



**Energa SA Management Board report on the activity of Energa SA for the year ended 31 December 2017**

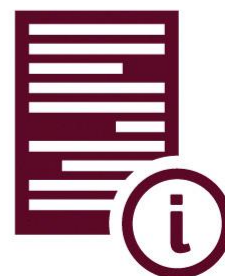
Gdańsk,  
Publication date: 15 March 2018

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# Key information about the Company



# 1. KEY INFORMATION ON THE COMPANY AND THE EN- ERGA SA GROUP

## 1.1. Role of the Company in the Group

Energa SA (Company, Energa) is a parent company of the Energa SA Group (Group, Energa SA Group). It was established on 6 December 2006 as part of the Power Sector Program by the State Treasury, Koncern Energetyczny Energa SA (currently: Energa-Operator SA) and Zespół Elektrowni Ostrołęka SA (currently: Energa Elektrownie Ostrołęka SA). The company was registered in the National Court Register (KRS) on 8 January 2007 under file number 0000271591.

## 1.2. Activities of the Energa SA Group

The core business of the Energa SA Group entails distribution, generation and sales of electricity and heat and concentrates on the following business lines<sup>1</sup>:

**Distribution Business Line** – the basic Business Line from the perspective of the Group's operating profitability involving distribution of electricity in Poland is a regulated activity, conducted on the basis of tariffs approved by the President of the Energy Regulatory Office (ERO). The Energa SA Group has a natural monopoly position in the northern and central part of Poland, where its distribution assets are located, through which it supplies electricity to 3 million customers, approx. 2.8 million of which are customers with comprehensive agreements and 204 thousand are TPA customers. As at 31 December 2017, the total length of the power lines was over 185 thousand km and covered almost 75 thousand km<sup>2</sup>, i.e. about 24% of the country's landmass. Energa-Operator SA acts as the Leading Entity in this Line.

**Generation Business Line** operates on the basis of four Power Divisions: the Ostrołęka Power Plant, Hydro, Wind and Other (including cogeneration – CHP). At the end of 2017, the total installed generation capacity in the Group's power plants was approximately 1.3 GW.

The Group's gross electricity production was 1.2 TWh in Q4 2017 and 4.3 TWh in the whole year. Electricity was produced in power plants based on such sources as: hard coal, hydro, wind, biomass and photovoltaics. In Q4 2017, 55% of the Group's gross electricity production originated from hard coal, 31% from hydro, 14% from wind and 1% from biomass. After 12 months of 2017 the Group generated 63% of its gross energy from hard coal, 25% from hydro, 11% from wind and 1% from biomass. The Leading Entity in this Business Line is Energa Wytwarzanie SA.

The Energa SA Group owes its leading position in terms of the percentage of electricity from renewable energy sources in the total energy generated, primarily to the generation of energy in hydro power plants and wind power plants. Green energy is produced in 45 hydro power plants, 5 wind farms and in biomass-fired installations (in Energa Kogeneracja) and in photovoltaic installations.

At the end of 2017, the Group had the installed capacity of 0.5 GW in renewable energy sources, with a gross production of 509 GWh of electricity in the fourth quarter of 2017 and 1.5 TWh in the whole 2017.

Hard coal was the main fuel used by the Energa SA Group for electricity and heat production. Due to the low market prices of green property rights since 2016, the Group stopped biomass co-firing (Ostrołęka Power Plant). In 2017 the Group's generation units consumed 1,280 thousand tons of hard coal and 46 thousand tons of biomass (burning 1,288 thousand tons of hard coal and 30 thousand tons of biomass the year before). The Group was supplied with hard coal mainly by 3 suppliers, i.e. Polska Grupa Górnicza, Lubelski Węgiel "Bogdanka" and Jastrzębska Spółka Węglowa.

<sup>1</sup> The Group changed the nomenclature from Segments to Business Lines and the existing Business Lines to Power Divisions, in connection with signing the Cooperation Agreement in December 2017, described in Chapter 1.4. *Energa SA Group's management model* of this Report

**Sales Business Line**, with Energa-Obrót SA as its leader, conducts sale of electricity, gas and additional services both as separate products and in packages to all customer segments – from industry, through big, medium-sized and small business, to households. At the end of 2017, the Energa SA Group supplied over 3 million customers, out of which over 2.7 million were G tariff customers and the remainder were customers from tariff groups: C, B and A, in a decreasing order.

### 1.3. Key events and achievements of Energa

#### Payment of a dividend from the profit generated in 2016

On 26 June 2017, 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).

#### Signing of hybrid financing agreements with European Investment Bank

On 4 September 2017, the Company and European Investment Bank ("EIB") signed the following agreements:

- a. project agreement, defining the detailed requirements regarding the financing of an investment project,
- b. subscription agreement ("Subscription Agreement") constituting the basis for issuing hybrid bonds for EUR 250 million ("Bonds").

The said financing will be slated for execution of an investment program in the Distribution Business Line, consisting in modernization and expansion of the Energa SA Group's distribution assets in 2017-2019. The planned investments are aimed at increasing the security of electricity supplies while simultaneously reducing grid losses and improving service quality. The estimated qualified expenditures in this period will amount to approx. EUR 814 million.

The issued Bonds are subordinated, unsecured, coupon bearer securities which have been subscribed for by EIB under the European Fund for Strategic Investments launched by EIB jointly with the European Commission to execute the so-called Juncker Plan. The Bonds were issued on 12 September 2017.

In accordance with the Subscription Agreement, the Bonds were issued in two tranches with the total nominal value of:

- a. EUR 125 million, maturing in 16 years, with the first financing period set for 6 years from the issue date,
- b. EUR 125 million, maturing in 20 years, with the first financing period set for 10 years from the issue date.

The Bonds earn interest at a fixed interest rate estimated according to the formula defined in the terms and conditions of issue.



In accordance with the characteristics of hybrid financing, in the first financing period the Company will not be able to redeem the Bonds early and EIB will not be able to sell the Bonds early to third parties (in both cases, subject to certain exceptions specified in the Agreement). In the same period the Company may, at its sole discretion, opt to defer all or part of the Interest payments (Current Report No. 36/2017). On 1 September 2017, Fitch Ratings assigned a preliminary rating to the bond issue at the B+ level, which was confirmed on 13 September 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 SA 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 the owner of, in particular, 4 CHP plants, i.e. Kraków, Gdańsk, Gdynia and Toruń, and the heat distribution network in Toruń, Rybnik Power Plant and
- acquisition of acquisition of all the shares held by EDF in ZEC "Kogeneracja" S.A., which owns 4 combined heat and power plants, i.e. in Wrocław, Zielona Góra, Czechnica and Zawidawie and heat distribution networks in Zielona Góra, Siechnice and Zawidawie.

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

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., Węglökoks 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 Węgłokoks 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. in the third tranche in Q1 2018 the company will subscribe for PGG's shares in return 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 bonds are listed on the Luxembourg stock exchange.

