Management Board Report on the activity of the ENERGA Group

for H1 2017

Gdańsk,
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TABLE OF CONTENTS

1. SUMMARY OF Q2 2017 ... 3
2. KEY INFORMATION ABOUT THE GROUP ... 6
2.1. Material events in the reporting period and after the balance sheet date ... 6
2.2. Activities of the ENERGA Group ... 9
2.3. Key changes in the Group's structure and organization ... 10
2.4. Implementation of the investment program ... 11
2.5. Research and development ... 12
2.6. Information on material contracts ... 14
2.7. Risk management ... 15
2.8. Proceedings pending before the court, arbitration bodies or public administration bodies ... 21
2.9. Headcount in the Group ... 25
2.10. Collective disputes and group layoffs ... 25
2.11. Awards and distinctions ... 26
3. ANALYSIS OF THE FINANCIAL STANDING AND ASSETS ... 28
3.1. Rules for preparing the interim consolidated financial statements ... 28
3.2. Discussion of the economic and financial data disclosed in the condensed consolidated financial statements ... 28
3.3. Structure of the annual consolidated statement of financial position ... 34
3.4. Description of significant off-balance sheet items ... 35
3.5. Key operational data of the ENERGA Group ... 35
3.6. Financial results by operating segments ... 38
3.7. Projected financial results ... 46
3.8. Ratings ... 46
3.9. Dividend ... 47
3.10. ENERGA Group performance drivers in the next quarter and later ... 47
4. ENVIRONMENT ... 49
4.1. Macroeconomic situation ... 49
4.2. Electricity market in Poland ... 50
4.3. Regulatory environment ... 55
5. SHARES AND SHAREHOLDING STRUCTURE ... 59
5.1. ENERGA's shareholding structure ... 59
5.2. Prices of Company's shares and recommendations issued ... 60
5.3. Shares held by executive and supervisory personnel ... 61
List of figures ... 63
List of tables ... 63
Glossary of terms and abbreviations ... 64

1. SUMMARY OF Q2 2017

Energa

Q2 RESULTS

KEY RESOURCES

RENEWABLE ENERGY SOURCES

ENERGA SA AT THE WSE

GROUP AFTER Q2 2017:

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 USERS

PLN 542 m
EBITDA

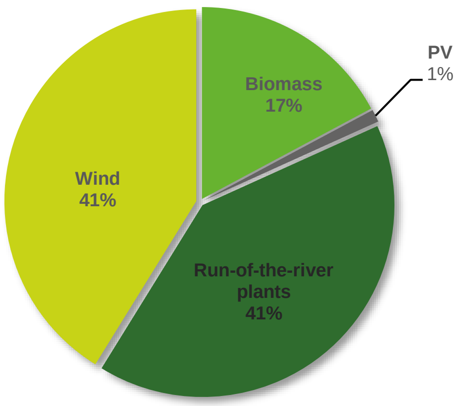
PLN 175 m
Net profit

Distribution network with the length of over
185 thous. km

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

8.8 thous.
employees

Installed capacity
512 MWe



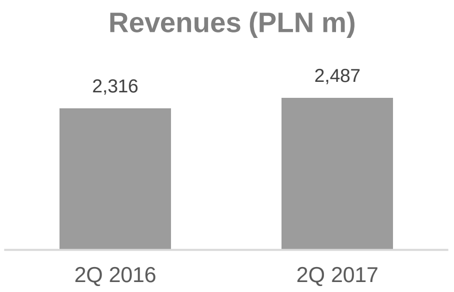
Market capitalization: PLN 4.3 bn*

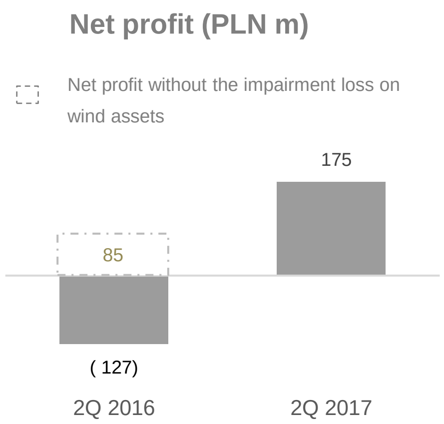
9 October 2017 – payment date of a dividend of PLN 0.19 per share.

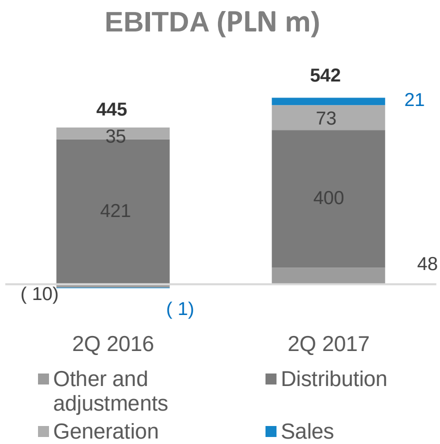
** According to the closing stock price on 30 June 2017.*

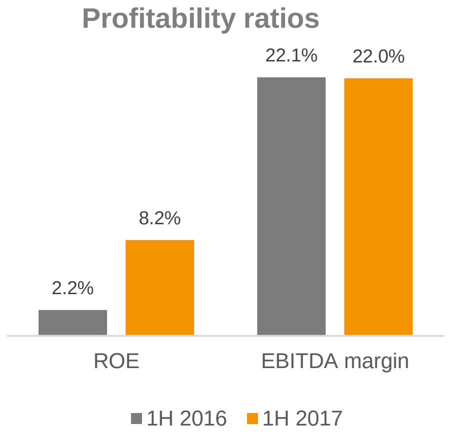
OPERATIONAL DATA

	Q2 2017	Q2 2016
Volume of electricity supplied (GWh)	5,396	5,377
Gross electricity produced (GWh)	1,039	796
- incl. RES (GWh)	*378*	*263*
Retail sales (GWh)	5,047	4,583









INVESTMENTS

Investment projects in the ENERGA Group

In Q2 2017, the ENERGA Group executed investment projects worth PLN 311 m, of which almost PLN 266 m in the Distribution Segment. Investment 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 those capital expenditures, in Q2 of this year almost **17 thousand new customers** were connected, **876 km** of high, medium and low voltage lines were built and modernized and **6 MW** of new renewable energy sources were connected to the grid.

Key information about the Group

2. KEY INFORMATION ABOUT THE GROUP

2.1. Material events in the reporting period and after the balance sheet date

Payment of a dividend from the profit generated in 2016

On 26 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 2016 to 31 December 2016 in the amount of PLN 783,542,643.96, with the following allocation:

1) payment of a dividend to shareholders in the amount of PLN 78,672,751.66, i.e. PLN 0.19 per share (10% of profit),
2) allocation to supplementary capital in the amount of PLN 704,869,892.30 (90% of profit).

The record date was set by a resolution at 25 September 2017 and the dividend payment date at 9 October 2017 (Current Report Nos. 22/2017, 23/2017 and 28/2017).

Opting out from the acquisition process of EDF's Polish assets

On 11 May 2017, the Company's Management Board adopted a resolution on ENERGA SA's resignation from the participation in the transaction to acquire Polish assets of EDF International SAS of EDF Investment II B.V. The decision followed in-depth analyses conducted in the Group, which supported a decision to focus ENERGA Group's investments and acquisitions on projects that would offer more synergies with its current asset base and area of competence; ones that would allow the Group to strengthen its balance sheet and improve its asset management efficiency. Such investments will be considered a priority.

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

The transaction was to include:

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

• acquisition of acquisition of all the shares held by EDF in ZEC "Kogeneracja" S.A., which owns four combined heat and power plants 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).

Subsequently, the Company's Management Board reported that on 15 March 2017 the Company together with its Business Partners made changes to the previous Transaction structure under which:

- PGNiG Termika S.A. opted out of the Transaction;

- PGNiG Termika S.A.'s previously declared share in the Transaction was taken over by PGE Polska Grupa Energetyczna S.A., as a result of which PGE's share in the Transaction increased to 60%;

- the interest of ENEA S.A. and ENERGA SA in the Transaction remains at the same level of 20% per company.

Execution of an investment agreement to recapitalize Polska Grupa Górnicza

On 29 March 2017, the Management Board of ENERGA SA made a directional decision on recapitalizing Polska Grupa Górnicza Sp. z o.o. ("PGG") with the amount of PLN 100 m by its subsidiary ENERGA Kogeneracja Sp. z o.o. (Current Report No. 18/2017).

On 31 March 2017, the subsidiary ENERGA Kogeneracja Sp. z o.o. signed an Investment Agreement amending and supplementing the terms and conditions of the financial investment in Polska Grupa Górnicza Sp. z o.o. (Current Report No. 19/2017) laid down in the first investment agreement executed on 28 April 2016 (Current Report No. 17/2016).

The parties to the Investment Agreement included: ENERGA Kogeneracja, Enea S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A., PGNiG TERMIKA S.A., Węglokoks S.A., Towarzystwo Finansowe Silesia sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych [Polish Corporates Mutual Fund – Private Assets Closed-End Mutual Fund] and PGG.

The transaction assumed a recapitalization of PGG by the Investors (excluding Węglokoks S.A. and Fundusz Inwestycji Polskich Przedsiębiorstw) for the total amount of PLN 1 bn. As part of the investment in PGG, ENERGA Kogeneracja undertook to subscribe for new shares with the total par value of PLN 100 m in exchange for a cash contribution of PLN 100 m to be made in three tranches:

1) as part of the first tranche, in April 2017 the company subscribed for shares in PGG in exchange for a cash contribution of PLN 50 m,

2) as part of the second tranche, in June 2017 the company subscribed for shares in PGG in exchange for a cash contribution of PLN 20 m,

3) as part of the third tranche, in Q1 2018 the company will subscribe for shares in PGG in exchange for a cash contribution of PLN 30 m.

After the most recent recapitalization, the company will hold a 15.32% stake in PGG's share capital.

The purpose of the investment was for PGG to obtain funds for financing the acquisition of the enterprise of Katowicki Holding Węglowy S.A. and to cover expenses associated with PGG's planned capital expenditures.

The Agreement also specifies the rules of operation for PGG and the governs the appointment of Supervisory Board members according to which each Investor and the State Treasury will be entitled to appoint one member of the Supervisory Board consisting of a maximum of eight persons (Current Report No. 19/2017).

As at the preparation date of this Report, ENERGA Kogeneracja held a 15.76% stake in the share capital of PGG.

Closing of a public subscription for eurobonds issued by ENERGA Finance AB (publ)

On 1 March 2017, the Management Board of ENERGA SA announced the closing of the book-building process for eurobonds issued within the framework of the company's updated Eurobond Issue Program ("EMTN Program"). Information on the announcement of the intention to hold a public subscription for eurobonds issued by ENERGA Finance AB (publ) was published on 20 February 2017 (Current Report No. 14/2017).

The issue was executed by ENERGA Finance AB (publ) with its registered office in Stockholm, a wholly owned subsidiary of ENERGA SA, which will guarantee the issue. The following parameters were defined in the book-building process:

1. Issue amount: 300,000,000 (three hundred million),

2. Issue currency: EUR,

3. Maturity: 10 years,

4. Interest periods: annual,

5. Yield: 2.250%

6. Coupon: 2.125%,

7. Issue price: 98.892%.

Among the conditions for the completion of the transaction was the execution of a subscription agreement. The final settlement of the transaction was effected on 7 March 2017. The Eurobonds are listed on the Luxembourg stock exchange.

The funds raised through the bond issue will be applied to general corporate purposes. In this context, they will support the implementation of the Energa Group's Strategy for 2016-2025 in which more than 60% of expenditures are spent on the development and modernization of distribution networks and will serve the purpose of improving the Group's financial security (Current Report No. 16/2017).

Capital investment in Polimex Mostostal S.A.

On 18 January 2017, with reference to a signed letter of intent regarding a potential investment in Polimex-Mostostal S.A., the Company's Management Board reported that the following agreements were signed:

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 the acquisition of joint control over Polimex by the Investors (Current Report No. 5/2017).

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).

Changes in the ENERGA SA Management Board

On 17 January 2017, the Supervisory Board dismissed Mr. Dariusz Kaśków from the position of President of the ENERGA SA Management Board, Mr. Przemysław Piesiewicz from the position of Vice-President for Development Strategy and Mr. Mariusz Rędaszka from the position of Vice-President for Financial Matters (Current Report No. 2/2017).

On 17 January 2017, Mr. Jacek Kościelniak was delegated by the Company's Supervisory Board to act temporarily in the capacity of Management Board Member responsible for managing the Company for a period of up to three months from the date of delegation (Current Report No. 2/2017).

On 10 February 2017, the Company's Supervisory Board adopted resolutions to appoint the following persons to the Management Board of the 5th term of office:

1. Mr. Daniel Obajtek to serve as the President of the ENERGA SA Management Board from 2 March 2017,
2. Mr. Jacek Kościelniak to serve as the Vice-President of the ENERGA SA Management Board for Financial Matters from 11 February 2017,
3. Ms. Alicja Barbara Klimiuk to serve as the Vice-President of the ENERGA SA Management Board for Operations from 1 March 2017 (Current Report No. 12/2017).

On 16 February 2017, the Company's Supervisory Board adopted a resolution to dismiss from the Company's Management Board Ms. Mariola Anna Zmudzińska who served as the Vice-President of the ENERGA SA Management Board for Investor Relations (Current Report No. 13/2017).

Change in the composition of the ENERGA SA Supervisory Board

Following 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 (Current Report No. 12/2017).

In connection with the completion of the 4th term of office of the Supervisory Board of ENERGA SA on 20 May 2017, on 26 June 2017 the Annual General Meeting adopted resolutions to appoint the following persons to the Supervisory Board of the 5th term of office as of 26 June 2017:

1. Mr. Maciej Żółtkiewicz,
2. Mr. Marek Szczepaniec as the Supervisory Board Member meeting the independence criteria,
3. Mr. Andrzej Powałowski as the Supervisory Board Member meeting the independence criteria.

Additionally, on 26 June 2017, the Company received a representation from the Minister of Energy, according to which it appointed the following persons to the Supervisory Board of the 5th term of office as of 26 June 2017:

1. Mr. Zbigniew Wtulich.
2. Ms. Paula Ziemiecka-Księżak,
3. Ms. Agnieszka Terlikowska-Kulesza (Current Report No. 29/2017).

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 over 3.0 million customers, 2.8 million of which are customers with comprehensive agreements and roughly 208 thousand are TPA customers. The distribution grid consists of power lines with a total length of approx. 185 thousand km and covers almost 75 thousand km^2, i.e. about 24% of the country's landmass. ENERGA-OPERATOR SA acts as the Segment Leader.

Generation Segment operates on the basis of four business lines: the Ostrołęka Power Plant, Hydro, Wind and Other (including co-generation – CHP – and photovoltaics). At the end of Q2, the total installed capacity in the Group's power plants was approximately 1.3 GW. In Q2 2017, the Group's gross production was 1 TWh of electricity. The installed capacity of our power plants relies on diverse energy sources, such as hard coal, hydro power, wind, biomass and solar energy. In Q2 2017, 63% of the Group's gross electricity production originated from hard coal, 25% from hydro, 10% from wind and 1% from biomass. The leader in this segment is ENERGA Wytwarzanie SA.

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. Green energy is produced in 45 hydro power plants, 5 wind farms, in a biomass-fired installation (ENERGA Kogeneracja Sp. z o.o) and in two photovoltaic farms. At the end of Q2 of this year, the Group had 0.5 GW installed capacity in renewable energy sources, in which the Group's gross electricity production reached 378 GWh.

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. As at the end of Q2 2017, the ENERGA Group supplied 3.0 million customers, out of which 2.7 million were G tariff customers and the remainder were customers from tariff groups: C, B and A, in a decreasing order.

In H1 2017, special emphasis in customer service was placed on decreasing the number of complaints, reducing the time of their examination and optimizing processes related to customers and to the quality of customer service. The communication channels were also improved continuously and the available technical solutions were optimized.

ENERGA-OBRÓT continues to develop its offering and services addressed to both individual and business customers. Products launched in H1 of this year included, among others: "Entertainment with energy", "Energetic experts", "Energy audit". Additionally, as the company implements its corporate social responsibility policy, it continues to offer a product designed for families holding a Large Family Card allowing such families to reduce their electricity bills. This offering was extended in H1 2017 to gas sales. The company's full offering is posted on the website at www.energa.pl.

The ENERGA Group has noticed the opportunities associated with the increasing level of digitalization of the Polish society, therefore the eCommerce transactional environment is being consistently developed in order to enable the acquisition of customers through the online sales channel. This environment enables sales of the product offering in the eShop with a price offering for electricity. In order to improve customer service, the www.energa.pl website was modernized. Currently, it serves as a sales and service channel, which is a component of the strategic customer-focused model, which builds a deeper relationship and increases frequency of contact with the customer through digitization. The modified interface and graphic design of the website provides the customers with transparent information about ENERGA's offering and its intuitive operation provides an easy way for making a purchase.

2.3. Key changes in the Group's structure and organization

Following the signing of the investment agreement on the execution of the new power unit in Ostrołęka construction project (Current Report No. 49/2016), on 11 January 2017, the President of UOKiK issued an unconditional approval for the concentration and consequently on 1 February 2017, ENERGA SA and ENEA S.A. signed a share purchase agreement by ENEA S.A. Under the above agreements, ENERGA SA and ENEA S.A. acquired joint control over Elektrownia Ostrołęka SA with its registered office in Ostrołęka; the company's purpose is building and operating a new coal-fired unit. Both parties will hold a 50% stake in Elektrownia Ostrołęka SA and the same number of votes at the General Meeting. The Management Board and the Supervisory Board will consist of the same number of representatives of both investors. Decisions on significant actions will require unanimous consent of both shareholders, who have the rights to Elektrownia Ostrołęka SA's net assets. Given the above, the investment was classified as a joint venture and is captured using the equity method.

On 11 May 2017, an increase in the share capital of ENERGA Kogeneracja Sp. z o.o. by PLN 38,326,000 up to PLN 400,989,000 was registered in KRS. ENERGA SA holds a 64.59% stake in the company's share capital.

