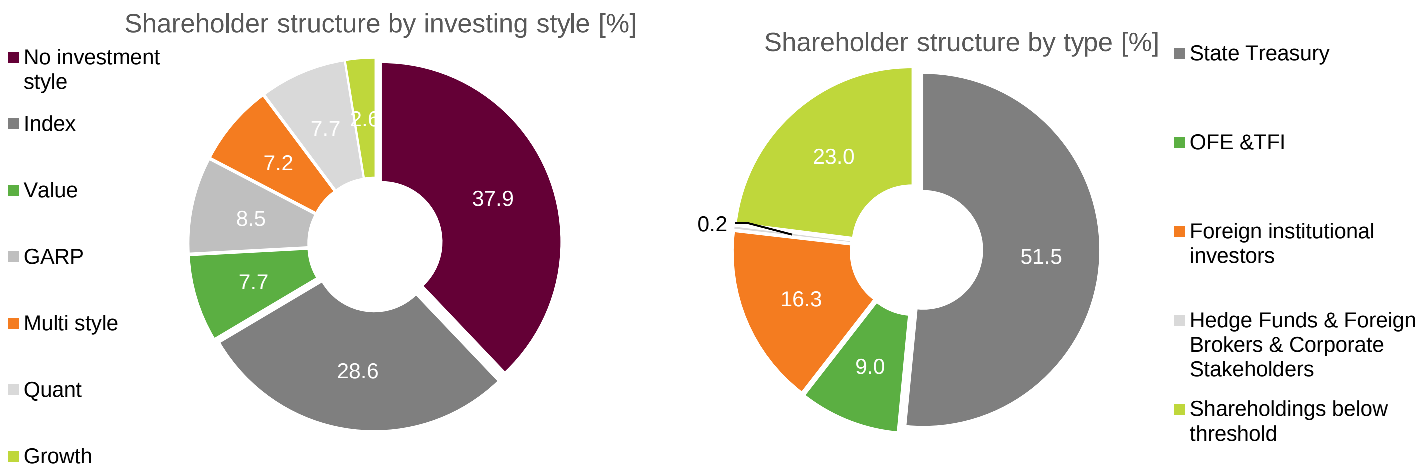
In 2016, the majority of the free float was held by international institutional shareholders, mostly from the United States (33%), UK (8%) and Sweden (6%).

Figure 41: Percentage of free float held by institutional investors in 2015 and 2016, by country of origin



Source: proprietary material based on Nasdaq and Orient Capital data

Figure 42: Shareholder structure in 2016, by investing styles and types



Source: proprietary material based on Orient Capital data

5.2. Other information on shares and shareholding structure of ENERGA SA

The Management Board is unaware of existence of any agreements (including any agreements which may have been concluded after the balance sheet date) which may result in future changes to the proportions of shares held by the current shareholders and bondholders.

Also, the Issuer is not aware of any significant agreements concluded between shareholders.

The Company does not have employee stock ownership programs.

In 2016, the Company and subsidiaries did not purchase any treasury stock of ENERGA. As at 31 December 2016, the Company and subsidiaries did not hold shares in ENERGA.

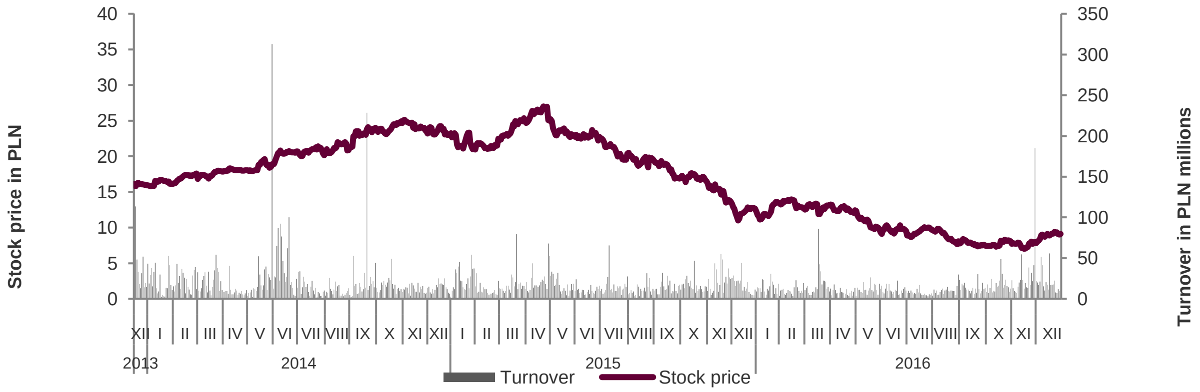
5.3. Company stock prices on the Warsaw Stock Exchange

Table 34: Data for ENERGA stock as at 31 December 2016

Data	Value
Issue price	PLN 17.00
Number of shares	414,067,114
Stock price at the end of the period	PLN 9.10
Capitalization at the end of the period	PLN 3.77 bn
Minimum at closing in Q4	PLN 7.03
Maximum at closing in Q4	PLN 9.37
Minimum at closing in 2016	PLN 7.03
Maximum at closing in 2016	PLN 13.94
Minimum in 2016	PLN 6.82
Maximum in 2016	PLN 14.30
Average trading value	PLN 14 m
Average trading volume	1,527 thous. shares
Average number of trades	2,357 trades

Source: Proprietary material based on data from www.gpwinfostrefa.pl

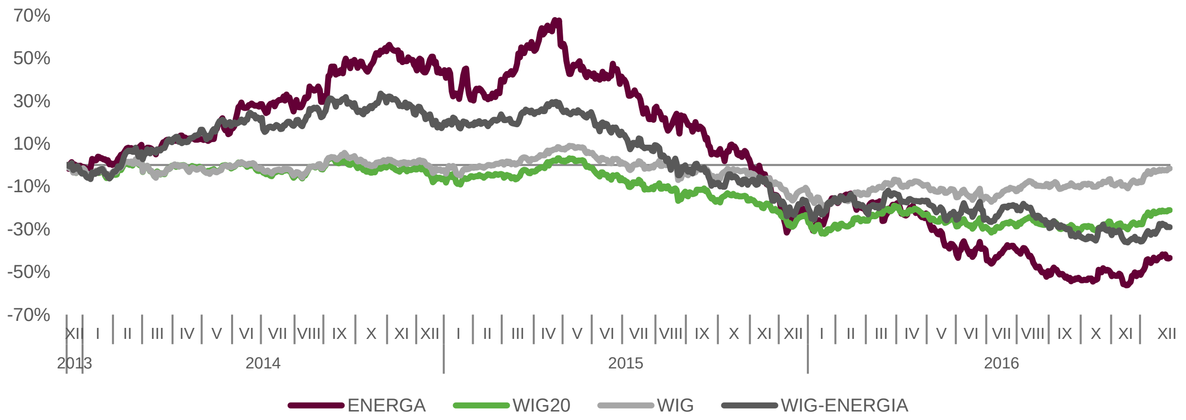
Figure 43: ENERGA SA stock price, in the period from IPO (i.e. 11 December 2013) to 31 December 2016



Source: Proprietary material based on data from gpwinfostrefa.pl

As at 31 December 2016, total shareholder return dividends for shareholders that acquired ENERGA SA shares at issue price was -29%.

Figure 44: Changes in ENERGA stock price in comparison with changes in WIG and WIG-ENERGIA indices



Source: Proprietary material based on data from gpwinfostrefa.pl

As at 31 December 2016, the Company formed part of the following stock market indices:

WIG – an index comprised of all companies listed on the Main Market of the Warsaw Stock Exchange, which meet the base criteria for participation in the indices.

WIG20 – a price index (meaning that only prices of concluded transactions are taken into account in its calculation) grouping 20 largest and most liquid companies from WSE's Main Market.

WIG30 – a price index launched on 23 September 2013, comprising (30) companies with the highest position in the ranking determined on the basis of the data after the last session of January, April, July and October. The ranking is calculated on the basis of the trading volume for the past 12 months and the value of shares in free float as at the ranking date.

WIG-Energia – a sectoral index, which is comprised of companies which participate in the WIG index and are at the same time categorized as "power sector" companies.

WIGdiv – an index calculated since 2010, comprising up to 30 companies which in the index ranking were in a position not lower than 150 and are characterized by the highest dividend rate at the end of November each year and over the past 5 financial years paid out dividends at least 3 times.

WIG-Poland – an index comprised only of shares of domestic companies listed on the Main Market of WSE, which meet the base criteria for participation in the indices.

RESPECT Index – an index bringing together companies with the highest corporate social responsibility standards. It has existed on WSE since 2009 and is the only index of this type in Central European countries.

FTSE All World – an international index comprised of shares of medium and large companies from the FTSE Global Equity Index Series. It is calculated for mature and emerging markets and forms the basis for investment products such as e.g. derivatives and the tracking passive fund portfolios. In addition to MSCI-Poland, this index is also an important measure for foreign funds investing in Polish equities.

FTSE4Good Emerging Index – an index grouping companies from more than 20 emerging economies that are selected on the basis of compliance of their operations with the environmental, corporate social responsibility and corporate governance criteria

MSCI Global Sustainability Indexes is one of the indices calculated by MSCI ESG Research**.** The index has been developed for investors seeking companies with a profile focused on sustainable development.

5.4. Investor relations in ENERGA SA

In 2016 the Investor Relations Department executed tasks aimed at boosting the effectiveness of communication in the capital market, among others:

(1) Publication of 55 current reports and 4 periodic reports,
(2) More than 100 individual meetings with institutional investors (investor conferences or non-deal roadshows),
(3) Online publication of the 2015 annual report,
(4) 4 results conferences accompanied by online broadcast,
(5) A "study tour" in Gdańsk for a group of analysts and institutional investors,
(6) Investors chat with a Management Board members (addressed mainly to individual investors),
(7) Constant communication with analysts issuing recommendations on companies to their clients,

In its activity, the Investor Relations Department uses a bilingual website, updated on an ongoing basis to include key information about the Group in the form of, among other things, quarterly results presentations or factual summaries, the so-called factsheets. Market participants may familiarize themselves with the rules applied by the Company in investor relations - the website includes the Information policy.

5.5. Recommendations for the Company's stock

In 2016, the analysts of brokerage houses and investment banks issued 25 recommendations for ENERGA SA shares. A list of the recommendations can be found at the Company's Investor Relations website.

Figure 45: Recommendations issued for ENERGA's shares in 2016

25 Analyst recommendations in 2016	**8 Buy** recommendations **8 Hold** recommendations **1 Neutral** recommendation **2 Accumulate** recommendations **6 Sell** recommendations

Representation on the application of Corporate governance principles

6. REPRESENTATION ON THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

In 2016, the Company and its authorities are subject to corporate governance rules, which are described in the set adopted by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015 as “Code of Best Practices for WSE Listed Companies 2016" (“Code of Best Practice”, “DPSN”) and were posted on the Warsaw Stock Exchange's website and the Company's website in the "Investor Relations" tab.