The funds raised through the bond issue will be applied to general corporate purposes, excluding investments in coal assets. In this context, they will support the implementation of the Energa SA

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. (Current Report No. 56/2016), 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 for 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 for 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 obligating the parties to the agreement, provided that the conditions precedent are satisfied, to conduct the transaction of selling a total of 6,000,001 Polimex shares by SPV Operator to the Investors, in which the Company undertook to purchase 1,500,000 Polimex shares.
4. Agreement between the Investors and TFS, under which TFS granted the Investors, against remuneration, an option to purchase Polimex shares from TFS if the TFS exercises its right to convert the convertible bonds issued by Polimex and undertook before the Investors not to convert its series A convertible bonds issued by Polimex without a prior written demand from the Investors.

On 18 January 2017, having examined the application the President of UOKiK issued his approval for the concentration involving acquisition of joint control over Polimex by the Investors (Current Report No.: 5/2017).

On 20 January 2017, in connection with 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 for 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 to and members of the Energa SA governing bodies**

A detailed description of changes to the Company's governing bodies is presented in chapter 5.7. Company's corporate bodies of this Report.

## **1.4. Energa SA Group's management model**

Starting from 2013, the basic document in the Energa SA Group defining general principles of its management has been the Energa SA Group Organizational Governance. In October 2016 a team was appointed to develop a new document defining the cooperation rules between the Group companies. As a result of the works conducted in 2017 by the Corporate Management Department, on 20 December, 31 companies from Energa SA Group decided to enter into an Energa SA Group Coopera-



tion Agreement, which replaced the previously prevailing Energa SA Group's Organizational Governance.

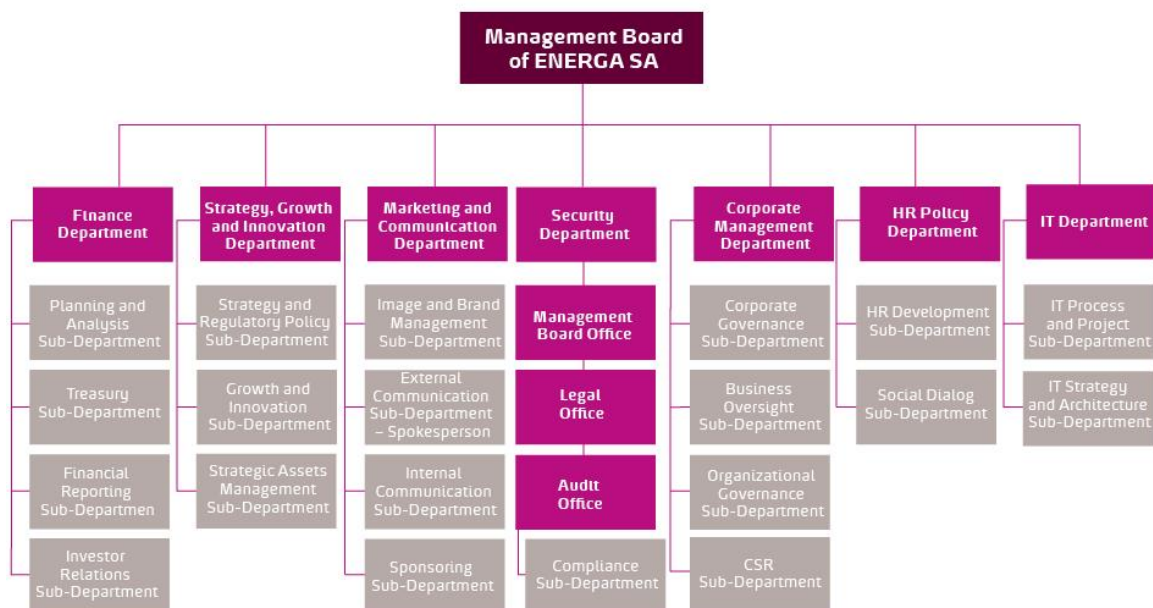
## Changes to the Group's and Energa SA's management rules

Energa SA Group's Organizational Governance operated on the basis of a Energa SA Group's Management Board resolution and its application depended on the position of individual Group companies in this respect. The agreement that replaced this legal order is a civil-law act. It was concluded by 31 Group companies which voluntarily undertook to comply with the resulting obligations and draw the resulting benefits. At the same time, as a result of this change, in light of the law, each party to the agreement has the right to demand its due performance from the other parties thereto.

Just like the Organizational Governance, the agreement comprehensively regulates the cooperation within the Group and significantly strengthens the supervisory role of Energa SA, compared to the previous status quo. It also introduces new institutions aimed at increasing the Group's business flexibility and the principle according to which in parallel to the interests of each of the companies, they are obligated to act in the interests of the Group, among others, through using intra-group procurement centers, within the institutions established to this effect, referred to as Support Service Structures. Another important business change is that the segments and their Leaders were replaced with Business Lines with Leading Entities managing them, responsible for the results and attainment of the objectives of the Business Lines and the companies allocated to their Lines. The segments were a fixed structure, to which the companies belonged depending on the capital ownership (company, daughter company, granddaughter company), whereas participation in a Business Line does not have result from capital dependence.

The bases of its operation in Energa SA are defined in the Energa SA Organizational Bylaws together with the organizational structure, which was approved in June 2017. The document regulates such areas as the Company management principles, organizational structure, and the scope of duties and responsibilities of individual units. The chart below shows the structure of Energa SA up to the level of organizational units directly reporting to Management Board members, as at 31 December 2017.

Figure 1: Energa's organizational structure chart as at 31 December 2017



In addition, in 2017 Energa SA had standing advisory bodies, supporting the Company's Management Board in making strategic decisions, among others Risk Committee, Council for Counteracting Mobbing and Discrimination, Ethics Council, Financial Risk Management Committee, IT Coordination Council, Program Council, and Security and Critical Infrastructure Council.

### 1.5. Energa SA Group's Strategy for 2016–2025

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

#### Strategic objectives and programs

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

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

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

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

Program 2 / Development of infrastructure for broadband web access.

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

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

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

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

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

Figure 2: Chart illustrating the objectives and programs under the updated Energa SA Group's Strategy



## 1.6. Research and development

The Energa SA Group consistently implements innovations in key areas of its operations. The performed projects make it possible for the Group to improve effectiveness of operations and for its customers to gain measureable benefits. In 2017 the Energa SA Group spent nearly PLN 50 m on innovations and over PLN 3.5 m on research and development activities. The above funds were spent mainly on continuation of earlier research and development projects.

In 2017, the Energa SA Management Board appointed in the group structures a dedicated research and development entity under the name: “Centrum Badawczo-Rozwojowe im. M. Faradaya Sp. z o.o.” [M. Faraday Memorial Research and Development Center], which is tasked with practical execution of the objectives resulting from the key documents defining the activity in the area of innovations and research and development.