On 13 April 2017, the General Meeting of Elektrownia Ostrołęka SA adopted a resolution to increase the share capital by PLN 19,000,000; the new shares were subscribed, half each, i.e. PLN 9,500,000 each, by ENERGA SA and ENEA SA and covered by a cash contribution. On 30 May 2017, the increase was registered in KRS.

On 3 July 2017, a resolution of the Extraordinary General Meeting of EOB PGK2 Sp. z o.o. to increase the share capital by PLN 290,000, i.e. up to PLN 300,000. The new shares were subscribed for by ENERGA SA (the only shareholder) which covered them with a cash contribution. On the same date, a resolution was also adopted to change the company's name to Centrum Badawczo-Rozwojowe im. M. Faradaya Sp. z o.o. The registration of the changes in KRS is pending.

As at 30 June 2017, the ENERGA Group was composed of the parent company ENERGA SA and 43 subsidiaries.

2.4. Implementation of the investment program

In H1 2017, the ENERGA Group made investments worth nearly PLN 528 m, of which PLN 434 m in the Distribution Segment, where the work 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. In the Generation Segment, an application was prepared for the 30 MW Przykona Wind Farm to participate in the auction (by the date of this Report, the date of the auction has not yet been set).

Table 1: Implementation status of the investment program as at 30 June 2017

Description of the project	Location	Capital expenditures (PLN m)	Execution stage
Grid development related to connection of new customers.	Distribution areas	182.0	In progress continuously
Distribution grid modernization to improve reliability of supply.	Distribution areas	187.4	In progress continuously
Other capital expenditures.	Distribution areas and Distribution Segment companies	64.5	In progress continuously
Overhauls of the Ostrołęka B Power Plant	Ostrołęka	26.0	In progress
Other investments in the Ostrołęka B Power Plant	Ostrołęka	8.7	In progress
Capital expenditures for lighting assets	Business area of ENERGA Oświetlenie	7.8	In progress continuously

Other companies, projects and adjustments	-	51.1	-
TOTAL	**Energa Group**	**527.5**	

2.5. Research and development

The key research and development projects carried out in H1 of this year in the ENERGA Group included:

SMART GRID Torun Project:

The year 2016 was devoted to the closure of the project and reconciliation of the co-funding within the consortium. The conclusions from and results of the project were implemented further in the organization within other tasks, including operational ones, such as: the MV grid automation program, the project to develop a procurement specification for a DMS-class dispatching system, the new specification for integrated AMI cabinets and Smart Grid.

UPGRID demonstration project:

The project is in progress. A grid modernization was conducted within the project to ensure an appropriate monitoring level of MV and LV grids. The purpose of the project is to: develop and test new functionalities related to the management of the LV and MV network to enable improvement of its operating efficiency (limit failures, reduce SAIDI/SAIFI, reduce network losses, improve efficiency of the failure remedying process, increase the flexibility of operation of the LV grid, and ensure control of micro-sources).

LOB Project:

The project is in progress. Work associated with the installation of energy storage facilities was completed within the project. It is the first virtual power plant in Poland 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.

TETRA:

Current work in the project focuses on the construction of telecommunication towers for the TETRA communication system. The outcome of the project will be a dedicated communication system to operate grid traffic (a redundant channel to control switches that are equipped with the remote control capacity) and to contact power rescue teams in the field. Implementation of the TETRA system will increase the reliability of communication with remote-controlled switches located deep in MV grid and provide dependable communication with power rescue teams, especially in the case of mass failures and catastrophic events.

AMI:

The activities were associated with the continuing implementation of the smart metering infrastructure, development of AMI applications and executed by ENERGA-OPERATOR SA. At the end of H1 of this year, 842 thousand remote reading meters have been installed and 25,659 MV/LV substations have been modernized.

The AMI infrastructure also was and is used for various projects executed by ENERGA-OPERATOR i.e. Smart Grid Hel (AMI meter data was used for examining the capacity of optimizing the operating layout of the MV and LV grids), Smart Torun (also an optimization of the MV grid operating framework), during panel studies in Kalisz and in the Energy for Saving project (energy consumption data from the AMI system were used to change behaviors and energy consumption patterns by customers) and in the Upgrid project (management of an LV grid using data and information from AMI meters).

e-Mobility project:

The e-Mobility project was created to examine the patterns of usage of electric cars by Gdańsk Tri-City dwellers, by offering a pilot network of electric car charging stations. So far, the following has been established within the project:

- a pilot network of 7 charging station points;
- the company fleet of electric cars was built, which was made available to more than 500 users during the study, providing the data necessary to optimize the offering to future service users;
- the emobility.pl was launched equipped with a log-in platform issuing e-mobility cards; in the first stage of the study, the cards will be used to aggregate behavioral data of the users of the free charging stations; in the second stage they will be used to make payments for electricity;
- the IT system supporting remote management of terminals has been tested.

At present, the Energa Group operates seven publicly-available electric car charging stations; of that number, four points support CHAdeMO charging standard sockets that enable fast charging, i.e. 80% of the battery within less than half an hour.

Car-sharing

In 2017, as the first company in Poland, ENERGA launched a car-sharing service in the Tri-City that was based on electric cars only. The service is addressed to business and institutional clients. The service may be used by employees of companies, which sign an agreement with Enspirion. The settlements will be made between the operator and the business clients. However each client may choose the formula for making the cars available to its employees. ENERGA's car-sharing is currently available to businesses residing in the Olivia Business Centre office complex, which houses about 200 companies employing more than 5 thousand people.

Energa Living Lab

The purpose of the project is to test products that increase electricity management efficiency by individual customers in order to determine their market potential. During the 18-month tests conducted on the group of 300 customers, the following were verified: 2 options of Time-of-Use (multi-zone) tariffs, a Smart Home solution and tools to visualize consumption data. During the execution of the project:

- Proprietary IT tools were developed to execute the research projects that involved participant polling, including projects executed in the "living lab" formula;
- Tools were created to support efficient use of multi-zone tariffs;
- Tools for customers were developed to enable individual observation and analysis of energy consumption;
- In the project, knowledge about consumers was obtained and about the influence of price, non-price factors and technology on the consumption curve among individual customers.

In addition to the projects described above, since 2009, ENERGA in cooperation with the Gdańsk University of Technology has been publishing the "Acta Energetica" quarterly targeted at professionals: engineers and technicians, senior management, university employees and students of faculties related to the power sector. This magazine's subject of interest is related to the power sector and the electrical power sector as well as neighboring fields. It constitutes a platform for representatives of the world of science and business to exchange thoughts and experience. All the editions of the "Acta Energetica" quarterly are available through Open Access in English and Polish. The articles may be downloaded in electronic form from the www.actaenergetica.org website. The quarterly's printed version is distributed to Polish libraries and international universities and scientific institutes.

In addition to the regular publications, the Editorial Office of Acta Energetica published the first book in the ENERGA Group's history entitled "Social and Economic Effects of Management of Lower Vistula", in which the authors were the first to assess in a comprehensive manner the economic effects of the execution of the Lower Vistula Cascade, describing the issue in the context of Poland's economic development.

Since May of this year, the ENERGA Group's work in the research, development and innovation area has been supported by the Science and Technology Council for Innovation. The Council is an opinion-issuing and advisory body within ENERGA SA appointed by the Company's Management Board. Its tasks include seeking and promoting new development directions the for ENERGA Group's R&D and innovation efforts. Furthermore, the Council will support the Group in the preparation of its innovation strategy and in consolidation of the Group's research, development and innovation policy. The Council consists of five renowned Polish scientists specializing in electric power systems from Poland's five leading academic centers:

As part of its research, development and innovation 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 University of Varmia and Masuria, the Science and Technology Park in Gdańsk and the Pomeranian Science and Technology Park.

2.6. Information on material contracts

Material contracts

No material contracts were signed in H1 2017.

Agreements for loans and borrowings and a domestic bond issue program

Details on the agreements for loans and borrowings and a domestic bond issue program are provided, among others, in note 16 Financial instruments to the consolidated financial statements. The table below presents the nominal value of bonds subscribed by ENERGA SA and outstanding, broken down into individual issuers from the ENERGA Group, as at 30 June 2017.

Table 2: Nominal value of bonds subscribed for by ENERGA SA and outstanding as at 30 June 2017, by issuer

No.	Company name	Nominal value of subscribed bonds (PLN m)
1.	ENERGA-OPERATOR SA	3,389
2.	ENERGA Wytwarzanie SA	832
3.	ENERGA Kogeneracja Sp. z o.o.	42
4.	ENERGA Elektrownie Ostrołęka SA	102
	Total	**4,365**

Guarantees and sureties given

As at 30 June 2017, sureties extended by ENERGA SA to cover liabilities of the Group companies totaled PLN 5,420 m and included:

- surety for liabilities of ENERGA Finance AB (publ) on account of a PLN 5,283 m Eurobond issue,
- sureties for liabilities of the ENERGA Group companies arising from bank guarantees granted by Bank PKO BP SA under guarantee facilities dedicated to ENERGA Group companies in the total amount of PLN 118 m,
- surety for liabilities of ENERGA Wytwarzanie SA on account of a loan granted by WFOSiGW in Torun in the amount of PLN 15 m.
- surety for liabilities of ENERGA Invest SA on account of a loan granted by NFOSiGW in Warsaw in the amount of PLN 4 m.

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.

Information on the transactions with related parties is presented in Note 18 to the condensed interim consolidated financial statements for the six-month period ended 30 June 2017.

2.7. Risk management

Integrated Risk Management System in the ENERGA Group

The Integrated Risk Management System has been operational in ENERGA Group's key companies since 2011 and is supervised centrally by ENERGA SA. The system is executed on the basis of the risk management process unified across the whole group, which is based on international standards (ISO, COSO, FERMA) and covering all of the Group's organizational levels and segments. The risk management process consists of various interrelated stages forming a continuous process. It is conducted using the "down-top" method, which means that it starts at the level of organizational units and moves on to the top management and from the level of Group companies to ENERGA SA.

Figure 1: Risk management process in the ENERGA Group

The main document, which is used by the ENERGA Group to conduct the risk management process is the Risk Management Policy and the Risk Management Methodology, which define, among others, the unified approach, risk management rules and roles in the risk management process.

Management Board: defines the direction for risk management, accepts risk review results, accepts risk appetite

Risk Unit: coordinates the risk management process, conducts risk reviews and develops reports summarizing the risk identification and evaluation results

Risk Owner: manages risk, develops and implements action plans, monitors risk, maintains risk within specific limits

Employees: provide information on risk and events and inefficiency of control mechanisms

Audit Committee: monitors the effectiveness of the existing internal control and risk management systems in the ENERGA Group

Internal Audit: Performs independent and objective assessment of the risk management system

The ENERGA Group is conducting ongoing and regular risk reviews, which are aimed, among others, at identifying, analyzing and evaluating risks, including the evaluation of control mechanisms and definition of a risk management strategy. Based on the risk reviews information is prepared concerning ENERGA Group's risk exposure. On its basis the ENERGA SA Management Board makes decisions pertaining to the level of risk appetite and accepts the key risk management policy. The results of risk reviews are communicated to the Risk Owners and reported to the Audit Committee.

Description of major factors and risks

The key risks identified at the level of ENERGA SA and the individual Segments, broken down into four areas arising from the ENERGA Group Risk Model are presented below.

Strategic area

Risk	Description and potential effects
Risk associated with construction and operation of the Ostrołęka C power unit	- it concerns: possible failure to achieve an appropriate level of investment project's profitability; loss of a co-investor and problems associated with the financing of investments; failure to achieve the technical parameters of the unit and delays in project implementation; failure to keep the deadline for selecting the general contractor for the project. The materialization of this risk may lead, for instance, to shaking the Group's liquidity position, increased debt servicing costs, limitation of other investment opportunities or lower profit.
Risk associated with mergers and acquisitions	- it is associated with a failure to obtain or achieve the assumed financial effects of the mergers and acquisitions conducted by the Group. Consequences of this risk may include, among others, a lower return on investments, purchase of inefficient assets or legal and regulatory risks associated with specific investment projects (depending on the completion stage or the business nature of a project being acquired).
Risk associated with social relations and trade unions	- includes the dialog with the social partner, trade unions in particular. The risk is associated with an ineffective process of maintaining relations between the employer and employee representatives. Should this risk materialize, activities undertaken by the Group may be blocked and it may have to incur costs of shutdowns caused e.g. by strikes, manifestations or pickets. This risk also affects the Group's image.
Risk associated with the Corporate Governance System	- concerns: the corporate approval process; knowledge about material activities undertaken by Group Companies; current key information on Group Companies. Should this risk materialize, it may cause interference to activities of importance for the Group.
Risk associated with oversight over and coordination of actions in the area of relations with the ENERGA Group's customers	- concerns: oversight over customer service quality; customer service standards in the ENERGA Group; quality objectives for Group companies in the customer service area. The risk pertains to the declining satisfaction of customers with services provided by Group companies, lower revenues on sales and distribution activity and deterioration of their image. Materialization of this risk may additionally result in fines being imposed by ERO President and the Office of Competition and Consumer Protection.
Risk associated with the image of the ENERGA Group	- related to activities conducted by the Group affecting its image. Should this risk materialize, it could cause deterioration of business relations, of the competitive position of Group companies, decline of the brand value and consequently to the loss of customers, investors or business partners.

Risk associated with incorrect handling of customer reports	- concerns compliance with customer service quality standards related to the provision of the distribution service and including the service of customers using all the available contact channels and IT tools. Should this risk materialize, it may lead to the loss of a portion of allowed revenue, which is based on the qualitative tariff, and may also result in complaints and lawsuits and consequently the need to pay damages and grant discounts to electricity buyers.
Market risk - trading in electricity and fuels	- concerns: unexpected volatility of market prices; liquidity on the forward and spot markets; coverage of demand generated by retail customers on the wholesale market and implementation of the strategy adopted for contracting electricity and gas; significant volatility of RES production; changes in prices on the Balancing Market; incorrect reporting of contracts to TSO/GSO, including for cross-system exchanges, incorrect forecasts of customer demand for electricity and gas fuel. If this risk materializes, it may cause an increase in operating expenses and selling expenses; it may also result in an unexpected change in the exposure the open portfolio position risk or loss of capacity to close positions and consequently – reduce the flexibility of operation on the individual markets.
Risk associated with investor's oversight over Polska Grupa Górnicza Sp. z o.o.	- concerns on-going monitoring and monitoring of fulfillment of the investment conditions by Polska Grupa Górnicza. The effects of the risk may lead to deterioration of the financial performance of ENERGA Kogeneracja Sp. z o.o. (which is the direct investor) or prevent return from invested capital.
Risk associated with management of ENERGA Elektrownie Ostrołęka SA	- concerns strategic management (planning 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). The law, emission standards and the macroeconomic situation, electricity and fuel prices and demand for electricity in the National Power System may affect a revaluation of the company's assets. Should this risk materialize, the Group may lose potential benefits, its production capacity and consequently may suffer lower revenues.

Legal and regulatory area

Risk	Description and potential effects
Regulatory risk in the Generation Segment	- concerns a change in the current or introduction of new legal regulations affecting the operation of the Generation Segment (in particular the RES Act, the Capacity Market Act, the Act on the new support system for producing electricity and heat in CHP plants; Energy Efficiency Act, Wind Farm Investment Act, Environmental Protection Act, Water Law and adjustment to technical requirements related to emissions). If this risk materializes, the Generation Segment's investment plans may not be carried out or operating expenses may rise (e.g. introduction of water fees that would cover electricity-producing installations). The risk is also an opportunity the new legal solutions could facilitate raising additional funds or ensure a support system for the Group's assets.
Regulatory risk in the Sales Segment	- concerns a change in the current or introduction of new legal regulations affecting the operation of the Sales Segment (in particular the RES Act, Energy Efficiency Act, E-mobility Act and the Energy Law). The risk encompasses the opportunity to reduce costs in the Sales Segments following a change in legal regulations.
Risk associated with absence of a Compliance system	- concerns the absence of a comprehensive regulation of the Compliance area in the ENERGA Group. Materialization of this risk may cause financial losses as a result of abuses as well as criminal and legal sanctions, loss of loyalty and motivation of employees and reduced credibility of ENERGA Group companies among their business partners.
Legal risk	- concerns efficiency of legal services within the ENERGA Group and external events having legal effects. Materialization of this risk may lead to the necessity to pay damages and fines and consequently the risk affects liquidity and solvency of Group companies.

Risk associated with negative court rulings and administrative decisions	- associated with court and administrative proceedings conducted by or against ENERGA-OPERATOR SA and criminal proceedings conducted against employees in connection with the performance of their professional duties. The effects of this risk for the Distribution Segment may include, among others: inability to execute electricity supply following court judgments demanding removal of HV, MV grid devices; delays in the execution of investment tasks; fines imposed by administrative bodies or damages, discounts for customers because of the failure to keep electricity quality standards as set forth by the law.
Risk associated with environmental protection	- concerns: the need for operations to be conducted in accordance with the provisions of the environmental law, with due care and effectiveness, in line with the environmental practices used to fulfill the sustainable development principles; information and assurances for stakeholders, especially financial stakeholders, about compliance with the law and about environmental monitoring results; implementation of the environmental management system in accordance with the requirements of the EMAS Regulation. Materialization of this risk may involve removal from the EMAS register, loss of the ISO 14001 certificate and a failure to obtain the ISO 50001 certificate, and also costs of remedying environmental events, temporary closure of an installation element or a ban on using installations causing pollution and fines if the environmental conditions and the law are not followed.