6.1. Corporate governance principles not applied in the Company

On 5 January 2016, ENERGA SA published information through the EBI system that the Company does not apply certain principles set out in the Best Practice, that is:
- Detailed principle I.Z.1.16 and IV.Z.2 concerning the transmission of general meetings and Principle I.Z.I.20 – the wording of the Company’s Articles of Association in effect in 2016 did not envisage the use of the means of electronic communication during shareholder meetings. On 15 December 2016, the Extraordinary General Meeting of ENERGA SA amended the Articles of Association, among others by introducing provisions that allow those principles set out in the Best Practice to be applied as of 2017.
- Principle III.Z.3 – the Company does not meet the requirement of standard 1110-1 only in respect to the organizational independence, that is appointment and dismissal of an Internal Audit Head and approval and changes of his/her remuneration.

The standard mentioned above is defined in the International Standards for the Professional Practice of Internal Auditing by the Institute of Internal Auditors.

Additionally the Internal Audit Head is not functionally subordinated to the Supervisory Board.
Additionally, in 2016 the Company analyzed the following principles: I.Z.1.14, II.Z.1 (in conjunction with I.Z.1.3), II.Z.10.3, II.Z.10.4, V.Z.6, VI.Z.1, VI.Z.4. After the analyses are completed, the Company will update its position on the application of those principles.
Since no decision on the publication of projections has been made, in light of the Finance Minister’s regulation on current and periodic information of 19 February 2009, detailed principle I.Z.1.10 was also not be applied.

6.2. Major shareholders

Information on the shareholding structure is presented in chapter 5.1. *ENERGA SA’s shareholding structure* of these financial statements.

6.3. Holders of securities giving special rights of control and description of these rights

According to the information presented in the previous sub-clause, the State Treasury is the holder of the majority block of shares and votes at the General Meeting. It held 144,928,000 series BB registered shares preferred in terms of voting at the General Meeting in such manner that one series BB share entitles the holder to two votes at the General Meeting.

In addition, the State Treasury has the personal right to appoint and dismiss some members of the Company's Supervisory Board, and name the Supervisory Board Chairman, on the terms and conditions set forth in the Company’s Articles of Association. Detailed information in that regard is included in the sub-section entitled Rules for appointing and dismissing Supervisory Board members.

At the same time, according to the Company’s Articles of Association, the State Treasury has the right to receive:

1) information on the Company and its Group in the form of a quarterly report in accordance with the current guidelines, subject to relevant provisions on disclosure of confidential information,
2) copies of announcements, which must be published in the Court and Economic Monitor,
3) set of documents, which are to be examined at the Annual General Meeting pursuant to Article 395 § 2 of the Commercial Company Code ("CCC"), i.e. financial statements (consolidated financial statements of the Group), Management Board's report on the Company's activity (Management Board's report on the activity of the Group) for the previous financial year, statutory auditor's opinion and report from the audit of the financial statements (consolidated financial statements of the Group), Supervisory Board's report, and the Management Board's motion on distribution of profit and coverage of loss,
4) consolidated version of the Articles of Association, within four weeks from the date of entering the amendments to the Articles of Association in the business register.

6.4. Restrictions regarding the exercise of voting rights

Provisions of § 27 of the Company's Articles of Association contain restrictions on the voting rights by shareholders, users and pledgees holding shares giving more than 10% of total number of votes at the General Meeting, as at the date of holding the General Meeting.

For the purposes of restricting the voting right, the votes of the shareholders connected by a parent or subsidiary relationship within the meaning of the following provisions are also accumulated by adding the votes held by those shareholders.

If as a result of accumulation it becomes necessary to restrict the voting rights, this will be done by pro rata reduction of the votes of all shareholders connected by a parent or subsidiary relationship, and the votes of the shareholder with the largest bundle of shares will be rounded up or down. If it is not possible to round up or down because two or more shareholders hold the same number of votes, the Management Board will randomly select a shareholder, whose votes will be rounded up or down. The reduction cannot lead to depriving the shareholder of the voting rights in their entirety.

The provisions governing the restriction on the voting rights do not apply to the State Treasury, which, pursuant to the Articles of Association, on the date of the restriction had entitlement under shares corresponding to more than 10% of the overall number of votes in the Company.

Moreover, the foregoing restrictions do not contravene the requirements concerning the purchase of significant blocks of shares according to the Act on Public Offerings and the Terms and Conditions for Introducing Financial Instruments into an Organized Trading System and on Public Companies of 29 July 2005 (i.e. Journal of Laws of 2013, item 1382) (hereinafter referred to as the "Act on Public Offering"). In a similar fashion, these provisions do not apply to the determination of obligations of the entities, which are purchasing or are to purchase significant blocks of shares.

In addition to the foregoing mechanism and those described in the generally applicable provisions of law, including the Commercial Company Code, there are no additional mechanisms that would specifically restrict the exercise of voting rights.

6.5. Restrictions on the transfer of ownership title to securities

As at the date of preparation of this Report, there are no restrictions on the transfer of title to Company's securities.

6.6. Rules for amending the Company's Articles of Association

The Company's Articles of Association are amended as set forth in the Commercial Company Code; in particular: Articles of Association are amended by way of a resolution adopted by the General Meeting by the majority of three quarters of the votes and then must be entered in the business register. The Company's General Meeting may authorize the Supervisory Board to agree upon the consolidated version of the Company's amended Articles of Association or introduce such other editorial changes as may be specified in a resolution of the General Meeting.

Pursuant to § 27 section 8 and 9 of the Company's Articles of Association:

1) resolutions adopted by the General Meeting (which also require amendments to the Articles of Association) on the following subjects:
   a) introduction of shares of various types, establishment of shares of a new type,
   b) change of the preference of shares,
   c) split-up of the Company, except for split-up through spinning-off,
   d) moving of the Company's registered office,
   e) transformation of the Company,
   f) reduction of share capital through redemption of part of shares unless the reduction takes place simultaneously with increase of share capital, require the majority of four fifth of the votes cast.
2) a General Meeting resolution on a significant change of the Company's line of business may be adopted without buying up shares held by shareholders who oppose such change.

On 15 December 2016, the Extraordinary General Meeting of ENERGA SA among others amended the wording of the Company's Articles of Association, which remains in effect up to this date.

6.7. Company's corporate bodies

General Meeting

Rules of operation of the Company's General Meeting are regulated by the Commercial Company Code and the Company's Articles of Association. Additional issues related to the course of a General Meeting are defined in the General Meeting Bylaws (available on the Company's corporate website).

The Company's shareholders also have rights related to the General Meeting, which arise from the applicable provisions of law.

Manner of convening the General Meeting

The General Meeting is convened through announcement made on the Company's website and in the manner specified for publication of current information according to the Act on Public Offering, i.e. in the form of current reports. The announcement should be made at least twenty six days before the date of the General Meeting, according to the regulations set forth in the Commercial Company Code.

The Management Board convenes the General Meeting according to the Articles of Association.

1) at its own initiative,
2) at the written request the Supervisory Board, at the written request of a shareholder or shareholders representing at least one twentieth of the share capital or
3) at the written request of the State Treasury as long as the State Treasury remains a shareholder in the Company.

By principle, the properly convened General Meeting is valid irrespective of the number of shares represented thereat.

The General Meeting may be held in the Company's registered office (in Gdańsk) or in Warsaw.

Course of the General Meeting

The Supervisory Board Chairman or Deputy Chairman and if absent - the President of the Management Board or a person appointed by the Management Board opens the General Meeting. Then the Chairperson of the General Meeting is elected from among the persons authorized to participate in the General Meeting, in accordance with the provisions of the General Meeting Bylaws.

A resolution in matters not included in the agenda of the General Meeting may not be adopted, unless the Company's entire share capital is represented at the General Meeting and none of the persons present raises an objection to adopt a resolution.

Votes shall be cast in an open ballot. Secret ballot will be ordered during elections and when voting on motions to dismiss members of the Company's authorities or liquidators to hold them liable as well as in the case of personal matters. Furthermore, a secret ballot should be ordered at the request of at least one shareholder from among those present or represented at the General Meeting.

Pursuant to the Company's Articles of Association, the voting rights of the shareholders and the voting rights of the users and pledgees of shares is subject to restrictions described in detail in item Restrictions regarding the exercise of voting rights.

Resolutions of the General Meeting are adopted with the absolute majority of votes cast, unless the Commercial Company Code or the Articles of Association provide otherwise.

The General Meeting may request an adjournment in the meeting (by a two-thirds majority of votes) which may not last more than thirty days in aggregate.

Powers of the General Meeting

The most important powers of the General Meeting defined by the Commercial Company Code and the Articles of Association include:

1) reviewing and approving the Management Board report on the Company's activity and the financial statements for the completed financial year;
2) granting a discharge to members of the Company's corporate bodies on the performance of their duties,
3) distributing profit or covering a loss,
4) changing the Company's line of business,
5) amending the Company's Articles of Association,
6) increasing or decreasing the Company's share capital,
7) merging, splitting up or transforming the Company,
8) dissolving or liquidating the Company,
9) issuing convertible bonds or bonds with a pre-emptive right, and on issuing subscription warrants,
10) selling or leasing an enterprise or an organized part thereof and establishing a limited right in rem thereon,
11) creating, using and liquidating the Company's capitals and funds,
12) appointing or dismissing Supervisory Board members and setting their compensation levels,
13) depriving current Company shareholders of their pre-emptive rights, in whole or in part,
14) allowing the Company to purchase its treasury stock and authorizing the Management Board to purchase treasury stock for retirement,
15) allowing the Company to enter into a credit facility, loan, surety agreement or some other similar agreement with a Management Board Member, a Supervisory Board member, a general proxy or a liquidator or in favor of any such person,
16) purchasing real property, perpetual usufruct or share in real property or in perpetual usufruct, worth more than PLN 20 m,
17) purchasing non-current assets, except for real estate or right of perpetual usufruct, and except for purchasing and subscribing for shares in other companies, worth more than PLN 20 m,
18) disposing of non-current assets, including real estate, right of perpetual usufruct, or share in real estate or right of perpetual usufruct, except for shares in other companies, worth more than PLN 20 m;
19) changing the record date, wetting the dividend date or spreading the payment of dividend into installments.

Three General Meetings of the Company were held in 2016:

1) Extraordinary General Meeting on 7 January 2016. The wording of resolutions adopted during that Meeting was published in the Current Report No. 2/2016 of 7 January 2016;
2) Annual General Meeting on 24 June 2016. The wording of resolutions adopted during that Meeting was published in the Current Report No. 24/2016 of 24 June 2016;
3) Extraordinary General Meeting on 15 December 2016. The wording of resolutions adopted during that Meeting was published in the Current Report No. 50/2016 of 16 December 2016.