In addition the Energa SA Group's Innovation Strategy for 2017-2020 with an outlook for 2025+ and the Group's R&D&I Policy were adopted. The Innovation Strategy defines the innovation areas in the Energa SA Group, starting with selection of the creativity profile to risk approach, and ending with selection of the positions on the axis of technological and business changes. The joint research, development and innovation policy, in turn, aims to manage the research and development process in a manner that will contribute to implementation of an efficient operating model, ensuring sustainable growth of the value of the Energa SA Group, while reducing excessive risk exposure.

The Energa SA Group's work in the R&D&I 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. The Council consists of five renowned Polish scientists specializing in electric power systems from Poland's five leading academic centers:

In 2017, Energa completed the first competition entitled “Energa Open Innovation 2017”. The competition aimed to find Polish innovative solution and state-of-the-art technological achievements in the power sector. The best project was submitted by the team of the Baltic Power Electronic Technologies



Center and the Power Converter Unit at the Electrotechnology Institute and pertained to an innovative power decay compensator.

### The most important projects in Energa SA Group's innovative activity

**NEDO Project** – the objective of the project is to gain expertise and experience on the possibility of using the energy storage technology to increase the flexibility of operation of the National Power System (NPS), their impact on improving the operating reliability of the NPS and identification of the energy storage warehouse operating scenarios which stand an opportunity to develop in Poland with the existing and future legal and economic regulations. The final project deliverable is the construction of a battery energy store in the Bystra Wind Farm. The construction of the energy store is part of the Smart Grid Demonstration Project in Poland executed by the Japanese governmental organization NEDO. An Energa group company is responsible for building the infrastructure required to erect the store elements, integration of the store with the NPS and operation of the store in the demonstration period. The planned completion date is 31 December 2020.

**Upgrid Project**, i.e. municipal grid of the future – project subsidized by the European Union under the Horizon 2020 program. The purpose of the project is to analyze selected technologies for their potential to improve reliability and optimize operation of the MV and LV grids on a selected portion of the grid, with special focus on developing new IT solutions and utilization of data from IT systems, in particular the AMI system.

**Energa Living Lab** – the aim of the Energa Living Lab project implemented by Enspirion is to demonstrate the effectiveness and to popularize demand-side response tools, using the formula of tests in a live laboratory consisting of 300 households in Gdynia. The project is co-financed by the European Commission and the National Fund for Environmental Protection and Water Management within the LIFE+ Instrument. In 2017 the tests in households were continued, applications for gamification and view of the current electricity consumption were developed and a tariff simulator was devised.

**Construction of a Local Balancing Area** as an element enhancing security and energy efficiency of the operation of the distribution system – the project is aimed at developing and implementing the Local Balancing Area technology which, in a specified area of the electrical power system, allows for integrated management of its power resources. Implementation of the solution developed in the project will make it possible to increase the capability of connection to the distributed generation network based on RES, improve the efficiency of the use of electricity, reduce the costs of operation of the electrical power system and improve reliability and security of energy supplies, leading as a result to an environmental effect in the form of reduction of national CO<sub>2</sub> emissions. In 2017 work was conducted to prepare the hardware for installation of the software for controlling the energy store.

**Implementation of a heating grid telemetry and telemechanics systems** – the essence of the project was to improve the efficiency of the heating infrastructure of the City of Kalisz and increase its efficiency and functionality. The project was completed in 2017.

### Cooperation with partners

As part of its R&D&I projects, the Energa SA Group cooperates with numerous scientific entities, including: the Energy Institute in Gdańsk, Warsaw University, Gdańsk University of Technology, Warsaw University of Technology, 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.

**In 2017 the Energa SA Group continued to publish the “Acta Energetica” science and technology quarterly.** The quarterly is published in cooperation with the Gdańsk University of Technology, since 2009. It targets professionals: engineers and technicians, senior management, university employees and students of faculties related to the power sector. This magazine's subject of interest is

closely related to the R&D&I area in the power sector and the electrical power sector as well as neighboring fields.

### Research and development prospects:

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

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

### Development prospects and strategy implementation in 2018

The overriding aim of the Company is growth of goodwill guaranteeing return on the invested capital for the shareholders. In addition, the Company carries out tasks related to ensuring Poland's energy security. Due to the large share of regulated activity in the business structure, the Group continues to be a low risk profile enterprise. As a result, it is relatively immune to unfavorable changes on the electricity market. In response to evolving regulatory and business environment, in 2016, the Energa SA Management Board adopted a document entitled "Energa SA Group Strategy for 2016-2025".

#### Distribution Business Line

The Energa SA Group consistently attempts to become a leader among distribution system operators by increasing effectiveness and grid reliability in conjunction with the highest quality of customer service. In 2018, in the Distribution Business Line, in accordance with the Long-Term Plan of Strategic Investments, capital expenditures are planned to increase up to PLN 1.3 bn. The key directions for investments in 2018 are associated with:

- execution of initiatives contributing to improvement of the SAIDI/SAIFI indicators (including replacement of MV overhead power lines running through woodlands and wooded lands with cable lines). As a result of the storms that affected the power grid in 2017 causing major damage, the Company is determined to consistently follow the adopted strategic directions aiming to immunize the MV distribution network against external factors,
- modernization of the MV/LV stations for the needs of station metering in accordance with the requirements of the ERO President,
- replacement of the metering infrastructure for the needs of implementation of the capacity market act as part of the AMI smart metering system,
- construction of the TETRA trunking communication system.

For the needs of station metering, as part of the integration solution AMI/SmartGrid, the commissioning of further TAN B lines has planned to allow for communication of the total of 35.9 stations by the end of 2018.

In 2018 completion of the modernization of the TAN A technological network from the standpoint of installation of stand-by teletransmission equipment in all the network nodes is planned. This will significantly improve the continuity of operation of the SCADA system. It is also planned to commence work on commissioning virtualization in the technological network, ensuring separation and prioritization of individual applications and services. Thanks to implementation of the network virtualization the security of the TAN technological network will be significantly improved.

2018 will be a key year in the implementation of the TETRA network which is being finalized. The last base stations will be built and the integration will be completed with the systems which directly impact the security of work in the network and continuity of operation of the SCADA technological line. 2018 will be also important from the perspective of implementation of the TETRA system in on-going production operation. The migration of disconnectors from the old Digicom system to the TETRA network will be completed and Energa-Operator will be the first DSO to put an end to the use of analogue trunking after over 20 years of operation.

Actions associated with optimization of the network, its expansion and adaptation to the planned availability of surpluses will be an important element of the development efforts in the TETRA network. 2018 will also see the start of installation and commissioning of the TETRA communication channel in the new facilities built as part of the Smart Grid project.

In 2018 the Energa SA Group will support and stimulate the development of electromobility in the area of its operations. This is a new energy market segment, with a dynamic growth prospects which requires, due to its uniqueness, developing independent energy distribution capacities. To ensure stable development of the new market segment, the Distribution Business Line will take actions in two areas: cooperation with the local governments and investments in the MV and LV networks from the perspective of connection of charging stations.