Operating area

Risk	Description and potential effects
Internal communication risk in the ENERGA Group	- associated with an inefficient and delayed flow of information within the Group about an event after it happens. Materialization of this risk may cause information and decision-making chaos in the organization, delays in the execution of tasks and projects, social unrest, lower engagement of employees or extension of the time needed to make decisions.
Risk associated with ENERGA Group's personnel policy	- associated with a sub-optimal level of employment in the ENERGA Group and other elements of the Group's personnel policy (among others; salary, training, incentives, succession, recruitment). Materialization of this risk may result in a loss of critical knowledge or competence because of qualified employees or key manager leaving and consequently a more difficult fulfillment of strategic goals of Group companies. Another effect in regard to this risk may include overstated operating expenses or fines arising from an incorrectly conducted recruitment process or a failure to observe personal data protection regulations.
Risk associated with inefficient management of metering data	- associated with the obligation of ENERGA-OPERATOR SA to obtain metering data and make them available and to conduct activities on the balancing market in accordance with the law and the Balancing Market Bylaws. Materialization of this risk may cause a loss of revenues from the distribution activity an increased costs related to the balancing difference. The risk may additionally result in proceedings conducted by the ERO President for a failure to perform DSO's duties or civil law lawsuits; in an extreme case, it may also lead to the cancellation of the concession for a failure to perform DSO's duties.
Risk associated with unreliability of IT System	- associated with ensuring the availability, integrity and confidentiality of ICT systems, including their interconnection/integration, in ENERGA-OPERATOR SA. Materialization of this risk may lead to increased costs of maintaining the IT environment and the need to incur additional capital expenditures in this respect and significant difficulties for, or even prevention of performance of DSO's key tasks and auxiliary business.
Risk associated with incorrect handling of seller reports	The risk is associated with complying with the customer service quality standards as regards provision of the distribution service; compliance with the contractual provisions for services provided to buyers under GUD and GUD-k contracts and the Distribution Code. Materialization of this risk may erode the revenues of the Distribution Segment, result in the need to pay fines, damages and grant discounts; it may also result in civil law lawsuits filed by sellers and business partners.
Risk associated with a failure to effect the	- associated with the violation of the Compliance Program in place in ENERGA-OPERATOR SA. Materialization of this risk may result in complaints filed by system users to ERO and

Compliance System	UOKiK, increased workload related to the preparation and conducting explanatory proceedings before the ERO President or the possible fines.
Risk associated with interruption of business continuity	- related to the interruption of ENERGA-OPERATOR SA's critical business related to the scope covered by the Business Continuity Management System, i.e. continuity of the distribution service, while keeping the required operational safety criteria of the distribution system. Materialization of this risk may lead to a threat to life or property and inability to carry out DSO's duties.
Risk of abuse in the operation of the Distribution Segment	- includes potential threat of abuse and corrupt practices in the operational processes of the Distribution Segment. Materialization of this risk may cause financial losses, loss of property and reputation and procedures conducted by law enforcement agencies.
Risk associated with relations with trade unions	- includes cooperation with the social partner, in particular trade unions, in the Sales Segment. This risk is associated with an ineffective process of maintaining relations between the employer and employees, including incorrect employee communication, as a result of which the employees may not feel responsible for their tasks and their assigned duties. Materialization of this risk may result in the deterioration of the Group's image, costs of stoppages and employee departures and also lawsuits (individual and class action lawsuits).

Finance area

Risk	Description and potential effects
Risk associated with loss of liquidity in the Distribution Segment	- related to the capacity to pay liabilities in the short and long term by the Distribution Segment. Materialization of this risk may reduce the capacity to achieve the Segment's strategic objectives, prevent the satisfaction of the conditions prescribed by the existing external financing agreements, as a result of which external financing agreements may be terminated, increasing the financing service costs.
Risk associated with lack of continuity or incorrect invoicing of distribution services	- associated with the need to ensure continuity of the distribution services billing process and correct settlement of distribution services. Effects of this risk may include reduction of revenues and deterioration of the liquidity position as well as fines, damages, civil lawsuits and discounts.
Risk associated with the fact that the planned revenue of ENERGA-OBRÓT SA is not complete	- related to the lack of continuity or incorrect billing of sales affecting the reporting of ENERGA-OBRÓT SA. Materialization of this risk may reduce the company's credibility, result in the absence of cash inflows and therefore penal and fiscal penalties for incorrect calculation of taxes following from the incomplete billing of sales.
Risk associated with the pricing policy	- related to an incorrect calculation of sales prices (including the risk of incorrect algorithms, incorrect source data, e.g. customer data, cost data); preparation of offers for customers for the coming years using the cost data based on the current market prices and the current legal status, which may or may not be fully secured; the obligation to submit electricity and high-methane natural gas tariffs to the ERO President for approval within a specified deadline; approval of rates in the tariff by the ERO President at the level that does not guarantee profitability of sales. Materialization of this risk may result in losing the market share (margin, volume, revenue), loss of clients and if the tariff is not approved – inability to bill customers for the sales.
Risk associated with reporting and management accounting in the	- it is related to the business decisions made in the Generation Segment on the basis of: budgeting and monitoring of the company's and segment's budget; reporting and management information for the Company's and Group bodies; investment project feasibility analyses, impairment tests, long-term modeling. Materialization of this risk may result in

Generation Segment	making incorrect decisions on the execution or abandoning of investment tasks, the need to make impairment charges and lost revenues or additional costs.

Financial risk management in the 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.

In connection with the 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.

Under those assumptions, 10-year CCIRS transactions were executed in H1 2017 to hedge the currency risk initially related to the issue of eurobonds made by ENERGA Finance AB (publ) on 7 March 2017.

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 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 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.

In the liquidity management process, the ENERGA Group optimized the usage of the Group's cash surpluses to finance current operations of its companies, by implementing a one-way zero-balancing cash pooling service. Implementation of the cash pooling service provided economic benefits, which included higher efficiency of investing cash surpluses and increased flexibility of financing.

ENERGA SA also concluded loan agreements with several financial institutions, which represent an immediate liquidity reserve in case of any liquidity needs. When cash surplus is needed, the recently established ENERGA Trading SFIO fund offers the possibility to retire units at any time, thus allowing for an unlimited and immediate access to the invested funds.

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

As at 30 June 2017, the ENERGA Group was a party to 9,641 court procedures. The Group acted as a plaintiff in 8,015 cases where the aggregated value of the disputed matters was approx. PLN 301 m. The Group acted as a defendant in 1,801 cases where the aggregated amount of the disputed matters was approx. PLN 633 m.

As at 30 June 2017, 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 16.7 m in approx. 3,424 cases. There were 2,741 pending court cases and the value of the disputed mattes in such pending cases was PLN 200.8 m.

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 76.8 m, with a reservation that this amount may change if new court cases related to placement of power installations on third party's real properties without the necessary legal title are launched against ENERGA-OPERATOR SA.

Moreover, 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 SA against ERGO ENERGY Sp. z o.o. in the amount of PLN 13 m. The aggregated amount of all such cases was approx. PLN 173 m as at 30 June 2017, including:

Type of receivable	As at 30 June 2017 (PLN m)
court and enforcement-based	97
bankruptcies	65
non-billing	6
Non-billing – bankruptcies	5
Total	173

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 H1 2017. The Company's previous periodic reports and Prospectus contain information on legal steps taken in earlier periods.

Table 3: 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 SA 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. On 28 March 2017, a judgment was issued by the court in which: 1) the appeal was dismissed, 2) the defendant was ordered to pay the plaintiff the costs of the cassation and appeal proceedings in the amount of PLN 100 thousand and the costs of legal representation in the amount of PLN 10.8 thousand. A copy of the judgment was delivered together with the justification. ENERGA-OBRÓT SA will file a cassation appeal against the judgment handed down by the Court of Appeal in Gdańsk.
T- Matic Systems S.A., Arcus S.A. (defendant) 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, during which the Court obligated ENERGA-OPERATOR SA to submit 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. At the session held 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 negotiations. On 8 February 2017 a hearing was held in which the parties failed to reach an agreement. In subsequent hearings, witnesses were interviewed; the next court hearing was scheduled on 7 August 2017.
T- Matic Systems S.A., Arcus S.A. (plaintiff)	Counterclaim:	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

ENERGA-OPERATOR SA (defendant)	for payment of contractual penalties to rule invalidity of an agreement (re: stage II of AMI)	the Regional Court in Gdańsk, under file ref. no. IX GC 893/15. The defendant's representative filed a pleading to extend the court deadline for responding to the replication. Because the time limit for the response elapsed on 1 July 2016 and the court failed to issue a decision to extend the time limit, the defendant sent a pleading of 1 August 2016 responding to the legal issues and another pleading of 1 September 2016 responding to the technical issues. On 7 November 2016, a counterclaim was filed against Arcus and T-Matic to pay PLN 157.1 m on account of the payment of contractual penalties of PLN 156.1 m and PLN 1 m of a reduction in remuneration, in accordance with the demand for payment of 9 November 2015. On 30 January 2017, the Court issued a decision to resume the proceedings, which were earlier suspended upon request of the parties. On 13 June 2017, the court decided to discontinue the grievance proceedings to dismiss the Plaintiff's petition for injunctive relief in the form of a prohibition on the use of the insurance guarantee, in connection with a petition to withdraw the grievance. The files will be forwarded to the Regional Court in Gdańsk.
T- Matic Systems S.A., Arcus S.A. (plaintiff) ENERGA-OPERATOR SA (defendant)	For payment of injunctive relief in the form of an insurance guarantee from STU Hestia	In connection with the inadequate performance of the agreement by the Consortium, ENERGA-OPERATOR SA submitted the insurance guarantee issued in its favor for execution. On 3 March 2017, Hestia paid the guarantee amount of PLN 9.6 m to ENERGA-OPERATOR SA. In connection with the Court's decision to award injunctive relief, EOP returned the STU Hestia guarantee amount, subject to its refund. On 5 May 2017, EOP filed a grievance against this decision. Arcus SA and T-Matic SA applied to STU Hestia requesting it to issue a new payment guarantee and such a guarantee was delivered to EOP on 12 May 2017. On 22 June 2017, ENERGA-OPERATOR SA received a statement of claim in writ of payment proceedings for payment of the injunctive relief in the form of an insurance guarantee from STU Hestia. On 26 June 2017, the Consortium's response to the grievance was received.
T-Matic Systems S.A., Arcus S.A. (applicant) ENERGA-OPERATOR SA (participant)	Call for a settlement attempt	On 19 January 2017, ENERGA-OPERATOR SA received a request for a settlement attempt concerning payment of PLN 4.7 m to T-Matic Systems S.A. and PLN 174.1 m to Arcus S.A. In both cases, the settlement was not signed.
ENERGA-OPERATOR SA (plaintiff); PKN ORLEN SA (defendant)	Guarantee Suit for payment	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 consequently the judgment of the Regional Court in Warsaw of 27 October 2014, file ref. no. XVI GC 782/11, became final and non-appealable, awarding the plaintiff PLN 16.1 m with interest from 30 June 2004. The judgment is final and the parties may file a cassation complaint against the Appellate Court's judgment to the Supreme Court. ENERGA-OPERATOR SA applied for delivery of the judgment with a justification, which was delivered to the Plaintiff's representative on 1 August 2016. On 29

		September 2016, ENERGA-OPERATOR SA 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 SA received PKN ORLEN's cassation complaint filed against this judgment of the Appellate Court in Warsaw. ENERGA-OPERATOR SA responded to the complaint in a pleading sent on the same date to the Appellate Court in Warsaw. W dniu 20 lipca 2017 r. On 20 July 2017, the Supreme Court dismissed the appeal filed by defendant PKN Orlen and accepted EOP's appeal reversing the judgment of the Appelate Court and referring the case to the Appellate Court to be reexamined. The Company is currently waiting for the justification of the judgment.
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 ERO President imposed a fine of PLN 11 m on ENERGA-OPERATOR SA for misleading the ERO President. The Company appealed against this decision and petitioned for it to be repealed in its entirety or, if it is not repealed in its entirety, to be changed by waiver of the fine or its reduction to PLN 50 thousand. The ERO President also responded to the appeal, requesting among others for it to be dismissed. By the date of this Report, the court handling the proceedings has not taken any further steps in the case.
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" (GSC) 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 11 April 2016, ENERGA-OBRÓT SA 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. In 2017, UOKiK issued a notice of extension of the proceedings until 30 September 2017.

RAFAKO S.A. with its registered office in Racibórz and OMIS S.A. with its registered office in Ostrołęka (plaintiffs); ENERGA Elektrownie Ostrołęka SA (defendant)	Statement of claim concerning ascertainment of the absence of liabilities on the part of the plaintiffs towards the defendant ENERGA Elektrownie Ostrołęka SA arising from the non-performance or improper performance of the works provided for in the Contract of 10 October 2014 entitled "Reduction of NOx in OP-650 boiler nos. 1, 2 and 3 in Power Plant B.	In connection with the calculation and charging of contractual penalties by ENERGA Elektrownie Ostrołęka SA ("EEO") for failure to comply with the timetable of works requiring the stoppage of a power unit, i.e. a delay in the completion of installation works for Unit 2 in the amount of PLN 13.5 m (subsequently adjusted to PLN 12.6 m), on 20 September 2016 the consortium of companies filed a statement of claim for ascertainment of the absence of liabilities on the part of the plaintiffs towards EEO. Following the filing of a rejoinder to the statement of claim by EEO, the parties subjected themselves to court mediation. In the court-mandated mediation proceedings, a settlement was signed on 24 May 2017, which resolved all the claims related to the case pending before the Regional Court ("RC") in Białystok. By its decision of 1 June 2017, RC resolved to: 1) approve the settlement concluded by the parties on 24 May 2017 before the mediator, 2) discontinue the proceedings in the case, 3) return, to the Plaintiff from the State Treasury, the court fee of PLN 100 thousand paid on the statement of claim.
ENERGA Kogeneracja Sp. z o.o. (plaintiff) - Mostostal Warszawa S.A. (defendant)	Suit for payment	On 22 June 2017, ENERGA Kogeneracja Sp. z o.o. filed a suit with the Regional Court in Gdańsk against Mostostal Warszawa S.A. to award the amount of PLN 106.4 m from the defendant to the plaintiff with statutory interest for the period from the date of filing the suit to the payment date. The facts of the case are related to the performance of the contract of 25 March 2011 entered into by and between ENERGA Kogeneracja Sp. z o.o. and Mostostal Warszawa S.A. to build a 20 MWe biomass-fired power unit. The amount pursued consists of: PLN 15.2 m of contractual penalties charged after 2 measurements made under the warranty, for a failure to achieve the guaranteed technical parameters (taking into account the payment of PLN 7.4 m made under the bank guarantee on 24 March 2017); PLN 90.3 m under the claim to reduce contractual fee (contract price) paid to the defendant for the performance of the contract mentioned above and PLN 0.96 m of capitalized statutory interest for the delay calculated as at the date of filing the lawsuit.

2.9. Headcount in the Group

As at 30 June 2017, total headcount in the ENERGA Group was 8,809, compared to 8,741 at the end of the previous year. The main reason for the headcount increase in H1 of this year was the action taken to prevent the competence gap affecting mainly the engineering and technical staff, hiring of staff in connection with the renovation and modernization works at ENERGA Elektrownie Ostrołęka SA and in the billing and customer service area because of the continuing work to stabilize the SMILE system.

2.10. Collective disputes and group layoffs

The overall analysis of the social situation in the Group indicates that there are no major conflict situations. No collective disputes and no group layoffs were conducted in the ENERGA Group in H1 2017.

2.11. Awards and distinctions

Table 4: Prizes and distinctions received by the Group in H1 2017

H1 2017
01.2017 Consumer Service Quality Certificate awarded to ENERGA-OPERATOR SA by the Federation of Consumers.
03.2017 “2017 Children’s Friend” award given to the ENERGA Group by the Cultural Center in Koszalin.
04.2017 • Leaders in the World of Energy distinction awarded to ENERGA in the Producer of the Year category, • Golden CSR Leaf for the Group – for actions that change the surroundings of the company and minimize its negative impact on the natural environment; • “Philanthropist of the Year 2016” title awarded to the ENERGA Foundation by the Hospice Foundation.
05.2017 • “Innovation Award 2017” handed out to ENERGA Informatyka i Technologie for efficient migration of data from SAP to SAP HANA and “SAP Excellence Award” for participation in the global SAP Enterprise Support Advisory Council programme aimed at developing new, innovative services for all SAP clients, • Distinction in the ranking of Socially Engaged Companies published by Gazeta Bankowa, for Imagine Cup, a project sponsored by ENERGA to support Polish start-up companies.
06.2017 “Platinum Megawatt” statue awarded by the Polish Power Exchange to ENERGA-OBRÓT for its top activity in international trade in 2016

Analysis of the financial situation and assets

3. ANALYSIS OF THE FINANCIAL STANDING AND ASSETS

3.1. Rules for preparing the interim consolidated financial statements

The Condensed Interim Consolidated Financial Statements of the ENERGA SA Group as at and for the 6-month period ended 30 June 2017 were prepared:

- in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted 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 ENERGA Group to continue its business activities as a going concern.

The accounting principles (policies) applied to the preparation of the condensed interim consolidated financial statements are presented in Note 7 to the condensed interim consolidated financial statements as at 30 June 2017 for the six-month period ended on that date.