Supervisory Board

Composition

In the 2016 financial year and until the date of this Report the ENERGA SA Supervisory Board operated in the following composition:

1) in the period from 1 January to 3 January 2016:
   a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
   b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
   c) Bogdan Skalski – Supervisory Board Secretary,
   d) Jarosław Mioduszewski – Supervisory Board Member,
   e) Mirosław Szreder – Supervisory Board Member,
   f) Roman Pionkowski – Supervisory Board Member,
2) in the period from 3 January to 7 January 2016:
   a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
   b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
   c) Bogdan Skalski – Supervisory Board Secretary,
   d) Jarosław Mioduszewski – Supervisory Board Member,
   e) Mirosław Szreder – Supervisory Board Member,
3) in the period from 7 January 2016 to 8 September 2016:
   a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
   b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
   c) Bogdan Skalski – Supervisory Board Secretary,
   d) Andrzej Powałowski – Supervisory Board Member,
   e) Marek Szczepaniec – Supervisory Board Member,
   f) Maciej Żółtkiewicz – Supervisory Board Member.
4) in the period from 8 September 2016 to 30 December 2016:
   a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
   b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
   c) Agnieszka Terlikowska-Kulesza – Supervisory Board Secretary,
   d) Andrzej Powałowski – Supervisory Board Member,
   e) Marek Szczepaniec – Supervisory Board Member,
   f) Maciej Żółtkiewicz – Supervisory Board member.
5) in the period from 30 December 2016 to 10 February 2017:
   a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
   b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
   c) Agnieszka Terlikowska-Kulesza – Supervisory Board Secretary,
   d) Andrzej Powałowski – Supervisory Board Member,
   e) Marek Szczepaniec – Supervisory Board Member,
   f) Maciej Żółtkiewicz – Supervisory Board Member,
   g) Jacek Kościelniak – Supervisory Board Member.
6) in the period from 10 February 2017 until the date of preparing this Report:
   a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
   b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
   c) Agnieszka Terlikowska-Kulesza – Supervisory Board Secretary,
   d) Andrzej Powałowski – Supervisory Board Member,
   e) Marek Szczepaniec – Supervisory Board Member,
   f) Maciej Żółtkiewicz – Supervisory Board Member,

In connection with his appointment to the Company's Management Board, Mr. Roman Pionkowski tendered his resignation from membership in the Supervisory Board as of 3 January 2016.

As of 7 January 2016 the Extraordinary General Meeting of ENERGA SA dismissed Mr. Jarosław Mioduszewski and Mr. Mirosław Szreder from the ENERGA SA Supervisory Board and appointed three Supervisory Board Members for its fourth term of office, i.e. Mr. Andrzej Powałowski, Mr. Marek Szczepaniec and Mr. Maciej Żółtkiewicz.

As of 8 September 2016, Mr. Bogdan Skalski was dismissed from the Supervisory Board by a declaration of the Minister of Energy and Ms. Agnieszka Terlikowska-Kulesza was appointed.

As of 30 December 2016, Mr. Jacek Kościelniak was appointed to the Supervisory Board by a declaration of the Minister of Energy.

On 17 January 2017, Mr. Roman Pionkowski was delegated by the Company's Supervisory Board to act temporarily in the capacity of a Management Board Member responsible for managing the Company for a period of up to three months from the date of delegation. Then, in connection with his appointment to the Company's Management Board, Mr. Jacek Kościelniak tendered his resignation from membership in the Supervisory Board as of 10 February 2017.

Mr. Andrzej Powałowski and Mr. Marek Szczepaniec satisfy the criteria envisaged for independent supervisory board members within the meaning of the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board, taking into account the requirements following from the 2016 Code of Best Practices for Warsaw Stock Exchange Listed Companies.

The current term of the Supervisory Board ends on 20 May 2017.

Paula Ziemiecka-Księżak graduated from the Leon Koźmiński Entrepreneurship and Management College. In 1996 employed in the Ministry of the State Treasury. She worked in the oversight departments for State Treasury-owned companies. She supervised companies from the road transportation, marine shipping and power sectors. She currently is a sub-department head in the Supervision Department at the Ministry of Energy. Her scope of duties comprises supervision of overall economic and legal issues associated with the activity of State Treasury-owned companies from, among others, the black coal mining and power sector. In addition, she gathered experience associated with corporate governance since 2002 discharging functions in the supervisory bodies of such companies as SIP-MOT SA in Zamość, PKS Ostrołęka SA and Opakomet SA with its registered office in Płock. She has been acting in the capacity of the ENERGA SA Supervisory Board Chairperson since 12 November 2015.

Agnieszka Terlikowska-Kulesza is a graduate of the Agricultural Faculty of the Warsaw University of Life Sciences and post-graduate studies in finance and European economic and legal relations at Warsaw School of Economics. In 1997 she joined the team of the State Treasury Ministry at the Commercialization and direct Privatisation Department, the Tender Privatisation Team. From September 1997 to June 2002 she worked for the Privatization Agency in the Tender Team as chief specialist and then as Section Manager. During that period, she participated in the organization of tenders for the selection of entities performing pre-privatisation analyses of companies with State Treasury holdings, she oversaw and executed privatization projects, conducted mainly through the invitation to tender procedure, she verified economic and financial analyses and valuations of companies with State Treasury holdings slated for privatisation. From July 2002 to June 2016, she was chief specialist in State Treasury corporate supervision departments at the State Treasury Ministry. She supervised companies from the ceramic, construction and motorized transportation industries. In 2009-2016 she supervised chemical sector companies, including companies such as CIECH S.A., Grupa Azoty S.A., Grupa Azoty Zakłady Azotowe "Puławy" S.A., Grupa Azoty Zakłady Chemiczne "Police" S.A., Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki "Siarkopol" S.A., Zakłady Azotowe Chorzów S.A. Since July 2016, she has been chief specialist at the Control and Supervision Department at the Energy Ministry, where she is overseeing gas sector companies. She gathered additional experience by serving from 2001 to 2016 on the supervisory bodies of companies with State Treasury holdings, such as: "Chłodnia Szczecińska" Sp. z o.o., Zakłady Ceramiczne "Bolesławiec" w Bolesławcu Sp. z o.o., Przedsiębiorstwo Komunikacji Samochodowej w Białymstoku S.A., Przedsiębiorstwo Robót Drogowych Sp. o.o. in Mielec, Przedsiębiorstwo Elektryfikacji i Robót Instalacyjnych “ELTOR-Warszawa” Sp. z o.o. in Wołomin.

Zbigniew Wtulich graduated from the Faculty of Drainage and Water Engineering at the Warsaw University of Life Sciences. He started his professional career in 1984 as a Designer Assistant in the Water Drainage Design Department. Then he became a construction engineer in the Regional Drainage Projects Enterprise (in October 1984). He held this position until April 1988. From 1988 to 1991 he worked as an engineer in an international company doing business as “Amak” (construction industry) and from 1993 to 1997 he was employed by the State Treasury Agricultural Property Agency. Before appointment to the Company’s Supervisory Board, Zbigniew Wtulich served as a chief specialist at the State Treasury Department of Assets Records at the State Treasury Ministry (1997-1998), a chief specialist - team coordinator at the State Treasury Restitution and Compensation Department at the State Treasury Ministry (1998-2001), sub-department head in the Restitution and Equity Allocation Department at the State Treasury Ministry (2002-2006), sub-department head in the Department of Records, Restitution, Compensation and Equity Allocation (2006-2010). He currently is a sub-department head in the Property Department at the State Treasury (since 2010). He also served as a Supervisory Board member in Zakłady Tworzyw Sztucznych “GAMRAT” SA (2011) and in Przedsiębiorstwo Gospodarki Wodnej i Rekultywacji S.A. (2002-2009).

Maciej Żółtkiewicz graduated from the Electrical Department of the Częstochowa University of Technology and completed post-graduate studies at the European University of Law and Administration in Warsaw. He started his career in 1979 as a technical specialist in the Eastern Power Region in Radom. He occupied this position until 1988. In 1988-1999 he was employed in Elektrociepłownia “Radom” S.A. as an Automation and Measurement Specialist, Corporate Governance and Restructuring Department Manager, Chief Specialist on Organizational and Employee Matters and Management Board Member. In 1999-2000 he was a Management Board Member of Zakład Maszyn do Szycia “Łucznik” Sp. z o.o. in Radom. In 2001-2005 he discharged the following functions: Receiver of “Putis” in Milanówek, Privatization Proxy of “Transdrog” in Warsaw, Vice-President of the Management Board of P.W. “Mediainstol" Sp. z o.o. in Radom. In 2006-2008 he discharged the function of President of the Management Board of Fabryka Łączników “Radom” S.A. From 2009 he was involved in internal control and audit in RTBS “Administrator” Sp. z o.o. in Radom, and from 2013 in “Radpec” S.A. in Radom. He gained experience related to overseeing the operations of State Treasury-owned companies by sitting in the supervisory boards of companies such as: Elektrociepłownia “Radom” S.A., Elektrownia Wodna Żarnowiec S.A., Fabryka Łączników “Radom” S.A. In 2009 – 2015 he sat in the supervisory board of PPUH “Radkom” Sp. z o.o. in Radom.

Marek Szczepaniec graduated from the University of Gdańsk. Currently, he is a professor at the University of Gdańsk (from 2008) and professor at the Kazimierz Wielki University in Bydgoszcz (from 2014). In 1993-2001 he worked as a consultant at the Polish-American Small Business Advisory Foundation. In 1992-2006 he was a consultant of the B.P.S. Consultants Poland. From 2006 he has been a co-owner and vice-president of a research firm called Qualifact. He specializes in research on entrepreneurship, human capital, economic growth, behavioral finance and corporate marketing strategies. He is the author of over 150 research reports, scientific articles and other publications. The following companies from the banking sector, among others, used his reports and studies: PKO Bank Polski, BZ WBK, Credit Agricole, BNP Paribas, Pekao SA, ING, mBank; from the insurance sector: PZU, Warta, Compensa, Allianz, Aviva; from the fuel sector: LOTOS Group, PKN Orlen, BP, Total. He managed market research for Elektrociepłownia Wybrzeże and the ENERGA Group and is the author of a study entitled “Energy company customer service models. Global trends”.