2018 will be another year of application of the “Distribution System Operator Regulation Strategy for 2016-2020”. These principles introduced far-reaching changes, among others, in calculation of return on employed capital, amount of operating expenses included in the tariff and qualitative regulation. The actual level of the efficiency indicators will have impact on the allowed revenue in the next periods – the actuals in 2017 will be reflected in the 2019 tariff. In this respect, in addition to the continuity indicators (SAIDI/SAIFI), it is key to maintain a high level of the CRP (connection delivery time).

In 2018, a “Concept of operation of LV transmission grid and 110 kV distribution grid closed for the area of operation of Energa-Operator S.A. until 2030” will be developed together with PSE S.A. This document will make it possible to plan optimum development of the power grid infrastructure for the assumed capacity demand increase scenarios and planned connections to the power grid and will be the basis for preparation, in 2019, of the Company’s new Development Plan for 2020-2025.

The Distribution Business Line aspires to be a leader in implementing innovative technical, organizational and process solutions. The Energa SA Group implements innovative solutions in such areas as: implementation of the smart grid, smart metering, construction of a local balancing area, smart energy storage, international EDI (European Data Incubator) project whose main objective is to incubate SME companies and start-ups interested in Open Source tools for processing and analysis of big, diversified data files (Big Data) coming from different sectors. In addition, efforts have been initiated to implement the FDIR system whose task is to support dispatchers in operating the grid traffic through automatic reconfiguration of the MV grid system, single out the grid fragment and thanks to that, limiting the number of customers affected by emergency power cuts.

### Generation Business Line

In the Generation Business Line, according to the Long-Term Plan of Strategic Investments, capital expenditures planned to be incurred in 2018 amount to PLN 0.4 bn, however their level depends to a certain extent on the timing and outcomes of the RES energy auctions. The remaining expenditures result from the necessity to modernize the existing assets and conducted development activities.

In accordance with the prevailing Energa SA Group Strategy, the key investments in the power division are: Ostrołęka C coal-fired power plants with the capacity of approx. 1,000 MWe and the plan to build a hydro power plant based on the second step dam on the Vistula River with the capacity of approx. 80 MWe. In December 2016 a competitive dialogue order has been announced for selection of the contractor for the Ostrołęka C power plant, which was continued in 2017. In the course of the conducted activities, by 28 December 2017, three bids for construction of the Ostrołęka C power plant were submitted. Under the investment agreement signed on 8 December 2016, Enea S.A. became a co-investor in the project. In 2017 the company increased its share in the project and in 2018 it plans



to reach the target level of 50% of the shares in the special purpose vehicle Elektrownia Ostrołęka S.A. As regards the Vistula hydro power plant, in December 2017, three Ministries – Environment, Marine Economy and Inland Navigation and Energy, signed an agreement on construction of the Siarzewo barrage. The next milestone for the project was the issue of a positive decision on environmental conditions for the project on 29 December 2017. Due to the long-term experience in managing the hydro power plant in Włocławek, the Energa SA Group will act in the capacity of an expert in the investment process and is interested in participation in the construction and operation of the hydro power plant on the Siarzewo barrage.

### Sales Business Line

Energa-Obrót, as trading company, and Leading Entity of the Sales Business Line in the Energa SA Group, operates in the dynamically developing electricity market, explored by an increasing number of players, which results directly from the constant increase of the domestic increase in electricity consumption and increase gross domestic product growth.

In 2018 it is expected that the competitiveness of the energy market will continue to increase, stimulated both by competition between the largest sellers belonging to 4 vertically integrated capital groups as well as by new smaller entities entering the market, whose number and market share keeps increasing.

The ERO President appointed, for 2018, 181 offtakers of last resort in the area of operations of 181 distribution system operators. In the areas of operations of 5 big distribution system operators, the function of the offtaker of last resort will be performed in 2018 by trading companies from the same power groups.

In response to the evolving market environment, dynamically emerging competition and potential market fragmentation, the “Energa SA Group strategy for 2016-2025” has been devised, defining also the tasks dedicated to the Sales Business Line captured in Program 5 entitled “Rolling out a new customer-oriented business model and developing new business areas” appointing Energa-Obrót S.A. as the Program Leader.

The new business model defined by the company provides for customer focus, putting the customer in the center of attention, and the resulting listening to their needs and developing dedicated products, services and service and communication methods. The business model defined this way requires execution of initiatives on many plains of the organization. The company intends to fully leverage the potential of its existing operations, based mainly on sales of electricity and gas, and at the same time introduce a model based on the function of the integration, cooperating with the technical partner with regard to sale of energy-related products for retail and business customers. The planned changes require ensuring modern and efficient solutions in the area of sales, post-sales service and marketing communication, supported by effective IT tools. Additionally the company has defined a number of process and tool improvements to enhance their efficiency. Implementation of the Integrator Business Model is planned for 2017-2025.

The Sales Business Line in the Energa SA Group consistently takes actions aimed at constant increase of the profit levels and increase of the customer portfolio. The key internal initiatives, in addition to the aforementioned implementation of the Integrator Business Model, include:

- development of an offering for retail and business customers,
- localization and acquisition activities aimed at development of the customer portfolio,
- undertaking initiatives and implementing tools streamlining and enhancing customer service efficiency and quality,
- optimization of the organizational structure and processes,
- providing analytical tools increasing managers’ awareness regarding the condition of the company,
- implementation of a metering information management system, ensuring high quality of the data required to settle electricity consumption by customers,
- introduction of strategic partners enhancing the attractiveness of the offering or expanding the sales network,
- introduction of new segmentation in the company.