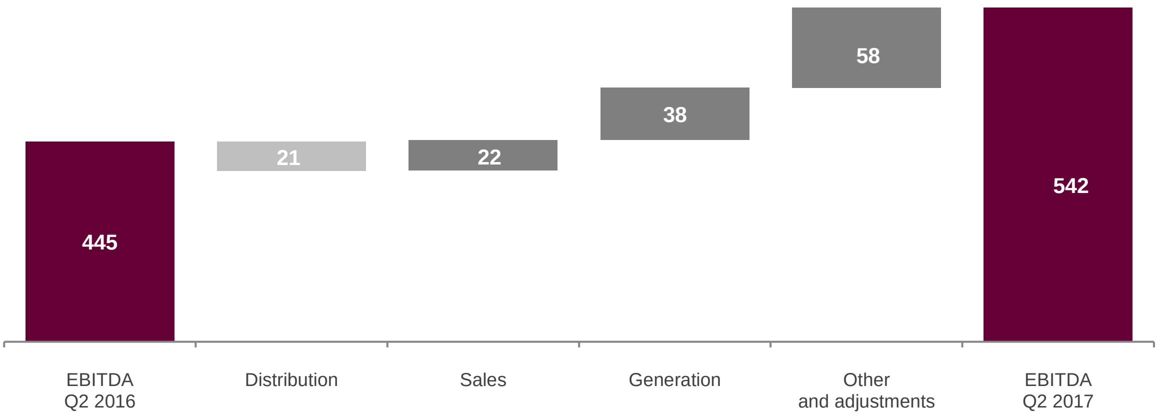
3.2. Discussion of the economic and financial data disclosed in the condensed consolidated financial statements

Table 5: Consolidated statement of profit or loss

PLN m	H1 2016	H1 2017	Change	Change (%)
Sales revenues	**4,937**	**5,197**	**260**	**5%**
Cost of sales	(4,430)	(4,251)	179	4%
Gross profit on sales	**507**	**946**	**439**	**87%**
Other operating income	53	96	43	81%
Selling and distribution expenses	(162)	(172)	(10)	-6%
General and administrative expenses	(164)	(162)	2	1%
Other operating expenses	(163)	(53)	110	67%
Operating profit	**71**	**655**	**584**	**> 100%**
Result on financial activity	(124)	(64)	60	48%
Share in profit/(loss) of the entities measured by the equity method	(41)	8	49	> 100%
Profit or loss before tax	**(94)**	**599**	**693**	**> 100%**
Income tax	(22)	(111)	(89)	< -100%
Net profit or loss for the period	**(116)**	**488**	**604**	**> 100%**
EBITDA	**1,090**	**1,143**	**53**	**5%**

PLN m	Q2 2016	Q2 2017	Change	Change (%)
Sales revenues	**2,316**	**2,487**	**171**	**7%**
Cost of sales	(2,197)	(2,074)	123	6%
Gross profit on sales	**119**	**413**	**294**	**> 100%**
Other operating income	38	59	21	55%
Selling and distribution expenses	(78)	(82)	(4)	-5%
General and administrative expenses	(84)	(77)	7	8%
Other operating expenses	(30)	(13)	17	57%
Operating profit or loss	**(35)**	**300**	**335**	**> 100%**
Result on financial activity	(62)	(80)	(18)	-29%
Share in profit/(loss) of the entities measured by the equity method	(41)	(2)	39	95%
Profit or loss before tax	**(138)**	**218**	**356**	**> 100%**
Income tax	11	(43)	(54)	< -100%
Net profit or loss for the period	**(127)**	**175**	**302**	**> 100%**
EBITDA	**445**	**542**	**97**	**22%**

Figure 2: EBITDA bridge, by segment



In Q2 2017, the Group's revenue amounted to PLN 2,487 m and was 7%, or PLN 171 m, higher than in Q2 2016. The 6% increase in Distribution Segment's revenues was driven mainly by a 9% yoy increase in the average selling rate of distribution services resulting among others from a more favorable sales structure. In the Generation Segment, revenue growth was experienced on the sales of "green" property rights and Regulatory System Services.

In Q2 of the current year, the Group's EBITDA was PLN 542 m, up by 22% compared to the same period of the previous year. The decline in Distribution Segment's EBITDA was offset by EBITDA growth in the Generation and Sales Segments and in the Other and adjustments Segment.

The Distribution Segment contributed the most to the Group's EBITDA in Q2 2017 (74%), while the Generation Segment and the Sales Segment accounted for 13% and 4%, respectively. The PLN 21 m yoy decline in Distribution Segment's EBITDA was caused by the higher level of operating expenses, which adversely affected EBITDA despite the better yoy margin on the sales of distribution services. The Generation Segment posted a PLN 38 m EBITDA growth (to PLN 73 m), which was driven mainly by the increasing revenue on sales of electricity, property rights, regulatory system services and heat, partially offset by higher purchase cost of fuel. EBITDA also rose in the Sales Segment, to PLN 21 m. This increase was caused by the improving profitability of electricity sales.

In the current period, the Other and adjustments segment also made a significant contribution to EBITDA (9%), which was due to the recognition in the Group's EBITDA in Q2 2017, the profit on a bargain purchase arising from the preliminary settlement of the purchase of Polimex-Mostostal S.A. shares in the amount of PLN 50 m. The final fair values will be determined within 12 months of the purchase date and the impact of the changes will be fully recognized on a retrospective basis.

The operating profit in Q2 of this year increased by PLN 335 m compared to Q2 of the previous year. The operating factors described above and the preliminary settlement of a share purchase were the biggest contributors to the yoy change in EBIT.

The Group's net result in Q2 2017 was positive and amounted to PLN 175 m, up by PLN 302 m compared to Q2 2016.

The impact of non-recurring events contributing to EBITDA is presented in the table below.

Table 5: EBITDA adjusted for material non-recurring events*

EBITDA (PLN m)	
H1 2017	
EBITDA	**1,143**
profit on bargain purchase	*(50)*
Adjusted EBITDA	**1,101**
H1 2016	
EBITDA	**1,090**
Adjusted EBITDA	**1,082**

EBITDA (PLN m)	
Q2 2017	
EBITDA	**542**
profit on bargain purchase	*(50)*
Adjusted EBITDA	**501**
Q2 2016	
EBITDA	**445**
Adjusted EBITDA	**445**

**The table presents the non-recurring events determined on the basis of the materiality criterion, i.e. exceeding PLN 25 m.*

Table 6: Consolidated statement of financial position

PLN m	Balance as at 31 December 2016	Balance as at 30 June 2017	Change	Change (%)
ASSETS				
Non-current assets				
Property, plant and equipment	13,053	12,921	(132)	-1%
Intangible assets	383	376	(7)	-2%
Goodwill	26	26	-	-
Investments in associates and joint ventures measured by the equity method	390	763	373	96%
Deferred tax assets	396	375	(21)	-5%
Other non-current financial assets	166	101	(65)	-39%
Other non-current assets	101	104	3	3%
	14,515	**14,666**	**151**	**1%**
Current assets				
Inventories	472	538	66	14%
Current tax receivables	111	6	(105)	-95%
Trade receivables	1,947	1,844	(103)	-5%
Portfolio of financial assets	2	2	-	-
Other current financial assets	15	219	204	> 100%
Cash and cash equivalents	1,471	2,241	770	52%
Other current assets	198	293	95	48%
	4,216	**5,143**	**927**	**22%**
TOTAL ASSETS	**18,731**	**19,809**	**1,078**	**6%**
EQUITY AND LIABILITIES				
Equity				
Share capital	4,522	4,522	-	-
Foreign exchange differences from translation of a foreign entity	4	-	(4)	-100%
Reserve capital	1,018	1,018	-	-
Supplementary capital	728	1,433	705	97%
Cash flow hedge reserve	41	2	(39)	-95%
Retained earnings	2,464	2,154	(310)	-13%
Equity attributable to equity holders of the Parent Company	**8,777**	**9,129**	**352**	**4%**
Non-controlling interest	**40**	**44**	**4**	**10%**
	8,817	**9,173**	**356**	**4%**
Non-current liabilities				
Loans and borrowings	3,086	2,900	(186)	-6%

Bonds issued	2,639	3,666	1,027	39%
Non-current provisions	578	611	33	6%
Deferred tax liabilities	593	586	(7)	-1%
Deferred income and non-current grants	515	507	(8)	-2%
Other non-current financial liabilities	6	36	30	> 100%
	7,417	**8,306**	**889**	**12%**
Current liabilities				
Trade payables	811	645	(166)	-20%
Current loans and borrowings	334	345	11	3%
Bonds issued	78	48	(30)	-38%
Current income tax liability	3	11	8	> 100%
Deferred income and grants	170	132	(38)	-22%
Short-term provisions	711	616	(95)	-13%
Other financial liabilities	157	174	17	11%
Other current liabilities	233	359	126	54%
	2,497	**2,330**	**(167)**	**-7%**
Total liabilities	**9,914**	**10,636**	**722**	**7%**
TOTAL EQUITY AND LIABILITIES	**18,731**	**19,809**	**1,078**	**6%**

As at 30 June 2017, total assets of the ENERGA Group reached PLN 19,809 m and were PLN 1,078 m higher than as at 31 December 2016.

In non-current assets, the most significant change pertained to investments in related entities and joint ventures measured by the equity method, which is associated with the ENERGA Group's exposure to Polska Grupa Górnicza Sp. z o.o., Polimex Mostostal S.A. and a change in the classification of the investment in Elektrownia Ostrołęka S.A. resulting from the sale of a 50% stake in this company, which as at the end of 2016 was recognized as a subsidiary. The last event affected, among others, the value of property, plant and equipment. In current assets the most significant changes concerned: cash (the reasons for changes in cash are described further on in the part devoted to cash flows) and other current financial assets (a PLN 204 m increase associated mainly with the increase in the value of deposits and receivables on account of the sale of a block of shares in Elektrownia Ostrołęka S.A.).

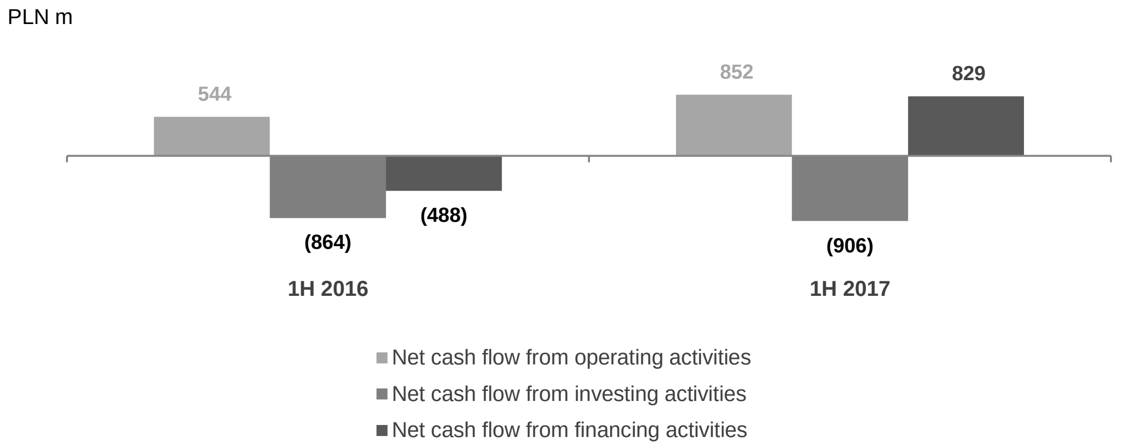
On the liabilities side, the material change concerned the balance of bonds issued (the increase in bonds issued was associated predominantly with the EUR 300 m issue of Eurobonds in Q1 2017 by ENERGA Finance AB (publ)).

The ENERGA Group's equity as at 30 June 2017 was PLN 9,173 m and financed 46.3% of the Group's assets. In Q2 2017, ENERGA SA's result for 2016 was allocated with PLN 705 m going to supplementary capital and PLN 79 m for a dividend payment to the Company's shareholders.

Table 7: Consolidated statement of cash flows

PLN m	H1 2016	H1 2017	Change	Change (%)
Net cash flow from operating activities	544	852	308	57%
Net cash flow from investing activities	(864)	(906)	(42)	-5%
Net cash flow from financing activities	(488)	829	1,317	> 100%
Net increase / (decrease) in cash	(808)	775	1,583	> 100%
Cash and cash equivalents at the end of the period	850	2,239	1,389	> 100%

Figure 3: Group's cash flows in H1 2017 and 2016 (PLN m)



As at 30 June 2017, the balance of the Group's cash was PLN 2,239 m and was PLN 1,389 m higher than the cash balance one year earlier.

The total net cash flows from the Group's operating, investing and financing activities in H1 2017 were positive at PLN 775 m, compared to the negative cash flows of PLN 808 m in the corresponding period of the previous year.

Cash flow from operating activities increased by PLN 308 m compared to the previous year. The increase in cash flows from operating activities compared to H1 2016 was driven mainly by changes in working capital.

In H1 2017, an increase was recorded in trade receivables along with an increase in deferred property tax expenses, which entailed a higher level of property tax liabilities, which in turn was offset by a decrease in trade payables. An increase was also recorded in inventories of certificates of origin of energy, which was partly offset by the lower inventories of CO_2 emission rights and lower provision for the redemption of certificates and provision for gas emission liabilities. Additional proceeds were also posted on account of the 2016 income tax refund.

Net expenditures on investing activities in H1 2017 increased by PLN 42 m. In H1 2017, lower expenditures were posted on the purchase of property, plant and equipment and intangible assets and also less was expended for investments in associates and joint ventures measured by the equity method. This effect was partly offset by expenditures for investments in deposits, which amounted to PLN 127 m. On the other hand, PLN 320 m of proceeds from the sale of participation units in the ENERGA Trading fund were posted in H1 2016.

In the reporting period, cash flows from financing activities were positive and amounted to PLN 829 m, or PLN 1,317 m more than in the corresponding period of 2016. This increase resulted mainly from the EUR 300 m issue of Eurobonds.

3.3. Structure of the annual consolidated statement of financial position

Figure 4: Structure of assets and liabilities

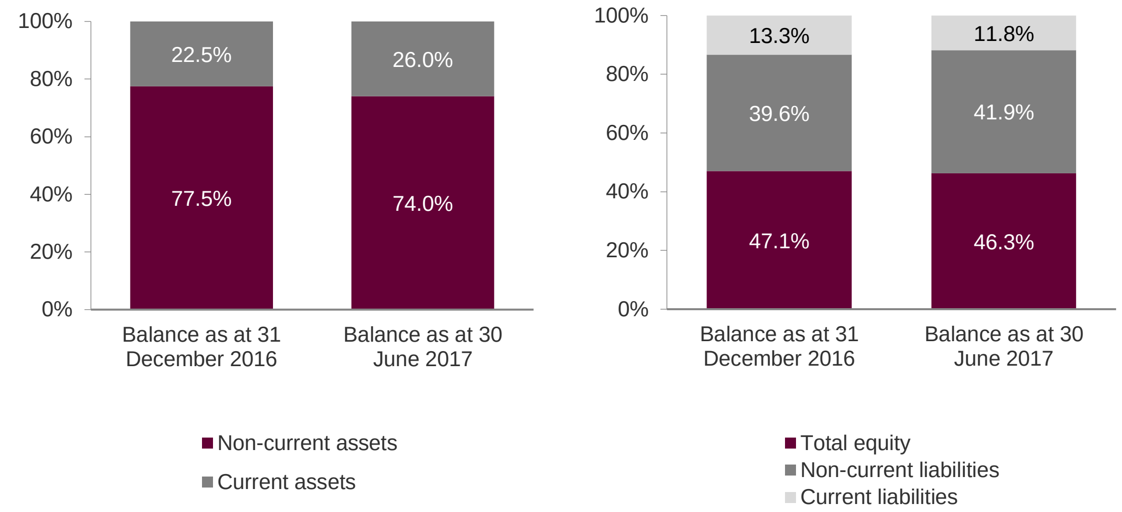


Table 8: Financial ratios of the ENERGA Group

Ratio	Definition	H1 2016	H1 2017
Profitability			
EBITDA margin	operating result + amortization and depreciation + impairment losses on non-financial non-current assets / revenue	22.1%	22.0%
return on equity (ROE)	net profit for the period* / equity at the end of the period	2.2%	8.2%
return on sales (ROS)	net profit for the period / sales revenues	-2.3%	9.4%
return on assets (ROA)	net profit for the period* / total assets at the end of the period	1.1%	3.8%

** net profit for the last 12 months*

Ratio	Definition	Balance as at 31.12.2016	Balance as at 30.06.2017
Liquidity			
current liquidity ratio	current assets/current liabilities	1.7	2.2
Indebtedness			
financial liabilities (PLN m)	sum of liabilities under loans and borrowings and under long- and short-term debt securities	6,137	6,959
net financial liabilities (PLN m)	financial liabilities - cash and cash equivalents	4,666	4,718
net debt / EBITDA ratio	net financial liabilities / EBITDA*	2.3	2.3

** EBITDA for the last 12 months*

The significant increase in net profit in H1 2017 compared to the corresponding period of the previous year resulted in a sharp hike in the sales profitability ratio. A similar trend was also observed in profitability ratios based on the annualized net result, i.e. return on capital and assets. The lower growth of the return on assets ratio was associated with the increase in the level of cash and an increased exposure of the Group to its associates and joint ventures. On the other hand, the EBITDA margin remains at a similar level.

The increase in cash associated with the funds raised in Q1 2017, coupled with an almost parallel increase in debt and the flat EBITDA level over the last 12 months, also resulted in maintaining the net debt/EBITDA ratio at the same level.

3.4. Description of significant off-balance sheet items

Information on this subject is provided in the section *Guarantees and sureties given* in this Management Board Report and in Note 19: *Contingent assets and liabilities* of the consolidated financial statements.

3.5. Key operational data of the ENERGA Group

Table 9: Distribution of electricity, by tariff groups

Distribution of electricity, by tariff groups (invoiced sales) in GWh	Q2 2016*	Q2 2017	Change	Change (%)	H1 2016*	H1 2017	Change	Change (%)
Tariff Group A (HV)	1,139	870	(269)	-24%	2,176	1,702	(474)	-22%
Tariff Group B (MV)	1,888	2,020	132	7%	3,884	4,128	244	6%
Tariff Group C (LV)	1,015	1,126	111	11%	2,127	2,347	220	10%
Tariff Group G (LV)	1,335	1,380	45	3%	2,833	2 842	8	0%
Total distribution of energy	**5,377**	**5,396**	**19**	**0%**	**11,021**	**11 019**	**(2)**	**-0%**

**in the case of the 2016 data (for tariffs C and G), the data on invoiced sales were decreased by the volume invoiced this year in the part which related to 2015 (and which was not invoiced in 2015 due to postponement of invoicing caused by data migration to new billing systems).*

In Q2 2017, the volume remained the same as in the corresponding period of 2016. A significant drop in volume occurred in tariff group A where an important customer was lost as a result of switching to its own power source and to the PSE grid, while the volume of the distribution service increased mainly in groups B and C. This growth was driven by an increase in the average level of consumption of electricity per customer.