Andrzej Powałowski studied from 1969 to 1973 at the Faculty of Law and Administration in the Nicolaus Copernicus University in Toruń. In 1973 he started to work as an assistant in the National Economy Management Law Section at the Faculty of Law and Administration in the University of Gdańsk. In 1980 he obtained the title of doctor of legal sciences and was employed at the position of assistant professor. From 1992 he worked on the position of senior lecturer at the Public Economic Law Faculty and from 1994 at the Public Economic Law and Environmental Protection Faculty. In 2009 he obtained the title of habilitated doctor of legal sciences in the area of public economic law. In 2010 he was nominated to the position of associate professor of Gdańsk University. At the Law and Administration Faculty in the

University of Gdańsk he is currently the head of the Public Economic Law Section and head of the post-graduate study programs entitled "Legal conditions for conduct of economic activity" and "Public procurement law and system". He is also a lecturer at the Off-Site Faculty of the Gdańsk School of Higher Education in Olsztyn. He was employed as an associate professor of the Baltic College of the Humanities and the Real Estate Management College. Author of numerous publications in the form of books and articles for scientific magazines; he is a member of the governing bodies of non-governmental organizations and scientific periodicals. He worked as a legal advisor and since 2010 he has been an advocate in his own law firm in Gdańsk. He discharges the function of arbitrator at the International Court of Arbitration at the Polish Chamber of Maritime Commerce.

None of the Company's aforementioned Supervisory Board Members is engaged in any business competitive to that of ENERGA SA, participates in a competitive entity as a partner in a civil law company or partnership or as a member of a corporate authority of a joint stock or limited liability company and does not participate in any other competitive legal person as a member of its corporate authority, or is listed in the Register of Insolvent Debtors kept pursuant to the National Court Register Act.

Supervisory Board's powers

The Supervisory Board's powers include in particular:

1) evaluation of the Management Board's reports on the Company's activity and the Group's activity and the financial statements for the previous financial year and the Group's consolidated financial statements in terms of their compliance with the accounting ledgers and documents as well as the actual state of affairs, and the evaluation of the Management Board's motion on the distribution of retained earnings,
2) submitting written reports to the General Meeting on the results of the activities referred to in item 1,
3) submitting the reports in connection with exercising the supervision over the Management Board's execution of investments, and the supervision over the correctness and effectiveness of spending funds on the investments,
4) preparing, at least once a year, along with a report from assessment of the annual financial statements and the consolidated financial statements of the group, the Supervisory Board's opinion on the issue of economic justification for the Company's capital exposure to other commercial companies, made in the given financial year,
5) once a year preparing and presenting to the Annual General Meeting a concise assessment of the Company's standing, including an evaluation of the internal audit system and the significant risk management system,
6) reviewing and opining the issues to be included in the resolutions of the General Meeting,
7) selecting a statutory auditor to audit the financial statements,
8) approving the strategy of the Company and its Group,
9) approving the annual/long-term material and financial plans and investing activity plans of the Company and its Group,
10) adopting bylaws defining in detail the Supervisory Board's functioning,
11) approving the Management Board bylaws,
12) approving the organizational bylaws of the Company's enterprise,
13) approving the rules for sponsorship activity conducted by the Company,
14) setting the rules and remuneration of the President and Members of the Management Board, subject to mandatory provisions of law,
15) delegating Supervisory Board members to temporarily perform the duties of Management Board Members who cannot perform their activities and setting their remuneration,
16) determining the manner in which the Company votes at general meetings of its subsidiaries.

A detailed description of the Supervisory Board's powers is included in the Company's Articles of Association posted on the corporate website.

Operation of the Supervisory Board

The Supervisory Board exercises permanent supervision over the Company's activity, in accordance with the Commercial Company Code and the Company's Articles of Association. The Supervisory Board Bylaws posted on the corporate website specify the detailed procedure for how it functions.

The Supervisory Board performs its activities as a collective body. Supervisory Board members participate in meetings, exercise their rights and perform their duties in person. Supervisory Board Members are obligated to maintain confidentiality of information related to the Company's activity, which they obtained when discharging their function or otherwise.

By principle, the Supervisory Board adopts resolutions at its meetings, which are held at least once every two months.

The Chairman or Deputy Chairman convenes Supervisory Board meetings presenting a detailed agenda. A meeting should also be convened at the request of any Supervisory Board member or at the request of the Management Board.

Supervisory Board meetings are chaired by the Supervisory Board Chairman, and during his/her absence by the Supervisory Board Deputy Chairman.

Supervisory Board members are allowed to participate in the meeting and vote on resolutions adopted during that meeting using remote means of direct communication, such as conference calls and video conference calls, with the reservation that there is at least one Supervisory Board member present at the location specified by the person convening the meeting and there is a technical possibility of ensuring a secure connection.

Pursuant to the Articles of Association, the Supervisory Board adopts resolutions in matters envisaged by the agenda if at least one-half of its members is in attendance at the meeting and all members have been invited to the meeting.

A change can be made to the proposed agenda if all Supervisory Board members are in attendance at the meeting and nobody raises an objection against the agenda. A matter not included in the agenda of the meeting, should be included in the agenda of the next meeting.

The Supervisory Board may adopt resolutions outside of meetings, by following a written procedure or via remote means of direct communication, including in particular via e-mail. Such a resolution will be valid if all Supervisory Board members have been notified of the content of the draft resolution.

Supervisory Board resolutions are adopted with the absolute majority of votes, and if the number of votes is equal, the vote cast by the Chairman will be decisive.

By principle, the Supervisory Board adopts resolutions in an open ballot, however a secret ballot will be ordered on the motion of a Supervisory Board member and in personal matters. If secret ballot is ordered, it will not be possible to adopt resolutions by following a written procedure or via remote means of direct communication.

The Supervisory Board may, for important reasons, delegate its specific members to perform specific oversight functions individually.

The Supervisory Board may delegate its members for a period no longer than three months, to perform temporarily the duties of Management Board Members, who were dismissed, resigned or who cannot perform their duties for any other reason;

A detailed description of the Supervisory Board's activity in the past financial year is provided in the Supervisory Board activity report submitted each year to the General Meeting and published on the Company's corporate website.

The Supervisory Board shall elect, from among its members, an Audit Committee and a Nomination and Compensation Committee.

In the period from 1 January to 31 December 2016, the ENERGA SA Supervisory Board held 17 meetings and adopted 107 resolutions. Two Supervisory Board meetings were held in 2016 with not all members in attendance.

In each case Supervisory Board members made a decisions in the form of a resolution to justify absences on the basis of information provided by the Supervisory Board members on the reasons for their absences.

The most important matters handled by the Supervisory Board in the financial year 2016 included, among others:

1) conducting executive search procedures for ENERGA SA Management Board members and determining the rules for and amount of compensation for ENERGA SA Management Board members,
2) approving the "Organizational Bylaws of the Enterprise of ENERGA Spółka Akcyjna",
3) analyzing the current economic and financial position of the Company and the Group and the execution and return on the investments conducted in the ENERGA Group.
4) issuing opinions on actions related to the implementation of investment projects in the ENERGA Group,
5) issuing opinions on amendments to the Articles of Association of ENERGA SA,
6) approving the Rules for sponsorship activity conducted by the ENERGA Group,
7) approving the ENERGA Group Strategy for 2016-2025, the Long-Term Plan of Strategic Investments of the ENERGA Group and the Long-Term Financial Model of the ENERGA Group.

Additionally, in 2016, the Supervisory Board decided on how to vote during general meetings of subsidiaries in the scope resulting from the Company's Articles of Association, approved the physical and financial plans of ENERGA SA and the ENERGA Group, evaluated financial statements and consolidated financial statements for the 2015 financial year with the motion to distribute profit and it monitored the Management Board's execution of the sponsoring activity plan.

Audit Committee

The principles of the Audit Committee's operation are set forth in the Articles of Association of ENERGA SA and the Supervisory Board Bylaws are available on the Company's website.

The Audit Committee operates as a collective body and serves as an advisory and opining body of the Supervisory Board.

The tasks of the Audit Committee include in particular the following:

1) monitoring the financial reporting process,
2) monitoring the reliability of financial information presented by the Company,
3) monitoring the effective operation of internal control, internal audit and risk management systems in place in the Company,
4) monitoring the performance of financial audit activities,
5) monitoring whether the auditor and the entity authorized to audit financial statements are independent and objective, including if they provide services other than financial review,
6) recommending an entity authorized to audit financial statements and to conduct financial review activities to the Supervisory Board.

Tasks of the Audit Committee are performed by providing the Supervisory Board with its conclusions, recommendations, opinions and reports within its tasks, in the form of resolutions.

The Audit Committee is independent from the Company's Management Board, which cannot give the Committee any binding instructions relating to its tasks.

The Audit Committee is composed of at least three Supervisory Board members, including at least one member who satisfies the independence criteria specified by the legal regulations and holds accounting or financial audit qualifications within the meaning of the Act on Statutory Auditors. According to the Articles of Association, this person should satisfy the requirements envisaged for independent

Supervisory Board members within the meaning of the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC), including the requirements following from the Code of Best Practices for Warsaw Stock Exchange Listed Companies.

In the 2016 financial year, the Audit Committee operated in the following composition:

1) in the period from 1 January 2016 to 7 January 2016:
   a) Mirosław Szreder – Committee Chairman,
   b) Jarosław Mioduszewski,
   c) Zbigniew Wtulich;
2) in the period from 7 January to 22 January 2016 - in connection with the dismissal of Mr. Mirosław Szreder and Mr. Jarosław Mioduszewski from the Supervisory Board, only Mr. Zbigniew Wtulich was in the Audit Committee,
3) in the period from 22 January 2016 till the date of preparing this Report:
   a) Marek Szczepaniec - Committee Chairman,
   b) Zbigniew Wtulich,
   c) Andrzej Powałowski.

On 22 January 2016, the Company's Supervisory Board filled the vacancies in the Audit Committee by appointing Mr. Marek Szczepaniec and Mr. Andrzej Powałowski.

Mr. Marek Szczepaniec has been acting in the capacity of the Audit Committee Chairman since 14 March 2016.

A description of the Audit Committee's activity in the past financial year including a detailed description of the actions taken by the Committee is provided in the Audit Committee Activity Report attached to the Supervisory Board Activity Report submitted each year to the General Meeting and published on the Company's corporate website.

In 2016, the Audit Committee held 5 meetings with all members in attendance.

Nomination and Compensation Committee

The ENERGA SA Supervisory Board Nomination and Compensation Committee has been operating since 27 February 2015, when the Company's Supervisory Board made a decision to appoint it and approve the ENERGA SA's new Supervisory Board Bylaws in which it framed how it is to operate.

The scope of the Nomination and Compensation Committee's operation covers giving opinions and conducting analyses to support the Supervisory Board in the performance of its duties defined by the Articles of Association in respect of the overall compensation policy for Management Board members, the Company's upper level management and in the other companies in the ENERGA Group and to articulate recommendations on appointing Management Board members.