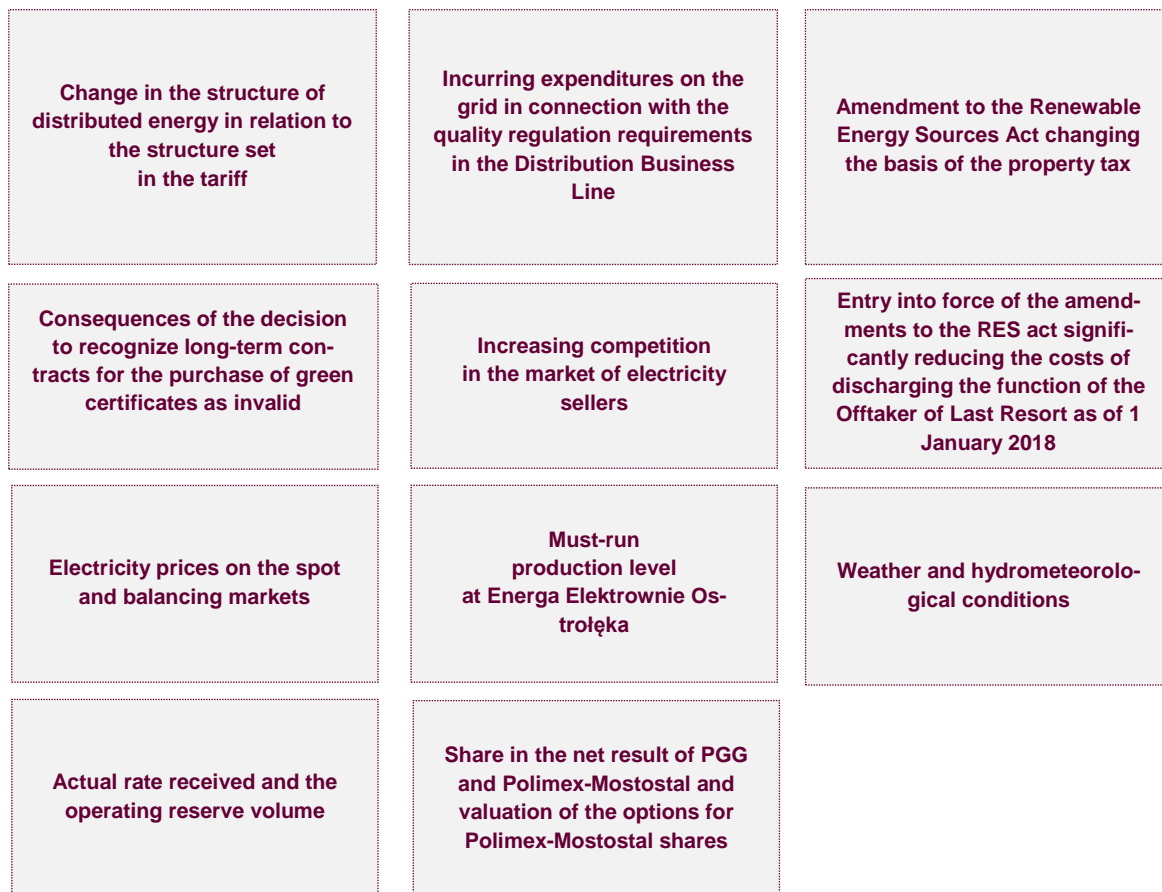
The aforementioned actions, combined with the effective policy reducing the company’s financial burdens will increase profits and strengthen the position of Energa-Obrót in the market. The attainment of

the assumed objectives is conditional upon transformation of the company's organizational culture. It will ensure synergies between the activities of the organizational units and increase employee awareness of the directions of the company's development and hence their commitment to attainment of the expected results.

### Material factors relating to development of the Energa SA Group

In the opinion of the Energa SA Management Board, the following factors will have impact on the results and activity of the Company and the Energa SA Group at least for 2018:

**Figure 3: Material factors relating to Energa SA Group's development at least for 2018**



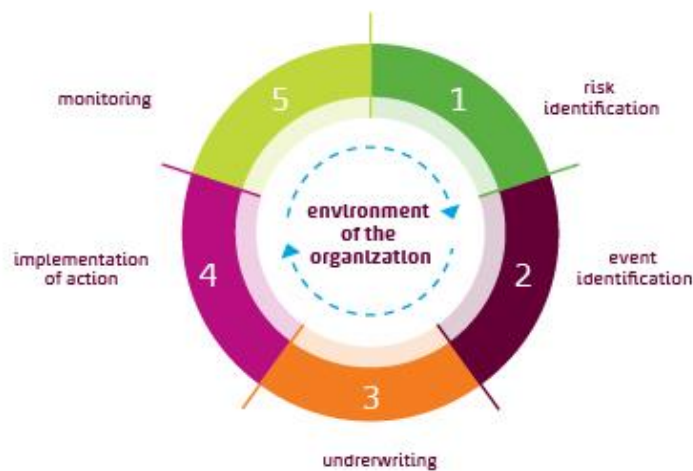
## 1.7. Risk management in the Company

### Integrated Risk Management System

The Integrated Risk Management System (ERM) has been operational in Energa SA Group's key companies since 2011 and is supervised centrally by Energa SA.

ERM 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 business lines. The risk management process consists of various interrelated stages forming a continuous process. 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 as the Holding Company.

Figure 4: Risk management process in the Energa SA Group



The main document, which is used by the Energa SA 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 and action plan reviews



**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 SA Group



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



As part of the Integrated Risk Management System the Energa SA Group conducts the following activities:



**risk review** – involving identification and assessment of risk and defining the risk management strategy [in semi-annual cycles]



**review of the action plans** – involving update of the risk management strategy and verification of the actions taken by the Risk Owners to mitigate the risk [in quarterly cycles]



**current risk management** – involving identification and assessment of risk and defining the risk management strategy, in the context of the current events pertaining to the Energa SA Group [on an ongoing basis]

Based on the risk reviews information is prepared concerning Energa SA 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.

As part of ERM, in 2017 the Energa SA Group conducted activities to define more precisely and sort out the provisions of the "Risk Management Policy in the Energa SA Group" and training for risk coordinators in the Group entities regarding the tools supporting risk management.

As part of the supervisory activities the risk unit in Energa SA increased the frequency of execution of the action plans with reference to the risks, and prepared personalized guidelines for the risk management approach for each Group entity. Additionally, it carried out an identification and assessment of potential abuse scenarios to assess the abuse risk on the Energa SA Group level.

## Description of major factors and risks

The key risks identified at the level of Energa SA and Group entities, broken down into four Energa SA Group Risk Model areas, together with a description of the main risk mitigation actions, are presented below.

### Strategic area

Risk	Description of the risk and its potential effects	Control mechanisms used
<b>Image risk</b>	Risk 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 entities, decline of the Group's value (brand) and consequently to the loss of customers, investors or business partners.	<ul style="list-style-type: none"> <li>• Internal regulations pertaining to communication and marketing and sponsoring activity</li> <li>• Cooperation with a PR agency and creative agency</li> <li>• Vision and plan of communication and promotion actions</li> <li>• Current cooperation and maintaining good relations with the stakeholders</li> <li>• Monitoring of the environment for the brand presence and ongoing response to changes regarding the image</li> </ul>
<b>Risk associated with service and relations with Energa SA Group's customers</b>	The risk pertains to the declining satisfaction of customers with the services provided by Group entities, failure to meet customer service quality standards and lower revenues on sales and distribution activity.	<ul style="list-style-type: none"> <li>• Ongoing control of the customer service standards, recommendation of changes in the risk areas</li> <li>• Monitoring the timeliness of responding in the complaint process and trends as regards customer loss</li> <li>• Mystery shopping research</li> </ul>