Table 10: 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		
Q2 2016	57.4	12.8	70.3	0.7	0.1	0.8
Q2 2017	**28.2**	**9.7**	**37.9**	**0.5**	**0.1**	**0.6**
Change	(29.2)	(3.2)	(32.4)	(0.2)	(0.0)	(0.3)
Change (%)	-51%	-25%	-46%	-32%	-25%	-31%

H1 2016	74.4	21.3	95.7	1.1	0.1	1.2
H1 2017	**54.4**	**19.5**	**73.9**	**1.0**	**0.1**	**1.1**
Change	(20.0)	(1.8)	(21.8)	(0.1)	(0.0)	(0.1)
Change (%)	-27%	-8%	-23%	-8%	-10%	-8%

In Q2 2017, ENERGA-OPERATOR SA achieved SAIDI and SAIFI at 37.9 min./cust. and 0.6 interruptions, respectively. The decline in SAIDI and SAIFI levels in Q2 2017 compared to the corresponding period of the previous year was caused by the detrimental weather conditions in June 2016 (strong winds, lightning strikes), which in some regions led to an increase in mass failures.

Table 11: Gross production of electricity in the ENERGA Group

Gross electricity produced (GWh)	Q2 2016	Q2 2017	Change	Change (%)	H1 2016	H1 2017	Change	Change (%)
Power plants - coal-fired	510	638	128	25%	1,099	1,212	114	10%
Power plants - biomass co-fired	-	-	-	-	-	-	-	-
CHP plants - coal-fired	17	20	3	17%	59	64	6	10%
CHP plants - biomass-fired	10	14	4	42%	20	23	3	14%
Power plants - hydro	183	253	70	38%	431	525	94	22%
Pumped-storage plant	6	4	(2)	-34%	18	10	(7)	-41%
Power plants - wind	68	109	40	59%	171	224	53	31%
Power plants - photovoltaics	2	2	(0)	-16%	3	2	(0)	-12%
Total electricity production	**796**	**1,039**	**243**	**31%**	**1,801**	**2,062**	**261**	**14%**
incl. RES	*263*	*378*	*114*	*43%*	*625*	*774*	*149*	*24%*

In Q2 2017, ENERGA Group's generation assets produced much more electricity than in the corresponding period of the previous year. The increase occurred among others in the Ostrołęka power plant, the in the Group's CHP plants and its hydro and wind sources (lower production was recorded by the pumped-storage power plant in Żydowo and photovoltaic farms only).

The increased production in the Ostrołęka power plant (by 128 GWh) was caused among others by a greater must-run production for the Transmission System Operator in Poland and the greater availability of power units caused, among others, by the renovation of unit 3 (March-July 2016) and the renovation of unit 1 (March-April 2017). Additionally, absence of the biomass-fired production in the Ostrołęka power plant was caused by the fact that co-firing is not economical with the current market prices of property rights.

The higher production of energy in run-of-the-river hydro sources (by 70 GWh) resulted from better hydrological conditions, while the higher wind production (by 40 GWh) was caused by better weather conditions (higher windiness) and additional production from the new Parsówek wind farm (plus 12 GWh).

Energy production in the Group's combined heat and power plants resulted from higher production of heat due to lower temperatures (higher demand for heat reported by the Group's local customers).

Higher volumes of production were possible because of the higher availability factor.

Moreover, since the beginning of 2016, the quantity of property rights arising on renewable energy production is not the same as the RES production volume because the new RES Act reduced support for depreciated hydro sources with capacity exceeding 5 MW. As a result, the run-of-river power plant in Włocławek was eliminated from the support system.

Table 12: Production of heat

Gross heat production in TJ	Q2 2016	Q2 2017	Change	Change (%)	H1 2016	H1 2017	Change	Change (%)
ENERGA Kogeneracja Sp. z o.o.	381	436	55	14%	1,315	1,372	56	4%
ENERGA Elektrownie Ostrołęka S.A.	246	290	44	18%	788	842	54	7%
Ciepło Kaliskie Sp. z o.o.	41	41	0	1%	197	186	(11)	-6%
Total gross heat production	**669**	**767**	**99**	**15%**	**2,301**	**2,399**	**99**	**4%**

In Q2 2017, production of heat was higher than in the corresponding period of the previous year. The production levels resulted from the demand for heat on the Group's local markets (cities of Ostrołęka, Elbląg, Kalisz). The main reason why the demand was higher was the lower average temperature in Q2 2017, which extended the heating period.

Table 13: Volume and cost* of consumption of key fuels

Fuel consumption*	Q2 2016	Q2 2017	Change	Change (%)	H1 2016	H1 2017	Change	Change (%)
Coal								
Quantity (thous. tons)	252	294	41	16%	566	607	41	7%
Cost (PLN m)	55	74	19	35%	129	146	17	13%
Biomass								
Quantity (thous. tons)	8	15	6	77%	17	24	8	45%
Cost (PLN m)	3	5	2	67%	6	8	2	33%
Total fuel consumption (PLN m)	**58**	**79**	**21**	**37%**	**135**	**154**	**19**	**14%**

** including the cost of transportation*

In Q2 2017, the Group's production units consumed more coal (by 41 thousand tons) and more biomass (by 6 thousand tons) as compared to the corresponding period of the previous year. The increase resulted from the higher energy production from coal and biomass. The higher unit cost of coal consumption by the Segment was an additional cost factor.

Table 14: Sales of electricity by the Sales Segment

Sales of electricity by the Sales Segment in GWh	Q2 2016	Q2 2017	Change	Change (%)	H1 2016	H1 2017	Change	Change (%)
Retail electricity sales	**4,583**	**5,047**	**464**	**10%**	**9,488**	**10,141**	**653**	**7%**
Electricity sales on the wholesale market, of which:	**899**	**714**	**(185)**	**-21%**	**1,956**	**1,562**	**(394)**	**-20%**
Electricity sales to the balancing market	66	136	70	*> 100%*	188	371	183	*97%*
Electricity sales to ENERGA-OPERATOR to cover network losses	358	-	(358)	*-100%*	753	-	(753)	*-100%*
Other wholesale	475	578	103	*22%*	1,016	1,192	176	*17%*
Total electricity sales	**5,482**	**5,760**	**278**	**5%**	**11,444**	**11,703**	**259**	**2%**

In Q2 2017, the total volume of electricity sold by the Segment rose by 5% (or 278 GWh) compared to Q2 2016, which is attributable to the increased volume of retail sales by 10% (or 464 GWh), while the sales volume on the wholesale market fell by 21% (or 185 GWh) in relation to the previous year.

In retail sales in Q2 2017, increases were recorded in volumes sold on the Polish market (higher sales to business customers with a minor decrease in sales to households), whereas on the Slovak market the sales volume declined. The increase in the retail sales volume is a result of a higher average number of customers (acquisition of new customers in the business segment and in the household segment) and an increase in the average electricity consumption by customers, which is in line with the market trend (in Q2 2017, electricity consumption in Poland increased 1.9% yoy). In terms of volume, sales to households (tariff G) in Q2 2017 accounted for 28% of the sales to the Segment's end users (in Q2 2016 this share was 31%).

In the analyzed period, electricity sales fell in the wholesale market (by 21%). This is attributable to non-performance of the electricity sales contract to cover network losses to ENERGA-OPERATOR SA – as a result of the completed procedure a different provider of electricity was selected for 2017.

3.6. Financial results by operating segments

Table 15: EBITDA of the ENERGA Group, by Segment

EBITDA (PLN m)	Q2 2016	Q2 2017	Change	Change (%)
DISTRIBUTION	421	400	(21)	-5%
GENERATION	35	73	38	> 100%
SALES	(1)	21	22	> 100%
OTHER and consolidation eliminations and adjustments	(10)	48	58	> 100%
Total EBITDA	**445**	**542**	**97**	**22%**

EBITDA (PLN m)	H1 2016	H1 2017	Change	Change (%)
DISTRIBUTION	920	930	10	1%
GENERATION	168	177	9	5%

SALES	27	11	(16)	-59%
OTHER and consolidation eliminations and adjustments	(25)	25	50	> 100%
Total EBITDA	**1,090**	**1,143**	**53**	**5%**

Distribution Segment

Figure 5: Results of the ENERGA Group's Distribution Segment (PLN m)

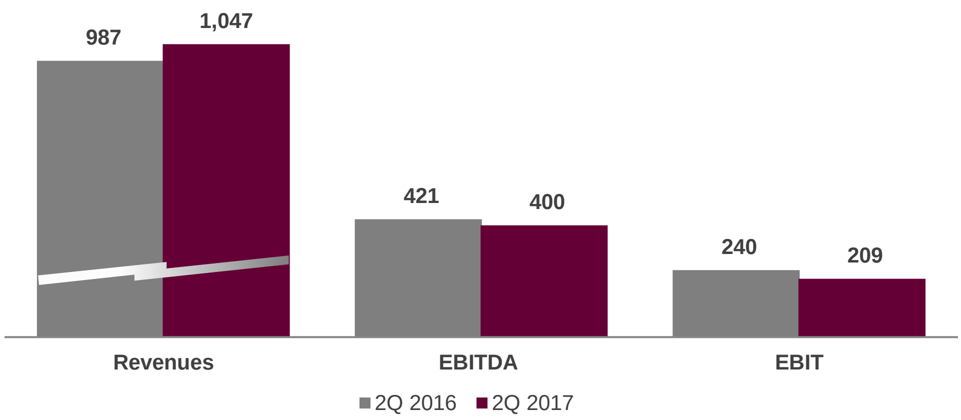


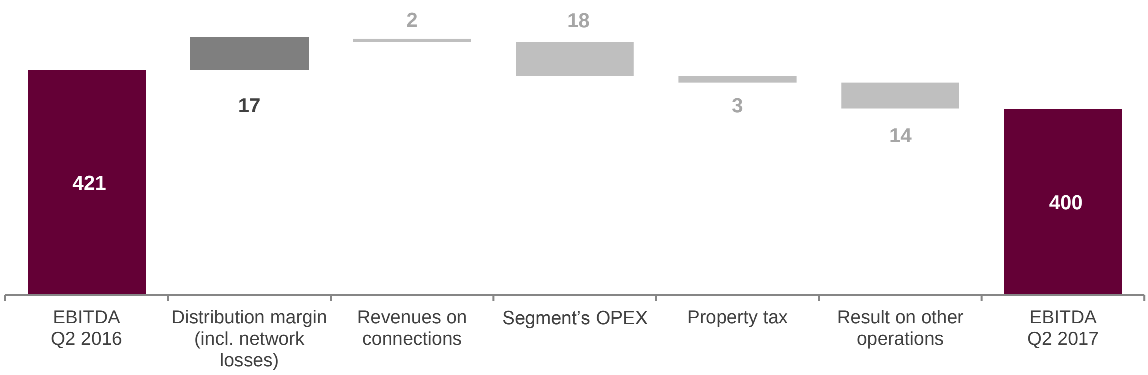
Table 16: Results of the ENERGA Group's Distribution Segment

PLN m	Q2 2016	Q2 2017	Change	Change (%)
Revenue	987	1,047	60	6%
EBITDA	**421**	**400**	**(21)**	**-5%**
amortization and depreciation	181	191	10	6%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	240	209	(31)	-13%
Net result	189	144	(45)	-24%
CAPEX	312	266	(46)	-15%

PLN m	H1 2016	H1 2017	Change	Change (%)
Revenue	2,094	2,219	125	6%
EBITDA	**920**	**930**	**10**	**1%**
amortization and depreciation	361	382	21	6%
impairment losses on non-financial non-current assets	-	-	-	0%

EBIT	559	548	(11)	-2%
Net result	415	391	(24)	-6%
CAPEX	581	434	(147)	-25%

Figure 6: EBITDA Bridge of the Distribution Segment (PLN m)



In Q2 2017, the Distribution Segment contributed about 74% to ENERGA Group's EBITDA (95% in the comparative period).

The Q2 sales revenue of the Distribution Segment was 6% higher than in the corresponding period of the previous year. The increase in revenues was driven mainly by: the 9% yoy increase in the average rate charged for distribution services (which was caused mainly by the more favorable sales structure: the volumes declined significantly in group A where prices and margins are the lowest, while the volume increased in groups C and G where both prices and margins are among the highest). In Q2 2017, revenues from connection fees amounted to almost PLN 19 m, which is nearly PLN 2 m less than in the same quarter of 2016.

EBITDA was lower than last year's and amounted to PLN 400 m (down by approx. 5%), and EBIT was PLN 209 m (down by 13% or PLN 31 million yoy). The operating result was significantly impacted by the PLN 17 m increase in the distribution margin (with network losses). Such a positive performance of the distribution business was affected mainly by the favorable sales structure. Additionally, in Q2 the costs of network losses were slightly lower than in the corresponding period of last year. The positive impact of the higher margin was partly compensated by higher OPEX (increase in consumption of materials and energy, employee benefit expenses and third party services) which resulted from higher involvement of the engineering and installation staff in operational works, whereas in the year before more investment projects were executed.

Net profit in Q2 2017 was lower than in the same quarter the year before by PLN 45 m.

Generation Segment

Figure 7: Results of the ENERGA Group's Generation Segment (PLN m)

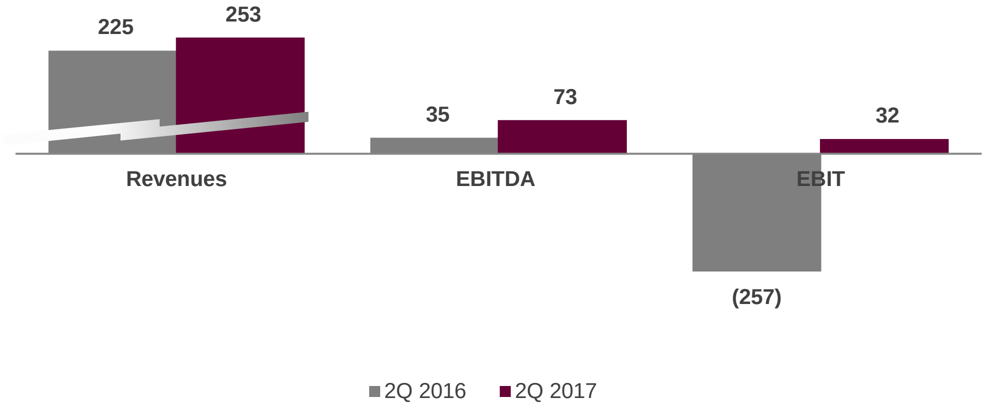


Table 17: Results of the ENERGA Group's Generation Segment

PLN m	Q2 2016	Q2 2017	Change	Change (%)
Revenue	225	253	28	12%
EBITDA	**35**	**73**	**38**	**> 100%**
amortization and depreciation	45	41	(4)	-9%
impairment losses on non-financial non-current assets	247	-	(247)	-100%
EBIT	(257)	32	289	> 100%
Net result	(236)	12	248	> 100%
CAPEX	78	28	(50)	-64%

PLN m	H1 2016	H1 2017	Change	Change (%)
Revenue	542	531	(11)	-2%
EBITDA	**168**	**177**	**9**	**5%**
amortization and depreciation	90	82	(8)	-9%
impairment losses on non-financial non-current assets	552	-	(552)	-100%
EBIT	(474)	95	569	> 100%
Net result	(449)	46	495	> 100%
CAPEX	141	46	(95)	-67%

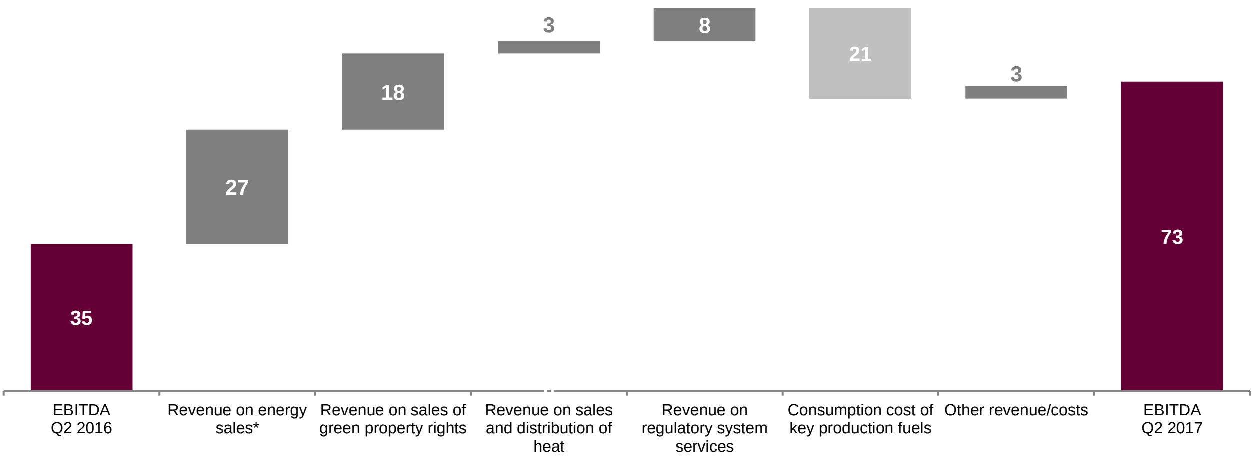
The table below presents a breakdown of EBITDA of the Generation Segment by business line. This table includes standalone data that includes elimination of mutual transaction between individual business lines and consolidation adjustments.

The presented Q2 2016 data may be different from the presented historical data, because the methodology for allocating Segment results to individual business lines changed slightly.

Table 18: EBITDA of the Generation Segment, by business line

EBITDA (PLN m)	Q2 2016	Q2 2017	Change	Change (%)	H1 2016	H1 2017	Change	Change (%)
Hydro	18	32	14	82%	56	62	6	10%
Wind	(2)	7	9	> 100%	16	15	(2)	-10%
Ostrołęka Power Plant	20	29	10	49%	58	73	15	26%
Other and adjustments	(1)	4	5	> 100%	37	27	(10)	-27%
Total Generation	**35**	**73**	**38**	**> 100%**	**168**	**177**	**9**	**5%**

Figure 8: EBITDA Bridge of the Generation Segment (PLN m)



**including net electricity trading (revenue less cost)*

The Generation Segment's contribution to the Group's total EBITDA was 13% in Q2 of the current year (8% in the corresponding period of the previous year). The EBITDA growth reached PLN 38 m and was driven mainly by the lower revenues on sales of electricity, property rights, regulatory system services and heat. The above increase in revenue was partially offset by the higher purchasing cost of fuel.