The following tasks in particular fall among the powers and duties of the Nomination and Compensation Committee:
1) conducting activities to recruit the Company's Management Board members to the extent designated by the Supervisory Board,
2) preparing draft versions of contracts and other model documents in connection with serving as the Company's Management Board members and overseeing the performance of the contractual obligations taken by the parties,
3) overseeing the implementation of the Management Board's compensation system, in particular preparing billing documents concerning variable and bonus elements of compensation for the purpose of submitting recommendations to the Supervisory Board;
4) monitoring and analyzing the compensation system for the Management Boards and management of companies in the ENERGA Group,
5) overseeing the correct execution of perks for the Company's Management Board stemming from contracts, among others: personal and medical insurance, usage of company cars, apartment and others.

In the 2016 financial year, the Nomination and Compensation Committee operated in the following composition:

1) in the period from 1 January 2016 to 8 September 2016:
   a) Paula Ziemiecka-Księżak – Committee Chairwoman,
   b) Bogdan Skalski,
   c) Zbigniew Wtulich.
2) in the period from 8 September 2016 to 20 September 2016:
   a) Paula Ziemiecka-Księżak – Committee Chairwoman,
   b) Zbigniew Wtulich.
3) in the period from 20 September 2016 till the date of preparing this Report:
   a) Paula Ziemiecka-Księżak – Committee Chairwoman,
   b) Agnieszka Terlikowska-Kulesza,
   c) Zbigniew Wtulich.

Six Nomination and Compensation Committee meetings were held in 2016 – all of them with all members in attendance.

A description of the activity of the Nomination and Compensation Committee last year has been presented in the Activity Report of the Nomination and Compensation Committee forming an Attachment to the Supervisory Board Activity Report.

Management Board

Rules for appointing and dismissing Management Board Members

The Management Board may be composed of one to five members, including the President of the Management Board and one to a few Vice-Presidents of the Management Board. The term of office of the Management Board is a joint term of three years.

According to the Articles of Association, Management Board Members are appointed and dismissed by the Supervisory Board, which designates one of them as President of the Management Board and one or more of them as Vice-President of the Management Board.

A Management Board Member may be also:

1) dismissed or suspended by the General Meeting,
2) suspended by the Supervisory Board for important reasons.

For as long as more than one half of the shares in the Company is owned by the State Treasury, the Supervisory Board will appoint Management Board Members after completing an executive search procedure on the basis of the Council of Minister's regulation on qualification procedures for management board members in certain commercial companies of 18 March 2003 (Journal of Laws of 2003, No 55, item 476, as amended).

A Management Board Member submits his/her resignation to the Supervisory Board in writing.

Composition

In 2016 and up to the date of preparation of this Report, the Company's Management Board operated with the following composition:

1) in the period from 1 January 2016 to 3 January 2016:
   a) Roman Pionkowski - ENERGA SA Supervisory Board member delegated to perform temporarily the duties of a Management Board member acting in the capacity of President of the Management Board,
   b) Seweryn Kędra – Vice-President of the Management Board for Financial Matters
2) in the period from 4 January 2016 to 1 February 2016:
   a) Dariusz Kaśków – President of the Management Board,
   b) Roman Pionkowski – Vice-President of the Management Board for Development Strategy,

   c) Mariusz Rędaszka – Vice-President of the Management Board for Financial Matters,
3) in the period from 1 February 2016 to 26 February 2016:
   a) Dariusz Kaśków – President of the Management Board,
   b) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
   c) Roman Pionkowski – Vice-President of the Management Board for Development Strategy,
   d) Mariusz Rędaszka – Vice-President of the Management Board for Financial Matters,
4) in the period from 26 February to 21 March 2016:
   a) Dariusz Kaśków – President of the Management Board,
   b) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
   c) Mariusz Rędaszka – Vice-President of the Management Board for Financial Matters,
5) in the period from 21 March 2016 to 17 January 2017:
   a) Dariusz Kaśków – President of the Management Board,
   b) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
   c) Mariusz Rędaszka – Vice-President of the Management Board for Financial Matters,
   d) Przemysław Piesiewicz – Vice-President of the Management Board for Development Strategy,
   e) Mariola Anna Zmudzińska – Vice-President of the Management Board for Investor Relations,
6) in the period from 17 January 2017 to 10 February 2017:
   a) Jacek Kościelniak – ENERGA SA Supervisory Board member delegated to perform temporarily the duties of a Management Board member acting in the capacity of President of the Management Board,
   b) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
   c) Mariola Anna Zmudzińska – Vice-President of the Management Board for Investor Relations,
7) in the period from 11 February 2017 to 16 February 2017:
   a) Jacek Kościelniak – Vice-President of the Management Board for Financial Matters,
   b) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
   c) Mariola Anna Zmudzińska – Vice-President of the Management Board for Investor Relations,
8) in the period from 17 February 2017 to 1 March 2017:
   a) Jacek Kościelniak – Vice-President of the Management Board for Financial Matters,
   b) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
9) in the period from 1 March 2017 to 2 March 2017:
   a) Jacek Kościelniak – Vice-President of the Management Board for Financial Matters,
   b) Alicja Barbara Klimiuk – Vice-President of the Management Board for Operations,
   c) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
10) in the period from 2 March 2017 till the date of preparation of this Report:
   a) Daniel Obajtek – President of the Management Board
   b) Jacek Kościelniak – Vice-President of the Management Board for Financial Matters,
   c) Alicja Barbara Klimiuk – Vice-President of the Management Board for Operations,
   d) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,

On 29 December 2015, the Supervisory Board dismissed Mr. Seweryn Kędra serving as Executive Vice-President of the Management Board, Chief Financial Officer, from the Company's Management Board as of 3 January 2016 and as a result of the completed executive search procedure appointed to the Management Board for its fifth term of office as of 4 January 2016:

1) President of the Management Board – Mr. Dariusz Kaśków,
2) Vice-President of the Management Board for Financial Matters – Mr. Mariusz Rędaszka,
3) Vice-President of the Management Board for Development Strategy – Mr. Roman Pionkowski.

The procedure to select the Vice-President of the Management Board for Corporate Matters was completed without selecting the best candidate.

Additionally, on 29 December 2015 the Supervisory Board launched an executive search for the Executive Vice-President of the Management Board for Corporate Matters and the Vice-President of the Management Board for Investor Relations that was completed on 1 February 2016.

The procedure to select the Vice-President of the Management Board for Investor Relations was completed without selecting the best candidate.

The procedure to select the Vice-President of the Management Board for Corporate Matters was completed by selecting Mr. Grzegorz Ksepko for this position.

On 26 February 2016, the Company's Supervisory Board adopted a resolution to dismiss Mr. Roman Pionkowski from the Company's Management Board who was serving as the Vice-President of the ENERGA SA Management Board for Development Strategy.

Also on 26 February 2016, the ENERGA SA Supervisory Board launched an executive search to recruit the Company's Management Board members for its fifth term of office, i.e.:
1) Vice-President of the Management Board for Development Strategy,
2) Vice-President of the Management Board for Investor Relations.

As a result of the executive search procedure, the ENERGA SA Supervisory Board chose the following persons as the best candidates for the position of:
1) Vice-President of the Management Board for Development Strategy – Mr. Przemysław Piesiewicz, appointing him to the ENERGA SA Management Board as of 21 March 2016,
2) Vice-President of the Management Board for Investor Relations – Ms. Mariola Anna Zmudzińska, appointing her to the ENERGA SA Management Board as of 21 March 2016.

On 17 January 2017, the Supervisory Board dismissed Mr. Dariusz Kaśków from the position of the President of the ENERGA SA Management Board, Mr. Przemysław Piesiewicz from the position of the Vice-President for Development Strategy and Mr. Mariusz Rędaszka from the position of the Vice-President for Financial Matters.

On 17 January 2017, Mr. Jacek Kościelniak was delegated by the Company's Supervisory Board to act temporarily in the capacity of a Management Board Member responsible for managing the Company for a period of up to three months from the date of delegation.

Also on 17 January 2017, the ENERGA SA Supervisory Board launched an executive search to recruit the Company's Management Board members for its fifth term of office, i.e.:
1) President of the Management Board,
2) Vice-President of the Management Board for Financial Matters,
3) Vice-President of the Management Board for Operations.

The executive search procedure was conducted on the basis of the Council of Minister's regulation on qualification procedures for management board members in certain commercial companies of 18 March 2003 (Journal of Laws of 2003, No 55, item 476, as amended).

As a result of the executive search procedure, the ENERGA SA Supervisory Board appointed the following to the position of:
1) President of the Management Board – Mr. Daniel Obajtek, appointing him to the ENERGA SA Management Board as of 2 March 2017,

2) Vice-President of the Management Board for Financial Matters – Mr. Jacek Kościelniak, appointing him to the ENERGA SA Management Board as of 11 February 2017,
3) Vice-President of the Management Board for Operations – Ms. Alicja Barbara Klimiuk, appointing her to the ENERGA SA Management Board as of 1 March 2017.

On 16 February 2017, the Company's Supervisory Board adopted a resolution to dismiss from the Company's Management Board Ms. Mariola Zmudzińska, who served as the Vice-President of the ENERGA SA Management Board for Investor Relations.

The current fifth term of office of the ENERGA SA Management Board will elapse on 4 January 2019.

Daniel Obajtek – President of the Management Board

Since 1999 he has been active in private companies where he served for 7 years in management and senior management roles; he also co-founded one of those companies. Local and self-government activist. From 2002 to 2006 he was a town council member in the Pcim Municipality and subsequently from 2006 to 2015 he was the head of the Municipality. During the 9 years in office, he undertook many successful development initiatives. He introduced solutions promoting equal standards of education in schools, implemented EU-funded projects to computerize households and organize training courses and workshops for less affluent households. He also successfully conducted numerous infrastructural investments. In 2015 he began his tenure as the President of the Agriculture Restructuring and Modernization Agency, the largest payment agency in Europe with more than 11 thousand employees in Poland's 16 regions. He streamlined the Agency's processes for spending approx. PLN 25 billion per annum in EU and domestic funds. He conducted an organizational reform of the Agency and optimized its operating expenses. He rationalized the Agency's employee salaries and he engaged in talks with the trade unions, thereby bringing to an end a collective labor dispute that had persisted for many years. In 2016 he set up the Offsite Sub-Department of the IT Department to cut IT expenses and thereby terminate the Agency's dependence on third party companies. Since 2016 he has also acted in the capacity of the Supervisory Board Chairman of LOTOS-Biopaliwa Sp. z o.o. and Supervisory Board member of DALMOR S.A. He has won many awards, including the first place in the EURO GMINA contest, the second place in the Best Municipality Head in Małopolska, he was also named the Personality of Myślenice Region and the Social Care Leader. In 2016 he took first place in Gazeta Bankowa's contest for Poland's Thriftiness Leader in the Newcomer of the Year category in 2016. He co-authored the publications: "Repolonization of Poland" and "European Union Funds as a factor improving competitiveness and quality of life in rural areas of the Podkarpacie region".