		<ul style="list-style-type: none"> <li>• Unification and standardization of service depending on the contact channel.</li> </ul>
<b>Investment risk</b>	<p>The risk is associated with selecting incorrect investment directions. The risk concerns failure to achieve an appropriate level of investment profitability, problems associated with the financing of investments, failure to achieve the assumed operational parameters and delays in investment project implementation. Risk materialization may lead to, among others, weakening the Group's competitive position, undermining the economic ratios, necessity to write off the loss value of failed investments or lack of investment returns. In the case of investments subsidized from EU funds, risk materialization may also entail the necessity to refund the subsidies received.</p>	<ul style="list-style-type: none"> <li>• Long-Term Plan of Strategic Investments (clear guidelines regarding the Group's investment policy)</li> <li>• Ongoing contacts with financial institutions</li> <li>• Regular reporting on the project performance status, including risk analysis</li> <li>• Ongoing monitoring of performance of the investment project</li> </ul>
<b>Development risk</b>	<p>The risk is associated with lack of, or incorrect approach to, development of individual companies in the Energa SA Group. The effects of the risk may involve, among other things, financial and image-related losses, reduction of production capacities or loss of part of the market.</p>	<ul style="list-style-type: none"> <li>• Strategy and strategy performance control</li> <li>• Profitability analyses</li> <li>• Analysis of the external environment and internal conditions supporting flexible response and adaptation to changing environment (scenario-based analysis)</li> </ul>
<b>Risk associated with investor's oversight over Polska Grupa Górnicza SA</b>	<p>The risk concerns ongoing monitoring and control 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.</p>	<ul style="list-style-type: none"> <li>• Task force for the purposes of ongoing monitoring and enforcement of investment terms in the PGG project</li> <li>• Participation of an Energa Kogeneracja representative in the Monitoring Committee at the PGG Supervisory Board</li> </ul>

## Legal and regulatory area

Risk	Description of the risk and its potential effects	Control mechanisms used
<b>Regulatory risk</b>	<p>The risk concerns legislative changes affecting the functioning of Energa SA Group's individual Business Lines. If the risk materializes, the performance of the investment plans may be suspended or operating expenses may rise. The risk is also an opportunity of adopting new legal solutions which could facilitate raising additional funds or provide a support system for the Group's assets.</p>	<ul style="list-style-type: none"> <li>• Monitoring changes in the law</li> <li>• Participation in the legislative process</li> <li>• Participation of the Group's representatives in the work of industry associations</li> </ul>
<b>Risk of the Group's non-compliance with the new laws</b>	<p>The risk involves, among other things, legal, financial, organizational or image-related effects of Energa SA Group's failure to comply with the new laws or their incorrect interpretation.</p>	<ul style="list-style-type: none"> <li>• Monitoring changes in the law</li> <li>• Task forces on ensuring compliance of the Group's operations with the changing laws (among others, GDPR)</li> <li>• Compliance management in the</li> </ul>

Energa SA Group		
<b>Risk associated with environmental protection</b>	Risk associated with conducting the operations in accordance with the provisions of the environmental law, best environmental practices mitigating the risks and ensuring compliance with the sustainable development principles; providing information and assurances to stakeholders about compliance with the national environmental regulations and the requirements of the EMAS Regulation. If the risk materializes, the ISO 14001 certificate may be lost and the ISO 50001 certificate may not be obtained. Failure to comply with environmental regulations may lead to increase of costs associated with removal of potential incidents affecting the environment, imposition of financial penalties and shutdown of elements of defective installations.	<ul style="list-style-type: none"> <li>• Internal regulations</li> <li>• Monitoring changes in the law on an ongoing basis</li> <li>• Analyses and measurements of emissions</li> <li>• Controls and audits</li> <li>• EMAS System implemented in the Group's main companies</li> </ul>
<b>Risk of abuse</b>	The risk concerns situations and actions related to abuse, including conflict of interest, corruption and fraud, which can be committed by the employees of Energa SA Group companies. The risk involves potential threat of abuse and corrupt practices in the operational processes. If the risk materializes, this may lead to financial losses and prosecution of the employees or corporate bodies of the Group companies by law enforcement authorities. The risk may have an adverse effect on the Energa SA Group's image and reputation and may result in deterioration of the employees' trust in their managers, colleagues and the organization as a whole.	<ul style="list-style-type: none"> <li>• Internal regulations related to abuse</li> <li>• Training for employees (related to, among others, corruption prevention)</li> <li>• The organization's three lines of defense (internal control system, risk management system, internal audit)</li> <li>• External controls</li> <li>• Explanatory actions</li> </ul>
<b>Legal risk</b>	The risk is associated with court and administrative procedures conducted by or against the Group companies as well as criminal procedures conducted against employees in connection with the performance of their professional duties. If the risk materializes, this may result in an obligation to pay damages and penalties, as well as giving rebates to customers resulting from failure to comply with the electricity quality standards prescribed by law.	<ul style="list-style-type: none"> <li>• Collaboration with law firms</li> <li>• System for monitoring important matters</li> <li>• Internal regulations</li> </ul>

## Operating area

Risk	Description of the risk and its potential effects	Control mechanisms used
<b>Risk to the security of persons and property</b>	Risk associated with unauthorized access to facilities, including power equipment. The risk also applies to safety of employees and third parties in the premises of the Group companies as well as terrorist and sabotage incidents. Potential effects of the risk may involve threat to security of the grid's operation, loss/destruction of property or interruption of operational continuity.	<ul style="list-style-type: none"> <li>• Security Plans, including Critical Infrastructure Security Plans</li> <li>• Internal regulations related to security</li> <li>• Operational Continuity Plans in the Group Companies</li> <li>• Property insurance, third party liability insurance and insurance for lost revenues</li> <li>• Physical and technical security sys-</li> </ul>



		<ul style="list-style-type: none"> <li>• Security incidents monitoring in the Group</li> <li>• Employee training</li> </ul>
<b>Risk associated with unreliability of IT systems</b>	<p>The risk associated with ensuring the availability (incorrect operation and decrease in capacity), integrity and confidentiality of ICT systems, including their interconnection/integration. If the risk materializes, this may lead to increased maintenance costs of the IT systems and the need to incur additional capital expenditures in this respect. The risk may significantly hinder and even prevent the Group companies from performing their basic tasks.</p>	<ul style="list-style-type: none"> <li>• Procedures for creating IT system backups</li> <li>• Internal regulations related to ICT security</li> <li>• Service Level Agreements (SLA) and Service Agreements signed with IT service and hardware suppliers</li> <li>• Eliminating the possibility of entering incorrect data in the system (system validations and the authorizations system)</li> <li>• Training to improve specialist qualifications of the IT area employees</li> <li>• IT Audits</li> </ul>
<b>Risk of untimely customer and seller service</b>	<p>Risk associated with lack of client database centralized in a single IT system and the customer service being conducted in contravention with the accepted standards. If the risk materializes, this may erode the revenues and result in the need to pay fines, damages and give discounts; it may also result in filing of civil law lawsuits and deterioration of image.</p>	<ul style="list-style-type: none"> <li>• Outsourcing of the handling of some of the notifications</li> <li>• Customer satisfaction surveys</li> <li>• Monitoring KPIs designated in the notifications handling process</li> <li>• Processes and Rules for managing the points of contact of the processes among the Energa SA Group companies</li> <li>• IT systems</li> </ul>
<b>Risk associated with a failure to effect the Compliance Program</b>	<p>The risk is associated with the violation of the Compliance Program in place in Energa-Operator SA. If the risk materializes, this may result in complaints being filed by the system users to the Energy Regulatory Office and the Office of Competition and Consumer Protection. The effects of the risk involve increased workload related to the preparation and conducting of explanatory proceedings before the ERO President or the imposition of possible fines.</p>	<ul style="list-style-type: none"> <li>• The provisions of the Compliance Program providing for pursuit of damages according to general principles from employees who breached their duties, resulting in a fine being imposed by the ERO President</li> <li>• Provisions of the agreements related to subcontractors' and service providers' conformity with the Compliance Program</li> <li>• Regular training</li> </ul>