The increase in revenues on sales of electricity was caused by two factors. First of all, electricity production rose yoy in all the main business lines, i.e. in the Ostrołęka power plant (by 25%), in the Group's CHP plants (by 26%) and in the Group's hydro (by 36%) and wind sources (by 59%). Secondly, the increases were partially offset by the declining electricity sale prices in the Ostrołęka Power Plant and Hydro business lines.

There were two factors contributing to the increase in revenues on sales of "green" property rights. First of all, the higher volume of RES energy production (eligible for receipt of green certificates) as compared to the corresponding period of 2016. Secondly, there was a delay in the sale of inventories of green property rights by the Segment in 2016, which due to the falling prices pushed EBITDA further down in

2016 (the low base effect). These two factors were somewhat offset by the declining price of property rights on the market (the OZEX_A index was 22.5 PLN/MWh on 29 June 2017, compared with 69.0 PLN/MWh on 30 June 2016).

Additionally, the Segment increased its revenues on sales of Regulatory System Services, mainly the Operating Reserve of the Ostrołęka Power Plant, which resulted from the higher capacity reported to the Operator (higher availability of units and lower sales in physical delivery energy contracts) and higher market prices for the service.

The revenue on sales and distribution of heat also rose because of the higher local demand for this product reported by the Group's customers (due to lower average temperatures).

Those increases in revenues were partly offset by the increased consumption costs of key fuels used for production, which was due to the higher production of energy from coal and biomass. The higher unit cost of coal consumption by the Segment was an additional cost factor.

In addition to the aforementioned drivers of the yoy pre-tax results of the Generation Segment, it should be noted that in Q2 of the previous year, as a result of the impairment tests, a decision was made to recognize impairment losses in the Generation Segment for the existing and future wind farms totaling PLN 247 m (where the impairment losses for the existing generation sources were PLN 145 m and the impairment losses for investment projects or projects under construction were PLN 102 m). No such factors were identified in Q2 2017.

Capital expenditures in the Segment in Q2 2017 were PLN 50 m lower. They were associated with the payment for the adaptation to environmental requirements and modernization projects in the Ostrołęka B Power Plant (general overhaul of the unit).

Hydro

Table 19: Results of the Hydro business line

PLN m	Q2 2016	Q2 2017	Change	Change (%)	H1 2016	H1 2017	Change	Change (%)
Revenue	38	53	15	39%	98	106	8	9%
EBITDA	**18**	**32**	**14**	**82%**	**56**	**62**	**6**	**10%**
EBIT	10	24	14	> 100%	40	46	5	13%
CAPEX	1	2	1	> 100%	3	4	1	21%

Wind

Table 20: Results of the Wind business line

PLN m	Q2 2016	Q2 2017	Change	Change (%)	H1 2016	H1 2017	Change	Change (%)
Revenue	7	20	13	> 100%	36	40	4	12%
EBITDA	**(2)**	**7**	**9**	**> 100%**	**16**	**15**	**(2)**	**-10%**
EBIT	(156)	(1)	155	99%	(269)	(2)	266	99%
CAPEX	0	0	0	> 100%	0	0	0	> 100%

Ostrołęka Power Plant

Table 21: Results of the Ostrołęka Power Plant business line

PLN m	Q2 2016	Q2 2017	Change	Change (%)	H1 2016	H1 2017	Change	Change (%)
Revenue	149	144	(5)	-3%	316	290	(26)	-8%
EBITDA	**20**	**29**	**10**	**49%**	**58**	**73**	**15**	**26%**
EBIT	2	14	12	> 100%	24	42	18	74%
CAPEX	59	22	(37)	-63%	110	35	(75)	-68%

Other and adjustments

Table 22: Results of the Other and adjustments business line

PLN m	Q2 2016	Q2 2017	Change	Change (%)	H1 2016	H1 2017	Change	Change (%)
Revenue	31	36	4	14%	93	94	1	1%
EBITDA	**(1)**	**4**	**5**	**> 100%**	**37**	**27**	**(10)**	**-27%**
EBIT	(112)	(4)	108	96%	(269)	10	279	> 100%
CAPEX	19	4	(15)	-78%	28	7	(21)	-76%

Sales Segment

Figure 9: Results of the ENERGA Group's Sales Segment (PLN m)

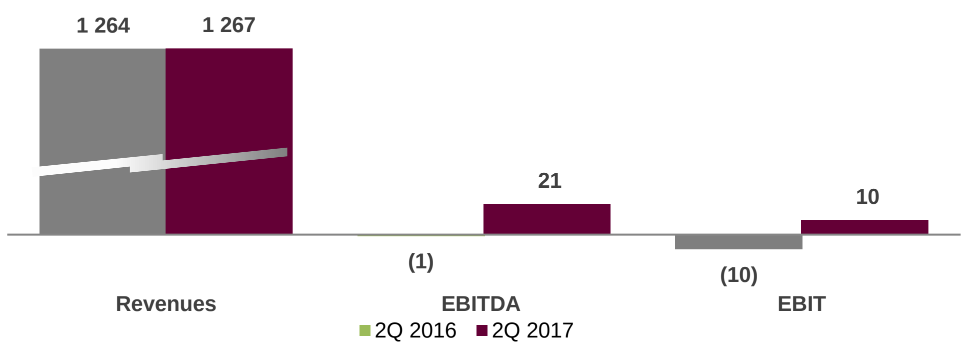


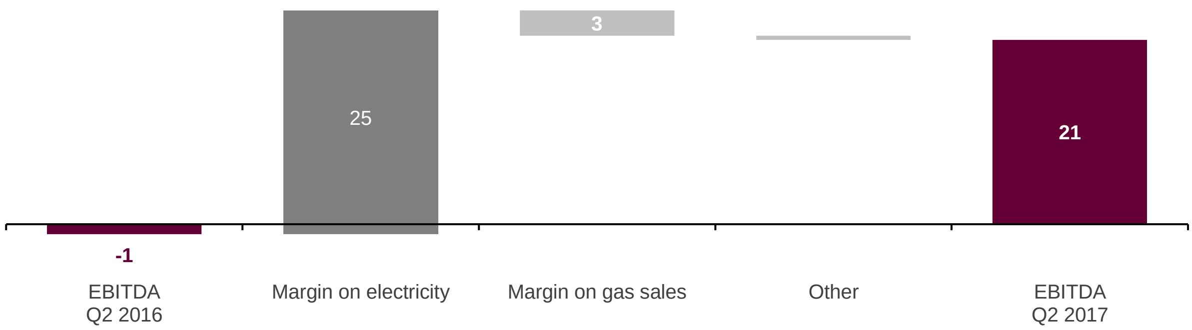
Table 23: Results of the ENERGA Group's Sales Segment

PLN m	Q2 2016	Q2 2017	Change	Change (%)
Revenue	1,264	1,267	3	0%
EBITDA	**(1)**	**21**	**22**	**> 100%**

amortization and depreciation	9	11	2	22%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	(10)	10	20	> 100%
Net result	(8)	7	15	> 100%
CAPEX	7	13	6	86%

PLN m	H1 2016	H1 2017	Change	Change (%)
Revenue	2,665	2,617	(48)	-2%
EBITDA	**27**	**11**	**(16)**	**-59%**
amortization and depreciation	18	22	4	22%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	9	(11)	(20)	< -100%
Net result	8	(10)	(18)	< -100%
CAPEX	13	21	8	62%

Figure 10: EBITDA Bridge of the Sales Segment (PLN m)



In Q2 2017, the Sales Segment's EBITDA was at PLN 21 m, which is 4% of ENERGA Group's EBITDA. In Q2 2016, the Segment's EBITDA was negative (PLN -1 m).

The Sales Segment's revenue in Q2 2017 stood at PLN 1,267 m, at a virtually the same level as in Q2 2016 (PLN 1,264 m). Revenues on sales of electricity remain the largest contributing item to the Segment's revenues. Revenues on sales of electricity on the retail market in Q2 2017 were slightly higher by PLN 52 m (or 5%) than in Q2 2016; this resulted from a 10% increase in volume and a 5% lower average selling price. On the other hand, revenue on wholesale electricity sales fell by PLN 46 m (31%) yoy, which was due to: a 21% decline in volume and a 13% drop in the average selling price.

The margin on electricity sales, which is the key element contributing to the Segment's results, rose by PLN 25 m yoy. This was an effect of a higher unit margin: the average unit variable cost, composed of the purchase cost of electricity, property rights and excise tax (-7% yoy) fell faster than the average electricity sales prices to end users (-5% yoy), with a less favorable structure of sales by tariff groups. Presented below are the factors affecting the margin on the sale of electricity:

a) Volume of retail sales – a 10% increase in volume contributed to the yoy margin growth.
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 customers 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. The decrease of the average yoy sales price is a consequence of the declining prices of energy and green certificates in the market and reduction of tariff G for 2017 by ERO by over 4%.
d) Electricity purchase cost (in PLN/MWh) – the decline in the average cost yoy is due to the yoy lower price at which electricity is contracted. It is driven by the general decline of energy prices on the market and the exceptionally high energy prices in Q2 2016 because of the significant load of the electrical power system experienced last June. It was that factor that proved decisive for the weak results of the Segment at that period (negative EBITDA). The negative effect of ENERGA-OBRÓT SA acting as an Offtaker of Last Resort on the Segment's results was comparable yoy.
e) Cost of redemption of property rights (in PLN/MWh) – the average unit cost in Q2 2017 was lower than in Q2 2016. The key impact on the change in this factor is exerted by the redemption cost of green certificates, where the decline is much lower than could be inferred from the decline in the market prices of green certificates (by 70% yoy). 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 higher than market prices. Their existence has significantly reduced the rate of decline of the costs of redemption of green certificates that should be expected based on the market trends. Additionally, the lower redemption costs in Q2 resulted from the final settlement of the obligation for the year 2016, which was effected by the legally-mandated deadline of 30 June 2017. The decrease in the decline rate of the cost of property rights was also driven by the introduction, on 1 July 2016, of a new obligation associated with support for the producers of electricity from biogas (blue certificates).

A negative impact on the Segment's EBITDA in yoy terms was exerted by the activity associated with gas trading. The margin on the sale of this fuel dropped by PLN 3 m yoy. This resulted from lower sales volumes and lower unit margins. Compared to previous years, the profitability in this market decreased as a result of higher activity of the main gas seller in Poland, i.e. PGNiG, and introduction of less favorable trade rules in the gas wholesale market (necessity to incur fees for fuel storage in the case of imports).

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 2017.

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 24: Current ratings of 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 26 June 2017, the Annual General Meeting of ENERGA SA adopted a resolution to distribute the 2016 profit, out of which PLN 79 m, i.e. PLN 0.19 per share, was allocated to a dividend for the Company's shareholders. The record date was set for 25 September 2017 and the dividend payment date for 9 October 2017.

3.10. ENERGA Group performance drivers in the next quarter and later

In the opinion of the ENERGA Management Board, the following factors will drive the results and operations of the Company and the ENERGA Group in the perspective of at least the next quarter.

Figure 11: ENERGA Group's performance drivers in 2017

Change in 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	Planned amendment to the Renewable Energy Sources Act changing the method used to determine the substitution fee level
Long-term contracts for purchase of "green" certificates based on the substitution fee in the environment of low market	Increasing competition in the electricity suppliers market	Impact of the function of the Offtaker of Last Resort and RES source balancing
Electricity prices on the spot and balancing markets	Must-run production level at ENERGA Elektrownie Ostrołęka	Final settlement of the purchase of Polimex-Mostostal S.A. shares
Actual rate received and the operating reserve volume	Share in the net result of PGG and Polimex-Mostostal and valuation of the options for Polimex-Mostostal shares	Weather and hydrometeorological conditions

3.11. 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 KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. („KPMG").

The agreement between ENERGA and KPMG was concluded on 12 April 2017. The object of the agreement is to audit and review the financial statements and consolidated financial statements of ENERGA SA and the ENERGA Group for the following periods:

- in the case of audit: annual financial statements for the period ended 31 December 2017 and 2018,
- in the case of a review: semi-annual financial statements for the period ended 30 June 2017 and 2018.

Environment

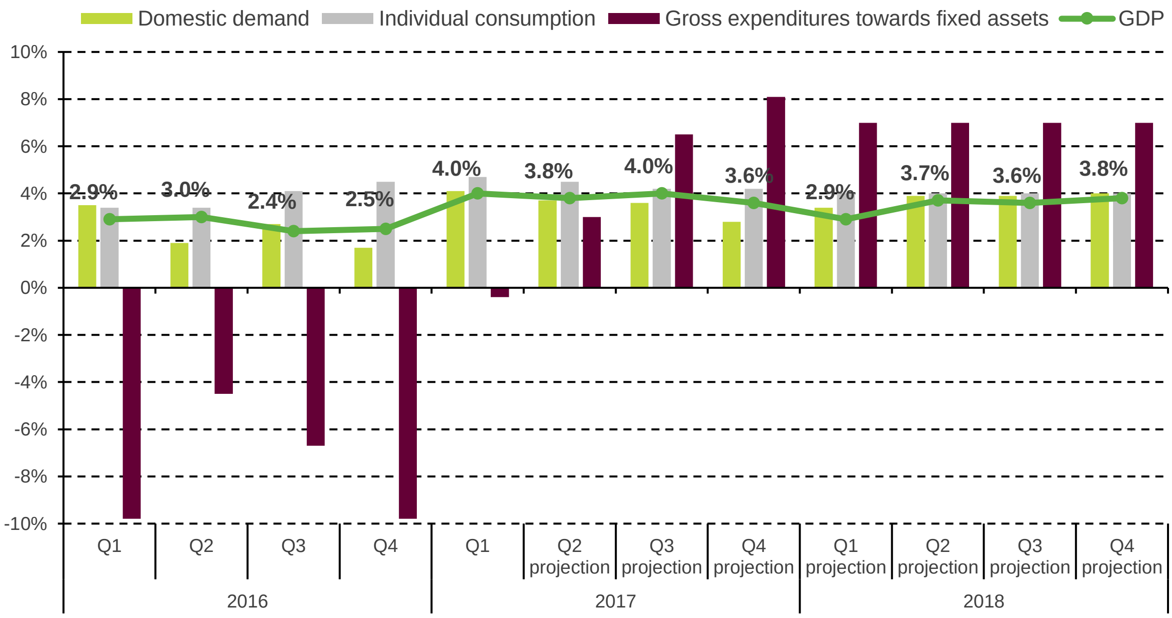
4. ENVIRONMENT

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 into electricity, heat and gas prices and shape demand for products supplied to end-users.

GDP growth in the Polish economy sped up significantly in Q1 of this year, reaching 4% yoy. The incoming Q2 data indicate that the business conditions stabilized at the level similar to that in the beginning of the year. According to the forecasts issued by Bank Zachodni WBK analysts, GDP growth of 3.8% yoy will be anticipated in Q2.

Figure 12: Annual changes in GDP, domestic demand, individual consumption and investments



Source: GUS and forecasts by Bank Zachodni WBK

Consumption demand remains the main GDP driver in Poland, even though the prices of consumption goods and services in H1 2017 rose 1.9% from the corresponding period of the previous year. Stronger private consumption was supported by the good growth of income from work and increased employment. Average employment in the corporate segment in the period from January to June period was 4.3% higher than the year before; on the other hand, the average monthly gross salary in the corporate segment rose by 5% yoy. Very good consumer sentiments regarding current and future trends and payments of child-rearing benefits had a positive effect on domestic demand. Consumption in the household sector is estimated to have risen by 4.5% yoy in Q2 of this year. Before the year-end, another factor supporting disposable income of households will appear, in the form of reduced retirement age.

The condition of the corporate sector in Q2 was also good and stable. Businesses reported both an increase in the utilization of their production capacity and a reduction of the demand barrier. However, the increasing sales on the domestic market are affected by the growing production costs, including commodity prices. The corporate sector has experienced an improvement since the beginning of the year and the decline in investments slowed down. According to the forecasts issued by Bank Zachodni WBK analysts, gross expenditures towards fixed assets increased by 3% yoy in Q2 of this year. Investment demand is supported by the good demand conditions and by the positive assessment of the possibilities to finance growth. Data on the inflow of EU funds, decline in corporate deposits as well as the high utilization of production capacity with a steadily increasing demand suggest that investment in fixed assets will recover in subsequent quarters.

The Purchasing Managers Index (PMI) in the Polish economy was 53.1 points in June, up by 2.5% from the reading one year before. The recovery was supported by a significant increase in production and in the number of new orders, especially export orders.

There were no changes in the monetary policy in the first half of 2017. Since March 2015, the interest rates have remained unchanged: the reference rate is 1.5%, the lombard rate 2.5%, the deposit rate 0.5% and the bill rediscounting rate 1.75%. The Monetary Policy Council upholds its assessment that, in light of the available data and forecasts, the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and allows it to maintain macroeconomic balance. According to the NBP President of NBP, it is very likely that interest rates will not change until the end of 2018.