Alicja Barbara Klimiuk– Vice-President for Operations

She graduated from the Management Department of the University of Gdansk. She completed the Post-Graduate Course in Management at the Warsaw School of Economics and the Post-Graduate Course in Controlling in Corporate Management at the University of Gdańsk. She has many years of professional experience in commercial law companies with State Treasury holdings, including Energa SA as the President of the Management Board. In the period of consolidating the Energa Group with the Ostrołęka Power Plant Complex, she oversaw the process of separating the distribution system operator, establishing an electricity trading company and restructuring the Energa Group subsidiaries. In 2006-2007, she also served as a member of Supervisory Boards of companies such as: Towarowa Giełda Energii S.A. in Warsaw, Zespół Elektrowni Ostrołęka S.A. and Cergia Energetyka Toruńska S.A. In the period from 1992 to 1998, as the Vice-President of the city of Suwałki, she oversaw the areas of finance, infrastructure investments, geodesy, zoning management and public utility companies. From 1998 to 2006, she was the President and Vice-President of the Special Economic Zone in Suwałki responsible, among others, for overseeing infrastructure construction and development on the Special Economic Zone site and monitoring compliance of the businesses with their permits. In the period from 2008 to 2013, she ran her own business, providing investment advice and consulting on the reports on the environmental impact of investment projects. Since 2014, she has been the Director of the Technology Transfer Center at the Higher Vocational School of prof. Edward F. Szczepanik in Suwałki, where she executed projects co-funded by the EU focusing on the research and development work for businesses and the transfer of technology from academic centers to the economy.

Jacek Kościelniak – Vice-President of the Management Board for Financial Matters

He graduated from the Economic Academy (currently University of Economics) in Katowice, specializing in finance and accounting. In 1989 he began his professional career as an accountant, finance specialist and Chief Accountant in private limited liability companies. Then, from 1992 to 1998, he provided accounting, tax and legal and economic advisory services running his business activity. He conducted training workshops on the subject of taxes, accounting and mandatory prevention of the introduction of funds originating from illegal or undisclosed sources into financial circulation. He also worked as an auditor for the National Cooperative Savings and Loans Organization (Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa). From 1998 to 2002 he served as the Finance Department Director at the Silesian Voivodship Office. He was also the Supervisory Board chairman of the Upper Silesia Regional Development Agency and a supervisory board member of the Upper Silesia Restructuring Fund. He was elected as Member of the Parliament of the 5th Term and, during that period, he served as a member of the Parliamentary Public Finance Committee. From January to November 2007 he was Secretary of the State in the Prime Minister's Office and Deputy Chairman of the Standing Committee of the Council of Ministers. From 2007 to 2011 he served as the Vice-President of the Supreme Audit Chamber. He acted as an expert in the twin cooperation project to strengthen the audit potential of the Audit Authority in Georgia and Albania. He has also worked for the EUROSTAT Working Group tasked with the preparation and development of European Public Sector Accounting Standards

Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters

Graduate of the Faculty of Law and Administration at the University of Gdansk (2001). In 2004 he completed his public prosecutor trainee program in the District Public Prosecution Office in Gdansk and he passed the public prosecutor examination. In November 2005 he was entered on the list of advocates. In July 2006 he became a partner (equity partner) in the law firm Kancelaria Radców Prawnych i Adwokatów Głuchowski Siemiątkowski Zwara i Partnerzy. In November 2010 he became a senior partner, thereby taking a senior management position. In his law practice he specialized above all in company law, business services, criminal law, criminal revenue law, civil law, administrative law and in issues related to the functioning of the oil and power sector. He also provided services to other businesses, including advisory services in the area of corporate governance. From 2003 to 2007 he sat in the Supervisory Board of Agencja Rozwoju Pomorza S.A. (Pomeranian Development Agency) with its registered office in Gdansk. He was one of the principal authors of the vetting bill and the amendment of the Act on the Institute of National Remembrance drafted in 2006. He also participated in work on the consumer bankruptcy bill, the amendment of the State Treasury Solicitors' Office Act, the amendment of the Press Law, the amendment of the Weapons and Ammunition Act and the amendment of the Criminal Code and he prepared draft regulations for the Minister of Regional Development on public aid. In 1996 he completed the Fourth Annual Summer School for Young Social and Political Leaders under the Polish Robert Schuman Foundation and in 1997 the English language school at the University of California Los Angeles.

None of the above Management Board Members of the Company is engaged in any business competitive to that of ENERGA SA, participates in a competitive entity as a partner in a civil law company or partnership or as a member of a corporate authority of a joint stock or limited liability company and does not participate in any other competitive legal person as a member of its corporate authority, or is listed in the Register of Insolvent Debtors kept pursuant to the National Court Register Act.

Management Board's powers

The Management Board operates in accordance with the Commercial Company Code and the Company's Articles of Association. The Management Board's organization and operation, including detailed method of adopting resolutions, are determined by the Management Board Bylaws approved by the Supervisory Board and published on the Company's corporate website.

The Management Board runs the Company's affairs and represents it. Two Management Board Members acting jointly or one Management Board Member acting jointly with a general proxy are authorized to submit representations of will and sign them on the Company's behalf.

The powers of the Management Board comprise all the Company's matters which are not reserved by the regulations of law or the Company's Articles of Association for the authorities. According to Articles of Association, without prejudice to exceptions indicated therein, each Management Board member may conduct the Company's matters in the scope of his/her powers set forth in the Management Board Bylaws without prior resolution of the Management Board. If, however, before handling such matter, at least one of the remaining Management Board Members objects to the handling thereof, a prior Management Board resolution will be required.

On the date of preparing this Report, the Management Board members have made a functional split of the specific areas of the Company's business for the purpose of individually handling the affairs in the range of their powers and have entrusted:

1) functional oversight over the following areas of the Company's business to the President of the Management Board:
    a) press support,
    b) audit and control,
    c) strategic risk management,
    d) legal support,
    e) security,
    f) Group's personnel policy, including the hiring of members of corporate bodies of ENERGA Group Companies,
    g) marketing and sponsoring activity,
    h) management of the Group's organization and corporate governance,
    i) social dialogue,
2) functional oversight over the following areas of the Company's business to the Vice-President of the Management Board for Corporate Matters:
    a) institutional relations,
    b) the Group's corporate oversight and corporate governance, excluding the hiring and compensation of members of corporate bodies of ENERGA Group Companies,
    c) management by objectives,
    d) internal communication,
    e) CSR and environmental policy,
3) functional oversight over the following areas of the Company's business to the Vice-President of the Management Board for Financial Matters:
    a) financial planning and analyses,
    b) financial reporting and consolidation,
    c) financial policy,
    d) management of the Group's financial risk,
    e) business controlling,
    f) compensation of members of corporate bodies of ENERGA Group companies,
    g) investor relations,
    h) stakeholder relations.
4) Functional oversight over the following areas of the Company's business to the Vice-President of the Management Board for Operations:
    a) ENERGA Group's Strategy, regulatory policy,
    b) strategic asset management,
    c) market analyses and the Group's development,
    d) research and development and innovation,
    e) mergers and acquisitions,
    f) IT.

Manner of the Management Board's functioning

In principle, Management Board resolutions are adopted at its meetings. The meetings are held on the set date as needed, but no less frequently than once every two weeks.

Management Board meetings are convened by the President of the Management Board or a Management Board Member. Meetings held according to a fixed schedule adopted by a Management Board resolution do not require notifications. In addition, the Management Board meeting convened at the written request of a Management Board Member or Supervisory Board member should be convened within four days from the date of submitting the request to the President of the Management Board.

In principle, the President of the Management Board presides over Management Board meetings. Management Board meetings are held in the Company's registered office or at another location indicated by the person convening the Management Board meeting. The Management Board Bylaws admit the possibility of Management Board Members' participation in the meeting and voting on resolutions adopted during a meeting using remote means of direct communication, such as conference and video conference calls, with the reservation that there is at least one Management Board Member present at the location specified by the person convening the meeting and there is a technical possibility of ensuring a connection.

Management Board resolutions are adopted by an absolute majority of votes. If an equal number of votes is cast, the Management Board President’s vote will prevail. In order for the resolutions to be valid, all the Management Board members must be correctly notified about the meeting, and more than one-half of the members must be in attendance if the Management Board is composed of at least three persons. If the Management Board is composed of two persons, all the Management Board Members must be in attendance in order for the resolutions to be valid. Voting, in principle, is by open ballot but at the request of Management Board member, a secret ballot may be called.

In urgent situations it is permitted to adopt resolutions following the written procedure or by using remote means of direct communication such as fax or e-mail on the condition that all Management Board Members express their consent for it. The resolution will be valid if all Management Board Members have been notified of the content of the draft resolution following the written procedure or by using remote means of direct communication.

In 2016 the ENERGA SA Management Board held 68 meetings and adopted 372 resolutions.

The Management Board’s most important actions and decisions were as follows:
1) launch of a project involving the construction of a new power unit in Ostrołęka.
2) adoption of the ENERGA Group Strategy for 2016-2025, the Long-Term Plan of Strategic Investments of the ENERGA Group and the Long-Term Financial Model of the ENERGA Group,
3) engagement of the Company in projects of strategic importance for the Republic of Poland,
4) adoption of the “Organizational Bylaws of the Enterprise of ENERGA Spółka Akcyjna”.

6.8. Compensation of persons in management and supervisory bodies

Management Board

In 2016, Members of the ENERGA SA Management Board provided Company management services based on management contracts entered into on condition that a Management Board member runs a business activity on the basis of an entry in business activity records and takes out management liability insurance at his/her own expense.

The Supervisory Board specifies the rules and amounts of compensation for the Company’s Management Board members with whom an agreement on management (management contract) has been executed.

The compensation model for Management Board members includes a dual component compensation system consisting of the following:

1) the fixed part (basic monthly salary),
2) the variable part, which is conditional upon the satisfaction of specified criteria (successful execution of specified tasks or achievement of goals of special importance to the Company).

The basic monthly salary of Management Board members included all the compensation for discharging functions on supervisory authorities of the Companies from the ENERGA Group and compensation for copyright to all the works developed by the Manager within the framework of performing this agreement which constitute pieces of work as understood in the Act on Copyright and Related rights of 4 February 1994 and which are transferred to the Company pursuant to this agreement.