## Finance area

Risk	Description of the risk and its potential effects	Control mechanisms used
<b>Risk of tax settlements</b>	<p>Risk associated with ineffective tax settlements, including within the Tax Group. If the risk materializes, this may result in fines and interest being imposed, the need to make additional payments to make up for the incorrectly accrued tax, or it may lead to loss of benefits attributable to the Tax Group and absence of VAT deductions.</p>	<ul style="list-style-type: none"> <li>• Internal regulations related to transfer prices and tax management</li> <li>• Collaboration with tax consultants (permanent and incidental)</li> <li>• Applying to the Ministry of Finance for individual tax rulings</li> <li>• Employee training</li> <li>• Monitoring changes to tax laws</li> <li>• Verification of agreements from tax standpoint before signing</li> </ul>

		<ul style="list-style-type: none"> <li>• Procedures protecting from criminal tax liability</li> </ul>
<b>Risk associated with the pricing policy</b>	<p>The risk associated with incorrect calculation of sales prices and the ERO President's approval of the tariff rates at the level not guaranteeing profitability of sales. If the risk materializes, this 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.</p>	<ul style="list-style-type: none"> <li>• Market analyses, conducted on an ongoing basis, from the standpoint of changes taking place on the market and changes to the legal and regulatory environment</li> <li>• Ongoing surveys of the planned financial result and other selected ratios, and ongoing analysis of the impact of the adopted price calculation rules on that result/ratios</li> <li>• Ongoing analyses of the offering mechanisms (including the Conjugate Model) and correctness of operation of IT trade systems and databases</li> <li>• Close collaboration to acquire the information necessary to shaping the pricing policy</li> <li>• Audits and controls</li> <li>• Offering monitoring system</li> </ul>
<b>Risk associated with reporting and management accounting</b>	<p>The risk is related to business decisions made on the basis of the following:</p> <ul style="list-style-type: none"> <li>• budgeting and monitoring the performance of the companies' budgets, reports and management information for the companies' governing bodies and for the Group;</li> <li>• feasibility analyses of the investment projects;</li> <li>• impairment tests;</li> <li>• long-term modeling.</li> </ul> <p>If the risk materializes, this may result in making incorrect decisions on the execution or abandoning of investment tasks, the need to recognize impairment losses and lost revenues or additional costs.</p>	<ul style="list-style-type: none"> <li>• Macroeconomic guidelines and assumptions for the price paths for financial models</li> <li>• Best practices</li> <li>• Analytical skills of the team</li> <li>• IT tools</li> <li>• Management control matrices</li> </ul>

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

### Interest rate risk

The Energa SA 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 SA Group has contracted financial debt under issued fixed-coupon Eurobonds.

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

In connection with implementation of hedge accounting, the Energa SA 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 SA Group's debt liabilities in foreign currencies under the EMTN Eurobond Issue Program as well as in connection with the issue of hybrid bonds. Additionally, selected Energa SA Group companies had foreign currency surpluses resulting from their operating activity or investing activity. The Energa SA Group monitors the foreign exchange risk and manages it primarily through contracted CCIRS hedge transactions and implemented hedge accounting.

#### Credit risk

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

In this respect, the ratings of financial institutions with which the Energa SA Group cooperates are monitored on a regular basis to minimize credit risk.

#### 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 SA Group companies monitor the liquidity risk using a regular liquidity planning tool. The tool takes into account the payment due/maturity dates both for investment liabilities and financial assets and liabilities and projected cash flows from operating activity. The Group aims at maintaining the balance between continuity and flexibility of financing through use of various sources of financing, such as working capital and investment loans, local bonds and Eurobonds. Since the Group's debt is centralized in Energa SA, 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 SA 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 order to mitigate the liquidity risk, the Group companies may use the mechanism of issuing short-term bonds, and, as part of the established bonds issue programs, the purchase offers are made by the issuer – a Group company – only to other companies. The procedure is coordinated by Energa SA, which makes it possible to optimize the entire process in terms of its organization.

The effectiveness is maximized through the zero-balancing cash pooling, implemented in January 2016, which involves utilization of Group's cash surpluses to finance the current operations of individual Group companies.

Energa SA also concluded loan agreements with several financial institutions, which represent an immediate liquidity reserve in case of any liquidity needs.

## 1.8. Information on material agreements and transactions

### Material agreements

Information about material contracts entered into by the Company in 2017 is provided in Section 1.3 *Key events and achievements of the Company* of this Report.

## Agreements for loans and borrowings

### Loan agreements with multilateral financial institutions

#### *Loans to finance the capital expenditure program at Energa-Operator SA for the years 2009-2012*

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

- with the European Investment Bank (EIB) with the limit of PLN 1,050 m;
- with the European Bank for Reconstruction and Development ("EBRD") with the limit of PLN 1,076 m;
- with the Nordic Investment Bank (NIB) with the limit of PLN 200 m.

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

- EIB – PLN 634 m with final maturity of 15 December 2025,
- EBRD – PLN 648 m with final maturity of 18 December 2024,
- NIB – PLN 97 m with final maturity of 15 June 2022.

#### *Loans to finance the investment program at Energa-Operator SA for the years 2012-2015*

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

- agreement with EBRD with a limit of PLN 800 m – as at 31 December 2017, PLN 667 m of the loan was utilized (of which PLN 264 m by Energa SA and PLN 403 m by Energa-Operator SA). The final maturity of the loan is 18 December 2024;
- agreement with EIB with a limit of PLN 1,000 m – as at 31 December 2017, PLN 963 m of the loan was utilized (of which PLN 763 m by Energa SA and PLN 200 m by Energa-Operator SA). The final maturity of the loan is 15 September 2031.

### *Nordic Investment Bank*

On 23 October 2014, Energa SA signed a loan agreement with a limit of PLN 67.5 m with the Nordic Investment Bank to finance a wind farm construction project in Myślino. The aggregate use of the loan as at 31 December 2017 was PLN 55 m. The final maturity of the loan is 15 September 2026.

## Loans granted

In June 2017, the Energa SA Group's special purpose vehicle, Energa Finance AB (publ), extended the EUR 200 m loan to Energa SA using the funds raised under a Eurobond (EMTN) issue carried out in March 2017.