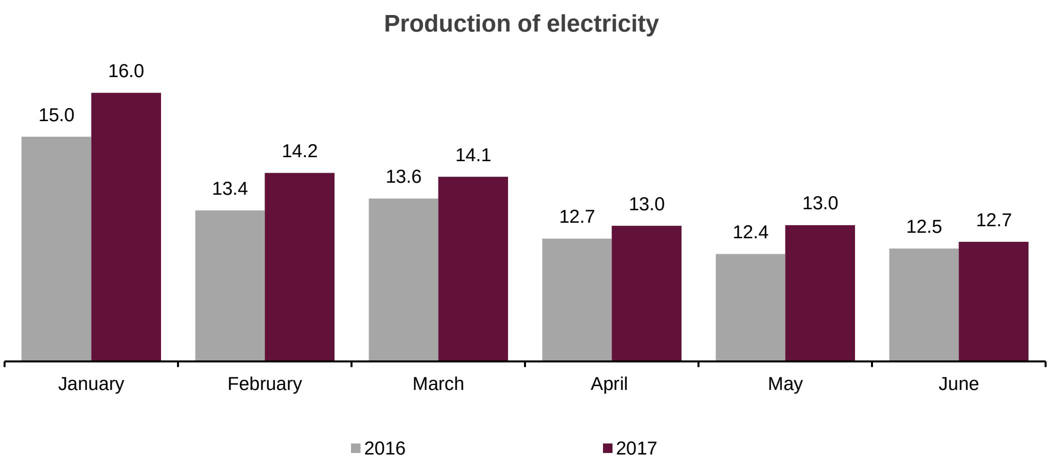
4.2. Electricity market in Poland

The situation in the market environment is really important for the Group's financial performance. In this context, one should mention in particular the production and consumption of electricity, Poland's intersystem exchange, electricity prices in Poland and some of its neighboring countries, prices of property rights, fees for the operating reserve and the costs of emission allowances.

Domestic production and consumption of electricity

Production of electricity in Poland, according to the data published by Polskie Sieci Energetyczne ("PSE") in H1 2017, reached 83.0 TWh and was 3.3 TWh (or 4.1%) higher than in the corresponding period of the previous year (79.7 TWh). In the individual months of the first half of the year, the production level was higher than in the same period of the year before.

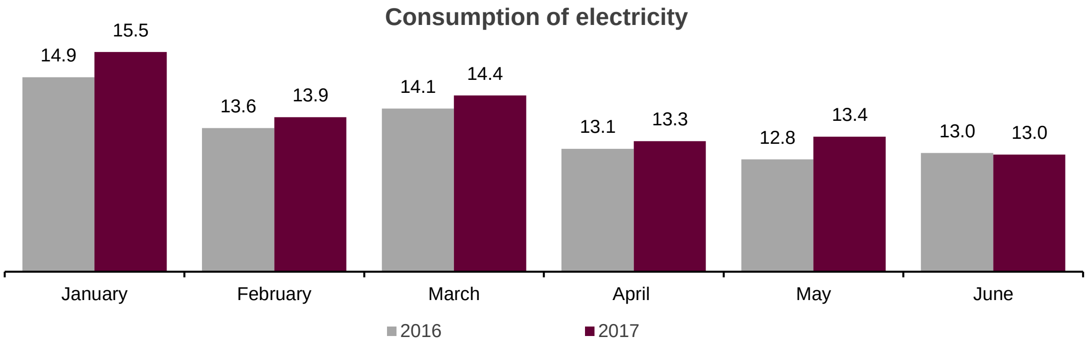
Figure 13: Production of electricity in Poland in H1 2017 (TWh)



Source: PSE

Domestic consumption of electricity in Poland in H1 2017 was 83.5 TWh, which was 1.9 TWh, or 2.3% more than in the same period of the previous year (81.6 TWh).

Figure 14: Consumption of electricity in Poland in H1 2017 (TWh)

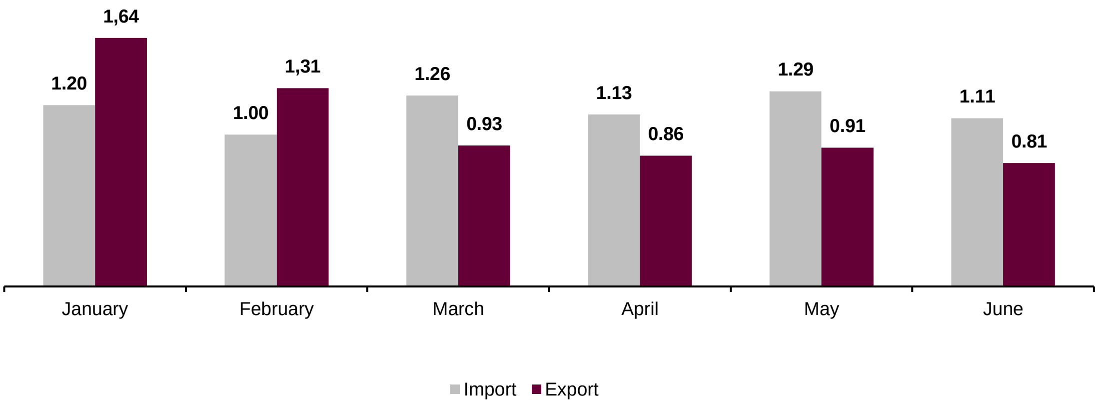


Source: PSE

Poland's inter-system exchange

Change of the direction of electricity flows between Poland and Lithuania through the LitPol Link interconnector and increase of the flows from Ukraine are the main contributors to the surplus of net electricity imports in H1 2017 in the amount of 0.51 TWh, compared to net imports of 1.90 TWh in the corresponding period of the previous year.

Figure 15: Monthly volumes of intersystem exchange in Poland after H1 2017 (TWh)

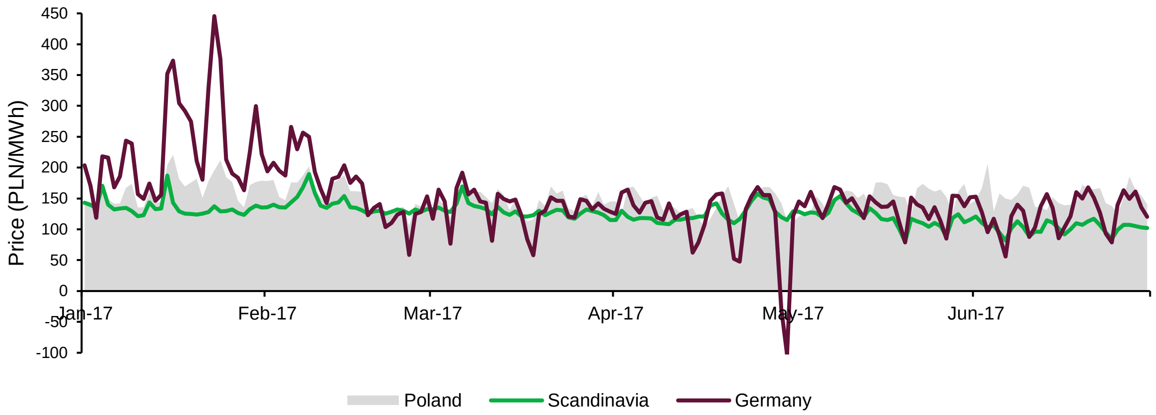


Source: PSE

Energy prices in selected neighboring countries

In order to compare energy prices in Poland to those in selected neighboring countries, spot market prices were used as reference products. In H1 2017, average prices in Poland were slightly lower than the market prices in Germany (by 0.15%, or 0.23 PLN/MWh). Higher prices in the German market in the first half of Q1 were caused primarily by shut-downs of French nuclear power plants, while the further significant price drop resulted from higher RES production. In the discussed 6-month period, the prices in the Polish market were higher than in the Scandinavian market (by 21.4%, or 26.80 PLN/MWh).

Figure 16: Electricity prices on the SPOT market in Poland and in selected neighboring countries in H1 2017

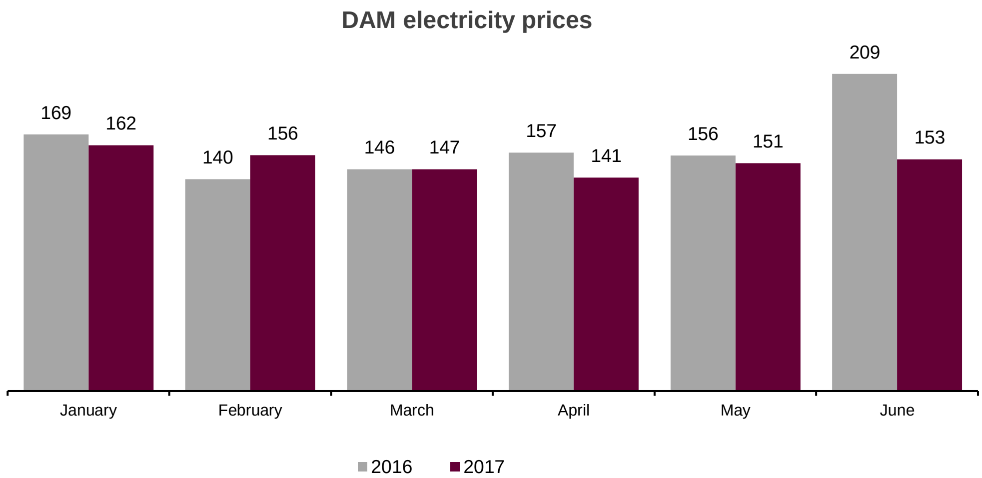


Source: Bloomberg

Electricity Day-Ahead Market (DAM) in Poland

In H1 2017, the average level of the IRDN24 index was 151.54 PLN/MWh and was 11.55 PLN/MWh lower than in the corresponding period of the previous year (163.09 PLN/MWh). The record levels of capacity loss in the system and the domestic demand were fully offset by the historically high wind generation, which consequently brought a significant decline in prices in relation to the corresponding period of last year.

Figure 17: IRDN 24 index in H1 2017 (PLN/MWh)

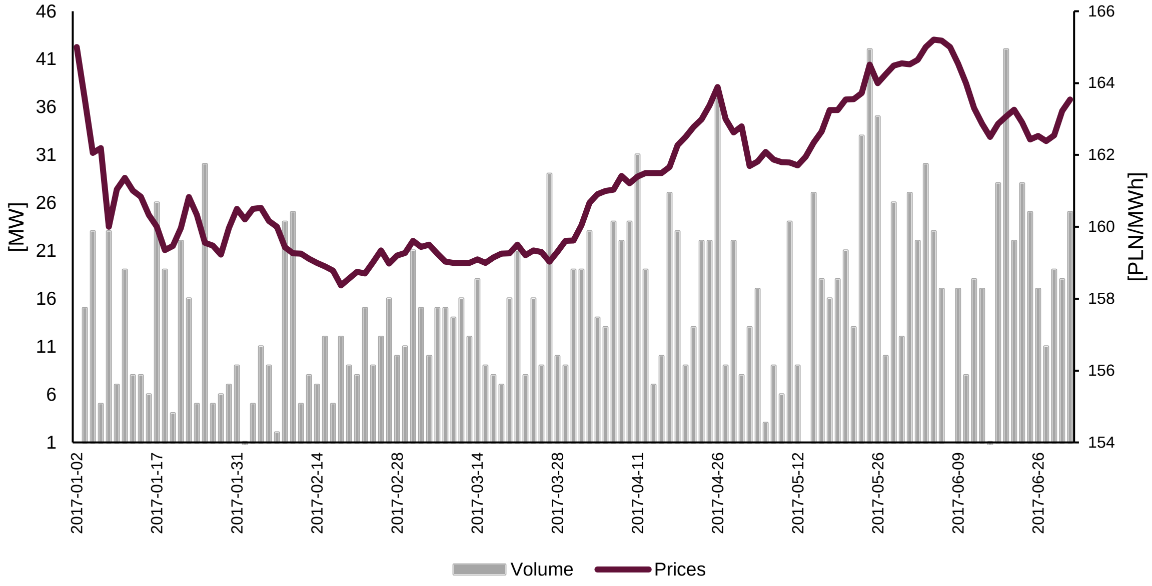


Source: TGE

Electricity forward market in Poland

In the first half of Q1 2017, the electricity forward market was in a downward trend, reaching the minimum of 158.37 PLN/MWh on 17 February. From that moment, there was a visible attempt to change the trend on the BASE 2018 market, which boosted the price to 165.21 PLN/MWh on 6 June of this year.

Figure 18: Price of forward contracts – base with delivery in 2018, quoted in H1 2017

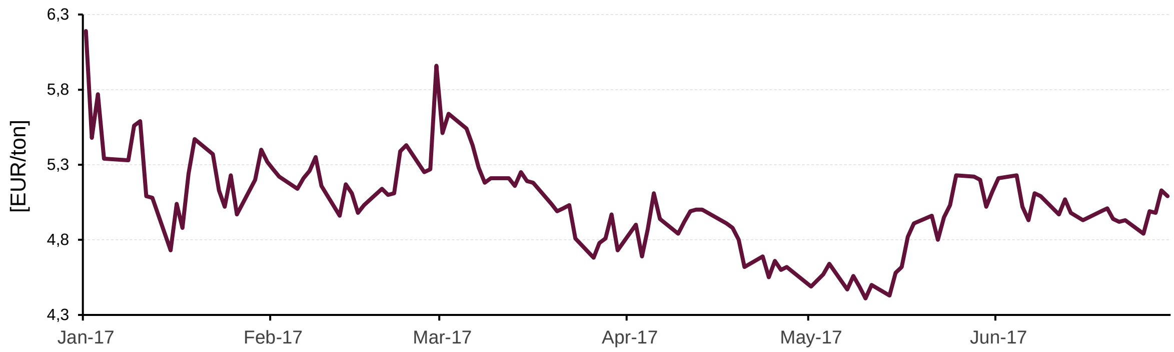


Source: TGE

Emission allowance market

The vote on the next stage of EU ETS after 2020, held by the end of February, pushed the EUA prices at the beginning of March to nearly 6 EUR/t. Nevertheless, absence of clear progress in the talks, lower prices of correlated energy products, that is oil and coal, and an increase in the auction volume this year by 86 million EUAs (Poland once again signed an agreement on the sale of emission entitlements with the auction platform of the EEX exchange), brought the price down to the level of 4.41 EUR/t on 11 May. The continuation of work on reforming the EU ETS, or actually the acceleration of the efforts, led to several attempts for the price to exceed 5.0 EUR/t and the first 6 months closed at the level of 5.09 EUR/t.

Figure 19: EUA emission allowance prices in H1 2017



Source: Bloomberg

Market for property rights

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

Table 25: Average levels of property rights indices listed on the Polish Power Exchange

Index (type of certificate)	Index value		% Obligation (%)	Substitution fee (PLN)
	H1 2016 (PLN/MWh) with 2015 index	H1 2017 (PLN/MWh) with 2016 index		
OZEX_A (green)	103.46	31.60	15,4*	300,00*
KGMX (yellow)	118.73	122.96	7,0*	120,00*
KECX (red)	10.57	10.66	23,2*	10,00*

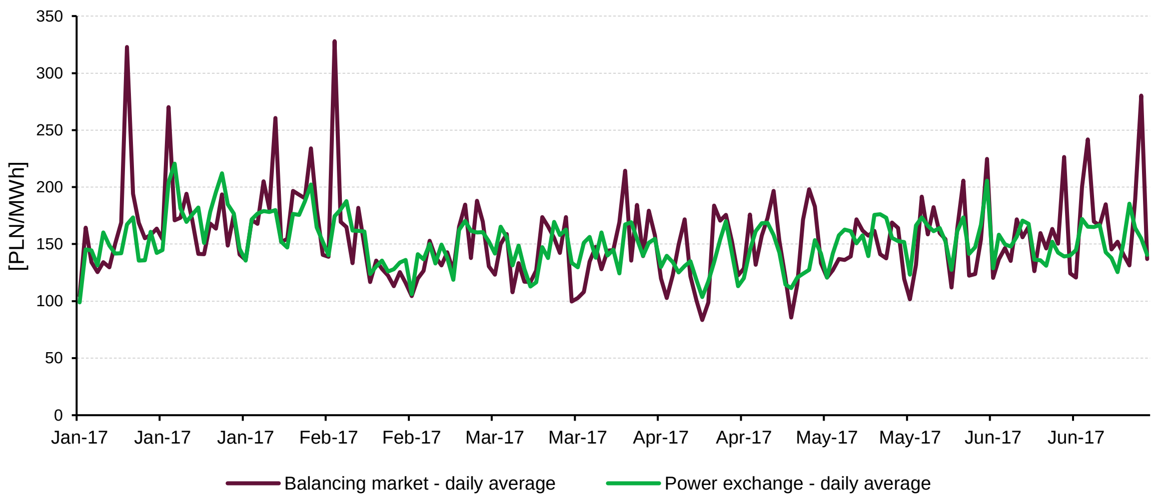
** value of the substitution fee and redemption obligation in 2017*

From the standpoint of the Group's generation structure (high percentage of RES production) the quotations of green property rights are the most important. In H1 2017, the prices of RES property rights in session transactions kept falling, closing the first quarter at 22.46 PLN/MWh, which is the historic minimum for this instrument.

Balancing Market

During the majority of H1 2017, electricity prices on the balancing market were similar to day-ahead market prices. There were a few exceptional dates: on 9 January of this year, the daily average price on the balancing market reached 322.75 PLN/MWh, on 13 February the price was 327.94 PLN/MWh and on 29 June it reached 280.29 PLN/MWh. The average price level in the period in question on the balancing market was 154.92 PLN/MWh, compared to 167.93 PLN/MWh in the corresponding period of the previous year.

Figure 20: Statement of prices on the balancing market and SPOT market (Exchange) in H1 2017

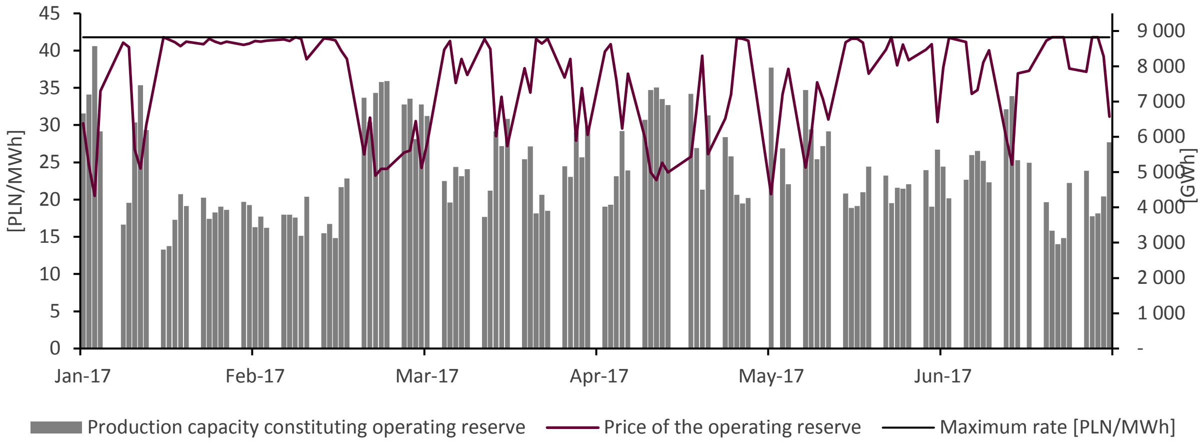


Source: TGE, PSE

Operating reserve

In 2017, the operating reserve service is continued. The reference price was raised to 41.79 PLN/MWh. In H1 2017, the average fee for the operating reserve service was PLN 35.66 and was PLN 3.53 more than in the corresponding period of the previous year (32.13 PLN/MWh).