Variable components of compensation are set by the Company's Supervisory Board that may grant to a Management Board member:

1) annual bonus, granted within two months of the date of approving the Company's financial statements for the financial year to which the bonus refers, after assessment of the degree to which the economic conditions and parameters assumed by the Supervisory Board have been achieved,
2) additional bonus, in connection with the Management Board member's achievement of goals of special importance to the Company.

Agreements concluded between the Company and its managers provided for:

1) if the management contract expires because of the elapse of the term of office, the right to compensation for a period of three months of the date of the elapse of the term of office, with the proviso that the Management Board member remains in constant readiness to provide, at the Company's request, services to the extent making it possible to transfer the entire scope of his or her duties according to the Company's needs,
2) to compensation for refraining from conducting a competitive activity (no-compete) for a period up to 12 months after the agreement termination date,
3) the right to severance pay in the amount of three times the basic monthly salary if the manager is dismissed from the function of a Management Board member.

On 15 December 2016, by the power of Resolution no. 27 adopted by the Extraordinary General Meeting, the rules for remunerating the Management Board Members to the provisions of the Act of 9 June 2016 on the Rules for Remunerating Persons Managing Certain Companies (Journal of Laws of 2016 Item 1202), As at the date of this report, the fixed part of compensation for work payable to the Members of the ENERGA SA Management Board was set within the range from 7 to 15 times the average salary in the corporate segment without profit-sharing awards in the fourth quarter of the previous year, as announced by the President of the Main Statistical Office.

Based on the new adopted rules of compensation, new management service contracts are signed with the managers, which provide for:

1) the right to compensation for refraining from conducting competitive activity (no-compete) for a period up to 6 months after the contract termination date,
2) the right to severance pay in the amount of three times the basic monthly salary if the manager is dismissed from the function of a Management Board member.

The compensation paid individually to each of the Company's Management Board members in 2016 is presented in the table below.

Table 35: Compensation paid to the persons in the ENERGA SA Management Board in the period from 1 January to 31 December 2016 (PLN 000s)

Full name	In office	Compensation	Other benefits	Total*
Dariusz Kaśków	from 4 January to 31 December 2016	833.2	63.1	896.3
Mariusz Rędaszka	from 4 January to 31 December 2016	773.7	44.3	818.1
Grzegorz Ksepko	from 1 February to 31 December 2016	715.0	37.5	752.5
Przemysław Piesiewicz	from 21 March to 31 December 2016	608.1	29.5	637.5
Mariola Anna Zmudzińska	from 21 March to 31 December 2016	606.0	2.3	608.3
Seweryn Kędra	from 1 January to 3 January 2016	195.0	8.7	203.7
Roman Pionkowski	from 1 January to 26 February 2016	191.3	8.6	199.9
TOTAL		**3,922.2***	**194.0**	**4,116.3**

**the differences in sum are caused by rounding.*

In the previous year, the Management Board Members were also entitled to non-financial compensation elements, such as:

- medical insurance for the Management Board member and his/her direct family and the right to select either life insurance or medical insurance,

- company apartment in justified cases or a reimbursement of rental expenses,

- covering or refinancing the costs of individual training related to the range of activities performed in favor of the Company,

- benefiting from the Company's asset items.

The compensation system for members of the ENERGA SA Management Board members is based on the objective management system. The objectives are set on the basis of the existing ENERGA Group Strategy, Long-Term Plan of Strategic Investments and the challenges, both internal and external, that the Group is facing. Payment of variable elements of compensation of ENERGA SA Management Board members is related to the extent and level to which the objectives have been fulfilled. Additionally, the objectives of Management Boards who are Segment leaders and the Company's management are related to the objectives for the ENERGA SA Management Board and cascaded in accordance with the "from top to bottom" methodology. The accepted model provides an incentive function and integrates the executive and management personnel around the objectives and gives them the sense of shared accountability for achieving them.

A system designed in such a way combines focus on the activities that are important from the Group's point of view, with an effective pursuit of its intentions. It is also important for the Company's shareholders, since it builds ENERGA's value in the long term and ensures stable operation of the Company.

Supervisory Board

According to the Articles of Association, Supervisory Board members are entitled to monthly compensation in the amount set by the General Meeting.

The Company will also cover the costs incurred in connection with performance of the functions entrusted to Supervisory Board members, in particular the costs of transport to the Supervisory Board meeting, costs of exercise of personal oversight, and costs of food and lodging.

The compensation will not be due for the month in which the Supervisory Board member did not attend any of the formally convened meetings and failed to provide any formal justification. Remuneration of ENERGA SA Supervisory Board members in 2016 is presented in the table below.

Table 36: Compensation of persons sitting in the ENERGA SA Supervisory Board in the period from 1 January to 31 December 2016 (PLN 000s)

Full name	Period in office in 2016	Compensation	Other benefits	Total
Paula Ziemiecka-Księżak	from 1 January to 31 December 2016	53.0	-	53.0
Jarosław Mioduszewski	from 1 January to 7 January 2016	1.0	-	1.0
Mirosław Szreder	from 1 January to 7 January 2016	1.0	-	1.0
Zbigniew Wtulich	from 1 January to 31 December 2016	52.5	-	52.5
Bogdan Skalski	from 1 January to 8 September 2016	35.4	-	35.4
Roman Pionkowski	from 1 January to 3 January 2016	-	-	-
Marek Szczepaniec	from 7 January to 31 December 2016	51.8	-	51.8
Jacek Kościelniak	from 30 December to 31 December 2016	-	-	-
Maciej Żółtkiewicz	from 7 January to 31 December 2016	51.8	-	51.8
Agnieszka Terlikowska-Kulesza	from 8 September to 31 December 2016	17.4		17.4
Andrzej Powałowski	from 1 January to 8 September 2016	51.8		51.8
TOTAL		315.6*		**315.6***

the differences in sum are caused by rounding.

Number and nominal value of the Company's shares and shares in the Company's related companies held by persons in management and supervisory bodies

No member of ENERGA SA's Management Board or Supervisory Board held shares in the Company as at 31 December 2016.

6.9. Diversity policy

No specific diversity policy has been developed in ENERGA SA to be applied to its administrative, management and supervisory bodies. Ultimately, ENERGA will do its utmost to prepare and implement such a policy and inform the stakeholders about its adoption.

6.10. Primary attributes of the internal control and risk management systems in reference to preparing financial statements

An important element of the internal control system is the internal audit function. The Company has an internal audit unit which carries out the audit and control tasks in the ENERGA Group. These tasks are carried out according to the Rules for conducting audits in the ENERGA Group. The internal audit function helps the organization maintain effective and efficient control mechanisms through their evaluation and promotion of constant improvements while following international standards of internal audit practices.

The purpose of an effective internal control system in the financial reporting process is to ensure adequacy and correctness of financial information contained in periodic reports. For this purpose, the Company designed and implemented the financial reporting process oversight matrices.

In 2016, employees of the Audit Department conducted an “Audit of effectiveness of internal control in respect to financial reporting” in the ENERGA Group, which covered all the control activities designed and defined in the matrices. The auditors believe that the control mechanism provided by the matrices is an effective and efficient protection for the Group against the effects of risk associated with this area. The control activities defined in matrices were pursued by the companies correctly; no material irregularities were found in respect to the effectiveness and efficiency of the financial reporting process. The financial reporting area is additionally an element of the annual Assessment of the Internal Control System, Risk Management and Compliance System in ENERGA SA, which in 2016 was effected with the participation of PricewaterhouseCoopers (“PwC”) – in this case the work of the auditors pertaining to the Financial reporting process was positive

The financial data, which are the basis of financial reports and Management Board's reports as well as ENERGA SA's monthly management and operational reporting, come from the Company's financial and accounting system. After the performance of all the pre-determined ledger closing processes at the end of each month, detailed financial and operational managerial reports are prepared. These reports are drafted with co-participation of middle and senior management of the individual organizational cells. As far as closed reporting periods are concerned, the Company's financial results are analyzed in detail and compared to the budget assumptions, and the identified deviations are properly explained.

The financial reporting and the management reporting of the Company and the ENERGA Group are carried out on the basis of the accounting policy (according to International Financial Reporting Standards), which is adopted by a resolution of the Company's Management Board and updated as needed.

Annual reviews of strategies and economic and financial plans are carried out in the Company. The process of detailed planning and budgeting, which includes all the areas of the Company's functioning, involves middle and senior management. The economic and financial plan is accepted by the Company's Management Board and approved by the Supervisory Board.

The Supervisory Board is responsible for selecting a statutory auditor to audit the Company’s financial statements and the Group’s consolidated financial statements. The statutory auditor authorized to audit the Company's financial statements is the entity specified in the Act of 7 May 2009 on Auditors, their Self-Regulatory Authority, Entities Authorized to Audit Financial Statements and Public Oversight (Journal of Laws No. 77, item 649).

The Company does not have a specific rule regarding an entity authorized to audit financial statements. According to § 23a of the Company's Articles of Association, the Audit Committee recommends to the Supervisory Board the entity authorized to perform the financial review of the Company, and the Supervisory Board chooses and changes such entity. In the past, the Company did not cooperate with any of the three entities authorized to audit financial statements for more than five years in a row.

The entire auditor selection procedure is conducted by the Supervisory Board's Audit Committee, and it encompasses determining the auditor selection criteria, conducting the selection procedure and authorizing the Management Board to conclude with it an agreement to audit the financial statements. The Supervisory Board selects the proposal for auditing the financial statements after carrying out the procedure, whose aim is to select an independent statutory auditor and the proposal whose price that takes into account the auditor's efforts, the auditor's position on the market of auditing services, and knowledge of the industry in which the Company operates.

In 2014, the Company’s Supervisory Board (current report no. 42/2014 of 6 November 2014), having examined the recommendation of the Audit Committee, selected the authorized entity PriceWaterhouseCoopers Sp. z o.o. in Warsaw, to be the statutory auditor to audit the financial statements and consolidated financial statements of ENERGA SA and the ENERGA Group and to provide other affirmation services for the annual periods ended on 31 December 2015, 31 December 2016 and 31 December 2017, respectively. In connection with the entry into force of the Regulation of the European Parliament and of the Council (UE) on specific requirements regarding statutory audit of public-interest entities and the expected enactment, by the Polish parliament, of an act implementing the EU regulations providing for the minimum period of two years for which a statutory audit agreement should be signed, the Supervisory Board decided to carry out a procedure to elect an auditor for the years 2017-2018. Following the procedure, on 20 December 2016 the Company’s Supervisory Board selected the authorized entity KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. with its registered seat in Warsaw at ul. Inflancka 4A ("KPMG") as the statutory auditor to audit and review the financial statements and consolidated financial statements of ENERGA SA and the ENERGA Group for the annual periods ended on 31 December 2017 and 31 December 2018, respectively.

Opinion and report of the statutory auditor is presented to the Management Board, the Audit Committee and the Supervisory Board. After the annual audit, the statutory auditor sends to the Company the so-called Letter to the Management Board, which lists the failures and shortcomings found during the audit that have no material influence on the reliability and correctness of the financial statements prepared.

Within the framework of the Integrated Risk Management System in place in the ENERGA Group, the financial reporting risk is identified and managed to ensure timely and error-free preparation of the Company’s and the Group’s financial statements and the reporting and management information risk related, among others, with collection and preparation of management, operational and financial information needed to make management decisions. The mechanisms to control these risks, as described above, are registered in the Risk Card and subject to periodic evaluation in respect to adequacy, efficiency and effectiveness.

The risk management process, which is described in more detail in item 2.1 of this Report, encompasses all of the Group’s operating segments and levels of organization. It assumes both ongoing and regular risk reviews as well as independent regular evaluation of the systems effectiveness and efficiency and continuous improvement based on the Deming cycle (PDCA).

The risk identification and evaluation results, including those of reporting risks, are adopted each time by the Company’s Management Board in the form of a Management Board Resolution, which sets the organization’s risk appetite, accepts the management strategy for the individual risks and obligates Risk Owners to implement action plans in accordance with the entries in the Risk Cards. Additionally, as part of the effectiveness monitoring process for the risk management system in the ENERGA Group, a report summarizing risk reviews in the Group is delivered to the Audit Committee operating within the ENERGA SA Supervisory Board.

Management board's representation

7. MANAGEMENT BOARD'S REPRESENTATION

Gdańsk, 29 March 2017

The ENERGA SA Management Board hereby represents that:

(1) according to the best knowledge, the annual consolidated financial statements and the comparative data were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the ENERGA Group and its financial result. The Management Board Report on the activity of the ENERGA Group contains a true presentation of developments, achievements, and situation of the Group, including a description of key risks and threats;

(2) PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością, an entity authorized to audit the financial statements, which audited the consolidated financial statements of the ENERGA Group for the financial year ended 31 December 2016, was selected in accordance with the applicable regulations. That entity as well as the auditors who audited the aforementioned financial statements satisfied the conditions for expressing an unbiased and independent opinion about the audit of the consolidated financial statements as required by the binding regulations and professional norms.

Signatures of ENERGA SA Management Board Members

Daniel Obajtek
President of the ENERGA SA Management Board

Alicja Klimiuk
Vice-President of the ENERGA SA Management Board for Operations

Jacek Kościelniak
Vice-President of the ENERGA SA Management Board for Financial Matters

Grzegorz Ksepko
Vice-President of the ENERGA SA Management Board for Corporate Matters

Marcin Biniaś
Director of the Finance Department

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Glossary of terms and abbreviations

AMI	Integrated set of elements: intelligent electricity meters, communication modules and systems providing the possibility to collect data regarding electricity consumption by specific customers.
Billing	Itemized bill, statement of all fees for added services which a subscriber uses in a given billing period
Biomass	Solid or liquid, biodegradable substances of plant or animal origin, originating from products, waste and remnants of agricultural and forestry production, the industry processing their products, and also a portion of other biodegradable waste, and especially agricultural raw materials
CAPEX	Capital expenditures
CIRS, CCIRS	Currency Interest Rate Swap and Cross-Currency Interest Rate Swap transactions, in which payments will be made over a specified period with a specified frequency, based on variable interest rates, in two different currencies (CIRS) or in more currencies (CCIRS).
CO2	Carbon dioxide
EIB	European Investment Bank
EBIDTA (Earnings Before Interest, Taxes, Depreciation and Amortization)	ENERGA SA defines EBITDA as operating profit/loss plus depreciation and amortization and impairment losses for non-financial non-current assets. Since the EBITDA definition changed as of 2016, EBITDA for comparative periods (2013-2015) was calculated using the new definition.
EBIT	Earnings before interest and taxes; Operating profit
EBRD	European Bank for Reconstruction and Development
ENERGA SA, ENERGA	Parent company in the ENERGA Group.
ENERGA-OPERATOR, EOP	ENERGA-OPERATOR SA – a subsidiary of ENERGA SA and the leader of the Distribution Segment in the ENERGA Group.
ENERGA-OBRÓT, EOB	ENERGA-OBRÓT SA – a subsidiary of ENERGA SA and the leader of the Sales Segment in the ENERGA Group
EMTN	Euro Medium Term Note issue program.
EU	European Union
EUA	European Union Allowance; Emission allowances
EU ETS	European Union Greenhouse Gas Emission Trading Scheme The rules governing its operation are stated in ETS Directive.
EUR	Euro, currency used in countries belonging to the European Union's Eurozone
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
ENERGA Group, Group	A group distributing, selling and generating electricity and thermal energy. It also conducts activity related to street lighting, design, procurement of materials, grid-related services, specialized transport, hotel and IT services.
Tariff group	Group of customers off-taking electricity or heat or using electricity or heat supply services with respect to which a single set of prices or fee rates along with their terms and conditions are applicable.
GUS	Główny Urząd Statystyczny (Central Statistical Office)
GW	Gigawatt, unit of power in the International System of Units, 1 GW = 10^9 W
GWe	Gigawatt of electrical power
GWh	Gigawatt hour
IBnGR	Market Economy Research Institute
IPO	Initial public offering
IRS (Interest Rate Swap)	An interest rate swap agreement between two parties, under which the parties pay interest on the contractual nominal amount calculated according to a different interest rate.
Issuer	ENERGA SA
KNF	Polish Financial Supervision Authority
Cogeneration, CHP	Technological process of simultaneous production of heat and electrical or mechanical energy in the course of the very same technological process
Covenants	Contractual clauses offering protection to lenders in loan agreements.
KRS	National Court Register

kWh	Kilowatt hour, unit of electrical energy generated or used by equipment with 1 kW of power in an hour; 1 kWh = 3,600,000 J = 3.6 MJ
MEW	Small hydro power plant
MoT	Ministry of State Treasury
MW	Unit of power in the International System of Units, 1 MW = 10^6 W
MWe	Megawatt of electrical power
MWh	Megawatt hour
MWt	Megawatt of thermal power
NBP	National Bank of Poland, central bank in Poland
NCBiR	Narodowe Centrum Badań i Rozwoju (National Centre for Research and Development)
NFOŚiGW	National Fund for Environmental Protection and Water Management
EGM	Extraordinary General Meeting of ENERGA SA
Renewable Energy Sources, RES	Sources converting the energy of the wind, solar radiation, geothermal energy, waves, currents and marine tides, run of rivers and energy obtained from biomass, garbage dump biogas as well as biogas ensuing from waste removal or treatment processes or the degeneration of stored plant and animal remains to generate electricity.
DSO, Distribution System Operator	Utility dealing with the distribution of gaseous fuels or electricity, responsible for grid operation in the gaseous distribution system or in the electricity distribution system, the current and long-term operational safety of this system, the operation, maintenance, refurbishment and required expansion of the distribution grid, including connections with other gaseous systems or other electrical energy systems.
TSO, Transmission System Operator	Utility dealing with the transmission of gaseous fuels or electrical energy, responsible for grid operation in the gaseous transmission system or in the electrical energy transmission system, the current and long-term operational safety of this system, the operation, maintenance, refurbishment and required expansion of the transmission grid, including connections with other gaseous systems or other electrical energy systems.
OZEX_A	Volume-weighted average price using all transactions pertaining to the PMOZE_A contract on an exchange session
PGE	PGE Polska Grupa Energetyczna SA
GDP	Gross Domestic Product
PLN	Polish zloty, national currency
PMOZE_A	Property rights to certificates of origin for electricity generated in RES whose period of generation, as specified in the certificate of origin, commenced after 1 March 2009
pp.	Percentage point
Property rights	Negotiable rights constituting a commodity arising from certificates of origin for energy generated from renewable energy sources and cogeneration
Vertically-integrated utility	Utility or group of utilities whose reciprocal relationships are prescribed by Article 3 sec. 2 of the Regulation on the Control of Concentrations, dealing with (i) in respect of gaseous fuels: transmission or distribution, or storage, or condensation and generation or the sale of these fuels, or (ii) in respect of electrical energy: transmission or distribution and generation or the sale of this energy
PSE	Polskie Sieci Elektroenergetyczne Spółka Akcyjna with its registered office in Warsaw, entered in the register of entrepreneurs of the National Court Register under file number KRS 0000197596; company designated by ERO President decision No. DPE-47-58(5)/4988/2007/BT of 24 December 2007 to be the electrical power transmission system operator in the Republic of Poland for the period from 1 January 2008 until 1 July 2014
yoy	Year on year
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SFIO	Specialized Open-end Mutual Funds
Smart Grid	Electric power system intelligently integrating the actions of all the participants in the processes of generation, transmission, distribution and usage to deliver electricity in an economical, reliable and safe manner. It entails comprehensive energy solutions making it possible to combine, facilitate reciprocal communication and control in an optimum way elements of power grids that have been diverse to date

Spot	Day-Ahead Market (DAM) – energy market operating in the "day ahead" time interval (DA) providing for energy supply on day D
Certificate of origin	Certificate of origin from renewable sources and certificate of origin from cogeneration
Certificate of origin from co-generation	Document issued by the ERO President pursuant to art. 9l of the Energy Law confirming the generation of electricity in highly-efficient cogeneration generated in: (i) a cogeneration unit fired with gaseous fuels or with the total installed electrical capacity at source being under 1 MW (known as a yellow certificate), (ii) a cogeneration unit fired with methane released and drained in the course of underground mining activity in hard coal mines that are active, that are being shut down or that have been shut down or with gas obtained by processing biomass (known as a purple certificate), or (iii) some other cogeneration unit (known as a red certificate)
Certificate of origin from renewable energy sources, green certificate	Document issued by the ERO President pursuant to art. 9e of the Energy Law confirming the generation of electrical energy in a renewable energy source (known as a green certificate)
Tariff G	Tariff group for individual customers – households
Polish Power Exchange, TGE	Polish Power Exchange S.A., a mercantile exchange on which commodities admitted to be traded on the exchange are traded, i.e. electrical energy, liquid and gaseous fuels, mine gas, pollution emission limits and property rights ensuing from certificates of origin whose price is directly or indirectly dependent on the price of electrical energy, liquid or gaseous fuels and the quantity of pollution emissions
TWh	Terawatt hour, a multiple unit of electricity in the International System of Units. 1 TWh is 10^9 kWh
EU	European Union
ERO	Energy Regulatory Office
WACC	Weighted average cost of capital
WIBOR	Warsaw Interbank Offered Rate
Cofiring	Generation of electricity or heat using a process of simultaneous and joint combustion of biomass or biogas with other fuels in a single device; a portion of the energy generated in this manner may be deemed to be energy generated in a renewable energy source