Figure 21: Listing of prices and generating capacity constituting operating reserve in H1 2017



Source: PSE

4.3. Regulatory environment

Table 26: List of legal acts affecting the performance of the ENERGA Group

Legal act	Purpose of changes	Opportunities	Threats / Issues
Government Water Law bill. The Water Law Act was signed by the President on 2 August 2017.	(1) Implementation of the Water Framework Directive requirements in respect to the principles of water management. (2) (The act provides for water management in accordance with the sustainable development principle, in particular definition and protection of water resources, use of water and management of water resources. (3) The act regulates ownership of water and land covered by water and the rules for managing those components as State Treasury property.	(1) Significant reduction achieved as compared with the initially proposed new fees for power installations. (2) Rationalization and stimulation of investments in the area of water management in Poland. Rationalization and stimulation of investments in the area of water management in Poland.	(1) Elimination of exemptions from fees for business use of water for energy production purposes. (2) Additional fees for business use of water for energy production purposes from 1 January 2018 and 1 January 2019
Government bill on the capacity market (parliamentary paper no. 1722) At the stage of	Ensuring support for implementation of investment projects that increase the stability and security of the National Power System. Ensuring the possibility of executing the	(1) Effect of incentives to build new and modernize existing generation installations. (2) Modernization and construction of new	(1) The postulates of the ENERGA Group in the context of construction of the new conventional 1000 MW power plant in Ostrołęka have not

parliamentary work.	construction of the new Ostrołęka C power plant on market terms.	electricity sources to stabilize the National Power System and utilize Polish resources of energy fuels.	been incorporated in the bill. (2) No notification of the bill by the European Commission.
EU legislation. Clean Energy for All Europeans legislative proposals, also referred to as the winter package. COM/2016/0860 final	Maintenance of EU's competitiveness in the period of transformation of energy markets towards clean energy, the so-called Winter Package Plans to reduce coal subsidies, to increase the energy efficiency target to 30% and reduce CO_2 emissions by 40% before 2030. The new regulations require approval by the European Union 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.	(1) Resistance of several EU countries to the low emission standard, i.e. 550g CO_2/kWh. (2) New regulations, among others supporting development of RES and CHP and improvement of energy efficiency.	(1) As of 1 January 2025, reduction of support of capacity market mechanisms for any installations that emit more than 550 g CO_2/kWh. (2) Restrictions for a failure to achieve the goals of the EU climate policy by Member States. (3) Overambitious EU climate goals maladjusted to the situation of some Member States. (4) Obligation to consult National Energy Plans with the European Commission and obligation to incorporate EC's recommendations in this respect. (5) Biomass no longer treated as RES. (6) Introduction of a platform to be financed by the countries that do not meet their RES goals. No information who will be the beneficiary of the funds accumulated in the platform.
Government Electromobility and Alternative Fuels Bill – at the stage of the Government Legislative Center starting from 27 April 2017.	Announcement by the Ministry of Energy on 19 January 2017 – Undersecretary of State Mr. Michał Kurtyka.	(1) Opportunity for dynamic growth of the electromobility business (cars, municipal transport, access infrastructure) in which the ENERGA Group has considerable experience – Enspirion Sp. z o.o.	(1) Competition with entities that have well-developed technological and capital resources. (2) New duties of DSOs and Offtakers of Last Resort related to the development of base infrastructure in the territory of Poland. (3) Imprecise regulations on the pace and planning method of development of charging infrastructure.
Government Bill to amend the RES act and some other acts – at the stage	(1) introduction of simplified disclosure and reporting duties for RES energy producers,	(1) Changes in the operation of the auction system.	(1) No details available in respect to auctions planned in 2017.

of the Government Legislative Center starting from 28 June 2017.	(2) deregulation of generation, distribution, trading activity, and energy storage from RES installations, (3) continuation of the necessary system changes that would enable creation of local energy-balanced areas on market terms. (4) In respect to wind farms: restoration of the legal status in respect to property tax from 2018.	(2) Implementation of the requirements of the European Commission. (3) Mitigation of legal requirements will, to some extent, enable the development of wind power sector. (4) Adding precision to the issues related to taxation of wind power plants by local government units.	
Private member's bill to amend the RES act and some other acts – (adopted by the Sejm at its 46th session on 20 July 2017)	Introduction of a solution facilitating sustainable development in the RES area through a change of the unit substitution fee.	(1) Subjecting the Ozj rate, i.e. the unit substitution fee, to free market principles.	(1) Harmonization of regulations governing the markets for certificates of origin from RES (green certificates).

Shares and shareholding structure

5. SHARES AND SHAREHOLDING STRUCTURE

5.1. ENERGA's shareholding structure

Table 27: 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

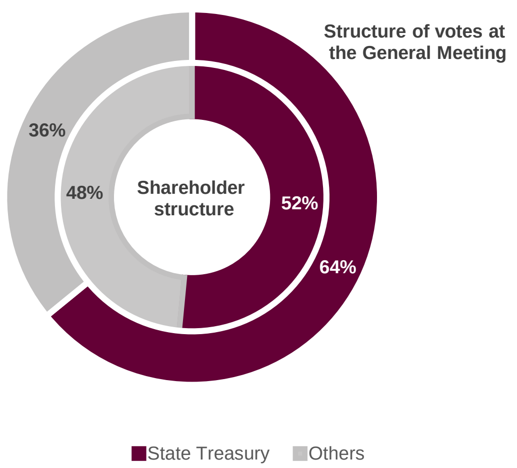
** One preferred share entitles its holder to 2 votes at the General Meeting. These shares are owned by the State Treasury.*

Table 28: Shareholding structure of ENERGA as at 30 June 2017 and the date of preparing this Management Board Report

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 22: Shareholding structure of ENERGA as at 30 June 2017 and the date of preparing this Management Board Report



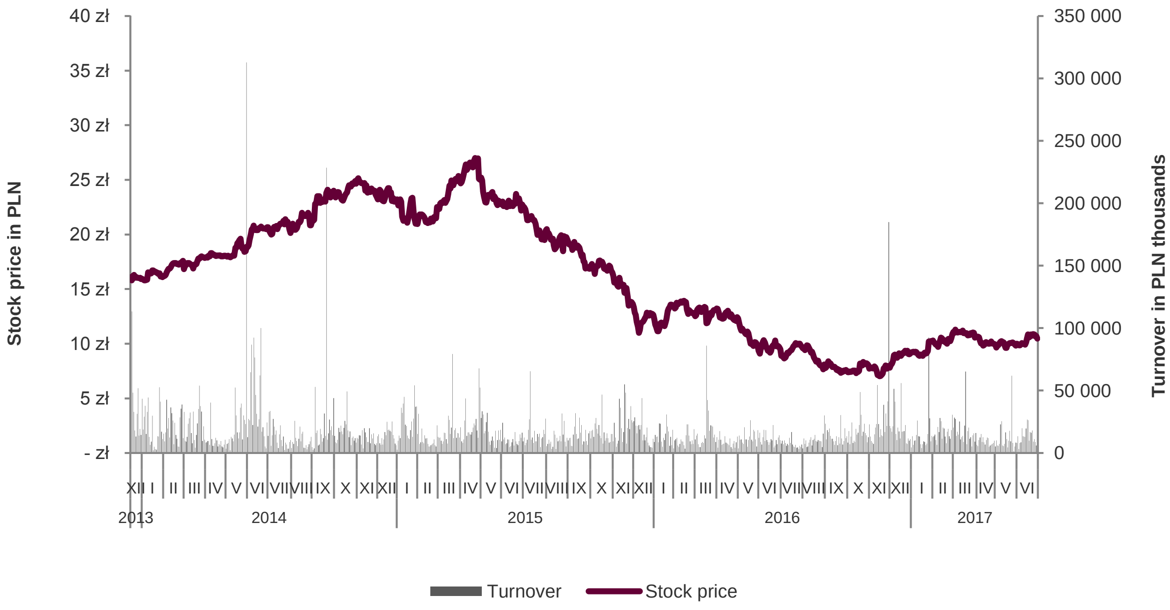
5.2. Prices of Company's shares and recommendations issued

Table 29: Information on ENERGA shares as at 30 June 2017

Data	Value
Issue price	PLN 17.00
Number of shares	414,067,114
Stock price at the end of the period	PLN 10.47
Capitalization at the end of the period	PLN 4.34 bn
Minimum at closing in H1	PLN 8.89
Maximum at closing in H1	PLN 11.30
H1 minimum	PLN 8.75
H1 maximum	PLN 11.40
Average trading value	PLN 14.2 m
Average trading volume	1,386 thous. shares
Average number of trades	2,184 trades

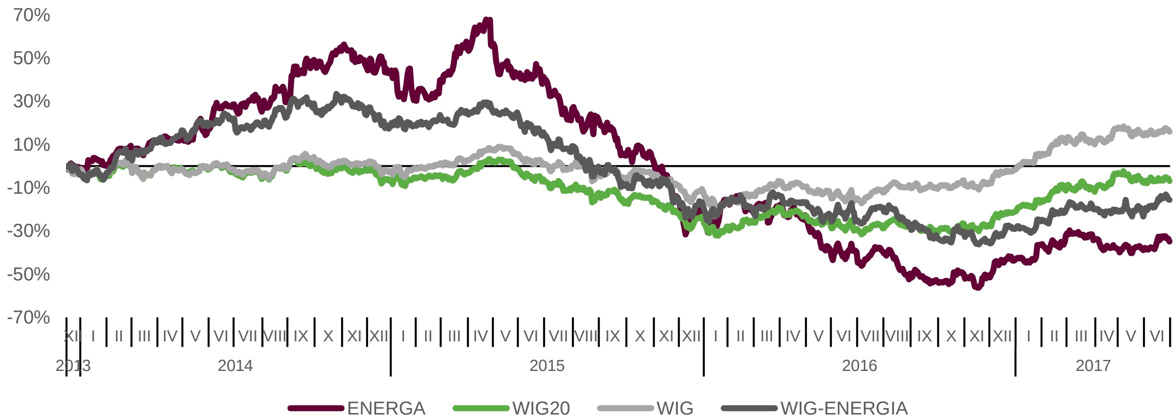
Source: Proprietary material based on data from www.infostrefa.pl

Figure 23: ENERGA SA stock price, in the period from IPO (i.e. 11 December 2013) to 30 June 2017



Source: Proprietary material based on data from infostrefa.com

Figure 24: Changes in ENERGA SA stock prices in comparison with changes in WIG, WIG20 and WIG-ENERGIA indices



Source: Proprietary material based on data from infostrefa.com

Figure 25: Recommendations issued by analysts in H1 2017

6
Analyst recommendations in H1 2017

1 Buy recommendation
3 Hold recommendations
1 Neutral recommendation
1 Sell recommendation

A list of the recommendations can be found on the Company's Investor Relations website.

5.3. Shares held by executive and supervisory personnel

As at 10 May 2017, 30 June 2017 and as at the date of preparing this Report, no member of ENERGA SA's Supervisory Board and no member of ENERGA SA's Management Board held Company's shares, rights to Company's shares or shares in the Company's affiliates.

Management Board's representations

The ENERGA SA Management Board hereby represents that:

a) according to the best knowledge, the condensed interim consolidated and individual 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 ENERGA SA and 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;

b) KPMG Audyt Sp. z o.o. sp.k., an entity authorized to audit the financial statements, which reviewed the condensed interim consolidated financial statements of the ENERGA Group and the interim financial statements of ENERGA SA for H1 2017, was selected in accordance with the applicable regulations of law. That entity as well as the statutory auditors who reviewed the aforementioned financial statements satisfied the conditions for issuing unbiased and independent reports on the review of the interim condensed consolidated financial statements as required by the binding regulations and professional norms.

Gdańsk, 8 August 2017

Signatures of ENERGA SA Management Board Members

Daniel Obajtek

President of the ENERGA SA Management Board

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

Alicja Klimiuk

Vice-President of the ENERGA SA Management Board for Operations

Andrzej Kublik

Director of the Finance Department

List of figures

Figure 1: Risk management process in the ENERGA Group 15
Figure 2: EBITDA bridge, by segment 29
Figure 3: Group's cash flows in H1 2017 and 2016 (PLN m) 33
Figure 4: Structure of assets and liabilities 34
Figure 5: Results of the ENERGA Group's Distribution Segment (PLN m) 39
Figure 6: EBITDA Bridge of the Distribution Segment (PLN m) 40
Figure 7: Results of the ENERGA Group's Generation Segment (PLN m) 41
Figure 8: EBITDA Bridge of the Generation Segment (PLN m) 42
Figure 9: Results of the ENERGA Group's Sales Segment (PLN m) 44
Figure 10: EBITDA Bridge of the Sales Segment (PLN m) 45
Figure 11: ENERGA Group's performance drivers in 2017 47
Figure 12: Annual changes in GDP, domestic demand, individual consumption and investments 49
Figure 13: Production of electricity in Poland in H1 2017 (TWh) 50
Figure 14: Consumption of electricity in Poland in H1 2017 (TWh) 51
Figure 15: Monthly volumes of intersystem exchange in Poland after H1 2017 (TWh) 51
Figure 16: Electricity prices on the SPOT market in Poland and in selected neighboring countries in H1 2017 52
Figure 17: IRDN 24 index in H1 2017 (PLN/MWh) 52
Figure 18: Price of forward contracts – base with delivery in 2018, quoted in H1 2017 53
Figure 19: EUA emission allowance prices in H1 2017 53
Figure 20: Statement of prices on the balancing market and SPOT market (Exchange) in H1 2017 54
Figure 21: Listing of prices and generating capacity constituting operating reserve in H1 2017 55
Figure 22: Shareholding structure of ENERGA as at 30 June 2017 and the date of preparing this Management Board Report 59
Figure 23: ENERGA SA stock price, in the period from IPO (i.e. 11 December 2013) to 30 June 2017 60
Figure 24: Changes in ENERGA SA stock prices in comparison with changes in WIG, WIG20 and WIG-ENERGIA indices 61
Figure 25: Recommendations issued by analysts in H1 2017 61

List of tables

Table 1: Implementation status of the investment program as at 30 June 2017 11
Table 2: Nominal value of bonds subscribed for by ENERGA SA and outstanding as at 30 June 2017, by issuer 14
Table 3: Proceedings pending before the court, arbitration bodies or public administration bodies 22
Table 4: Prizes and distinctions received by the Group in H1 2017 26
Table 5: EBITDA adjusted for material non-recurring events* 30
Table 6: Consolidated statement of financial position 31
Table 7: Consolidated statement of cash flows 33
Table 8: Financial ratios of the ENERGA Group 34
Table 9: Distribution of electricity, by tariff groups 35
Table 10: SAIDI and SAIFI levels 35
Table 11: Gross production of electricity in the ENERGA Group 36
Table 12: Production of heat 37
Table 13: Volume and cost* of consumption of key fuels 37
Table 14: Sales of electricity by the Sales Segment 38
Table 15: EBITDA of the ENERGA Group, by Segment 38
Table 16: Results of the ENERGA Group's Distribution Segment 39
Table 17: Results of the ENERGA Group's Generation Segment 41
Table 18: EBITDA of the Generation Segment, by business line 42
Table 19: Results of the Hydro business line 43
Table 20: Results of the Wind business line 43
Table 21: Results of the Ostrołęka Power Plant business line 44
Table 22: Results of the Other and adjustments business line 44
Table 23: Results of the ENERGA Group's Sales Segment 44
Table 24: Current ratings of ENERGA 46
Table 25: Average levels of property rights indices listed on the Polish Power Exchange 54
Table 26: List of legal acts affecting the performance of the ENERGA Group 55
Table 27: Issuer's shares by series and types 59
Table 28: Shareholding structure of ENERGA as at 30 June 2017 and the date of preparing this Management Board Report 59
Table 29: Information on ENERGA shares as at 30 June 2017 60

Glossary of terms and abbreviations

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).
CO_2	Carbon dioxide
EIB	European Investment Bank
EBITDA (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.
EBIT	Earnings before interest and taxes; Operating profit
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	Program to issue Euro Medium Term Notes
EUA	European Union Allowance; Emission allowances
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, ENERGA	Group dealing with distribution, sales and generation of electricity and heat. 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
IRM	Stimulated Demand Reduction
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.
Cogeneration, CHP	Technological process of simultaneous production of heat and electrical or mechanical energy in the course of the very same technological process
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
MW	Unit of power in the International System of Units, 1 MW = 10^6 W
MWe	Megawatt of electrical power
MWh	Megawatt hour
NIB	Nordic Investment Bank
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.
ORM	Operating reserve
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 power systems
TSO, Transmission System Operator	Utility dealing with the transmission of gaseous fuels or electricity, 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 power systems

OZEX_A	Volume-weighted average price using all transactions pertaining to the PMOZE_A contract on an exchange session
GDP	Gross Domestic Product
PLN	Polish zloty, national currency
PMI	Industrial economic activity index computed by Markit in cooperation with HSBC
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
Property rights	Negotiable rights constituting a commodity arising from certificates of origin for energy generated from renewable energy sources and cogeneration
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
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 from co-generation	Document issued by the ERO President pursuant to art. 9i 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 electricity 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. electricity, 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 electricity, 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
ERO	Energy Regulatory Office
WACC	Weighted average cost of capital
WIBOR	Warsaw Interbank Offered Rate
RAB	Regulatory Asset Base
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