In addition, the two loans from 2013 for a total amount of EUR 499 m were continued; they were granted to Energa SA by the Group's special purpose vehicle, Energa Finance AB (publ), using the funds raised under a Eurobond (EMTN) issue carried out in March 2013.

In November 2017, Energa SA granted to Elektrownia Ostrołęka SA a short-term loan in the amount of PLN 10 million, with the original repayment date falling on January 31, 2018, which was subsequently extended by March 30, 2018.

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

Acting on the basis of the Financial Policy adopted by the Energa SA Group and under the terms and conditions of internal bond issue facilities, in 2017 Energa SA purchased bonds issued by Energa-Operator SA. The main purpose of the issue was for the issuer – an Energa SA Group company – to raise funds to execute a capital expenditure program.



The table below presents the nominal value of bonds subscribed by Energa and outstanding, broken down into individual issuers from the Energa SA Group, as at 31 December 2017.

**Table 1: Nominal value of bonds subscribed by Energa SA and outstanding, by issuer, as at 31 December 2017**

No.	Company name	Nominal value of subscribed bonds (PLN 000s)
1.	Energa-Operator SA	3,214,740.2
2.	Energa Wytwarzanie SA	822,200.0
3.	Energa Kogeneracja Sp. z o.o.	33,675.0
4.	Energa Elektrownie Ostrołęka SA	92,000.0
<b>TOTAL</b>		<b>4,162,615.2</b>

### Domestic bond issue program

No changes in respect of the issue volume were made in the domestic bond issue program established in September 2012, in which Energa SA conducted the first bond issue of PLN 1,000 m. As part of the actions continued in 2017, the subsidiary Energa-Operator SA purchased on the secondary market another bundle of a total of 27,157 Energa SA bonds with a total par value of PLN 271.57 m. As at 31 December 2017, Energa-Operator SA held the bundle of a total of 82,969 Energa SA bonds with a total par value of PLN 829.69 m.

### Eurobond issue program

In Q1 2017, a subsidiary Energa Finance AB (publ) carried out a public subscription for the Eurobonds issued under the updated EMTN Program (the bookbuilding process was closed on 1 March 2017). It was EUR 300 m bond issue with the issue price of 98.892% and 10-year maturity. The 2.125% coupon will be payable annually, starting from March 2018, and, after the discount rate is taken into account, the yield for bondholders is 2.25%. The Eurobonds are listed on the Luxembourg stock exchange. The final settlement of the transaction was effected on 7 March 2017. Energa SA acts as the guarantor of the issue. The funds raised through the bond issue will be applied to general corporate purposes, excluding investments in coal assets.

### Hybrid bond issue program

On 4 September 2017 Energa SA and the European Investment Bank entered into the following agreements: (i) subscription agreement, constituting the basis for issuing EUR 250 million of hybrid bonds, and (ii) project agreement, defining detailed financing requirements of the investment project.

The Bonds issue took place on 12 September 2017. The issued Bonds are subordinated, unsecured, coupon bearer securities which have been subscribed for by EIB under the European Fund for Strategic Investments launched by EIB jointly with the European Commission to execute the so-called Juncker Plan.

In accordance with the Subscription Agreement, the Bonds were issued in two tranches with the total nominal value of:

(i) EUR 125 million, maturing in 16 years, with the first financing period set for 6 years from the issue date,

(ii) EUR 125 million, maturing in 20 years, with the first financing period set for 10 years from the issue date.

The Bonds earn interest at a fixed interest rate estimated according to the formula defined in the terms and conditions of issue.

### Insurance contracts

The Group has in place a joint insurance policy, which ensures insurance cover for the companies and their activities against risks associated with conducted operations and assets held in the highest standard available on the market and with a credibly estimated market premium. The adopted sums insured are established at the level adequate to risks and external factors, and they correspond to the profile of the Polish power sector companies.

A joint Insurance Scheme is executed in collaboration with the brokerage firm. According to the adopted terms and conditions that were drafted as part of that Scheme, all the Energa SA Group companies have the same term of insurance, and the agreements are entered into for the term of three years. The Scheme allows for a standardized insurance cover for the risks covered by it, with customized agreements and extensions negotiated for unique needs of individual companies.

Insurance contracts are concluded with the leading insurance companies operating in Poland. Currently, GKE main partner in the insurance area is Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

### Guarantees and sureties extended

Table 2: Information on sureties and guarantees extended by Energa as at 31 December 2017

No.	Extension date of the surety or guarantee	Term of the surety or guarantee	Entity for which the surety or guarantee was extended	Entity in favor of which the surety or guarantee was extended	Form of the surety or guarantee	Surety or guarantee amount (PLN m)	Amount of liability secured by the surety or guarantee as at 31 December 2017 (PLN m)
1	2012-11-15	2033-12-31	Energa Finance AB	bondholders	surety agreement*	5,213.6	3,357.8
2	2015-01-08	2024-12-31	Energa Wytwarzanie SA	WFOŚiGW Gdańsk	surety - loan agreement	15.0	6.9
3	2017-06-20	2021-02-28	Energa Invest SA	NFOŚiGW Warsaw	Surety agreement	4.2	2.8
4	2017-11-14	2018-06-30	ENSPIRION Sp. z o.o.	Azoty Group Zakłady Azotowe Kędzierzyn SA	Surety agreement	0.2	0.2
5	2017-11-22	2021-03-31	Energa-Operator SA	State Treasury	surety agreement	40.00	40.0
6	2017-11-28	2021-03-31	Energa Obrót SA	Enea Trading Sp. z o.o.	surety agreement	25.00	00.0
7			Other Energa SA Group Companies		surety** - agreement to extend a guarantee	14.2	4.8
<b>TOTAL</b>						<b>5,312.2</b>	<b>3,412.5</b>

*\* on 15 November 2012, an EMTN Eurobond issue program was established for the amount up to EUR 1,000,000,000. Under the EMTN Program, Energa Finance AB (publ), a company registered under the Swedish law, acting as a wholly-owned subsidiary of Energa SA, may issue Eurobonds with maturities from 1 year to 10 years. Pursuant to the surety agreement of 15 November 2012, amended on 16 February 2017, Energa SA unconditionally and irrevocably undertook to guarantee liabilities of Energa Finance AB (publ) resulting from Eurobonds up to EUR 1,250,000,000 until 31 December 2033 inclusive. On 19 March 2013, Energa Finance AB (publ) issued series I of Eurobonds in the amount of EUR 500,000,000 and maturing on 19 March 2020. And on 7 March 2017, it issued another series II of Eurobonds in the amount of EUR 300,000,000 and maturing on 7 March 2027.*

*\*\* Civil law sureties extended by Energa SA for liabilities of Group companies arising from bank guarantees granted by PKO BP SA under guarantee facilities dedicated to Group companies. The facility may be used until 19 September 2022. Terms of validity of the guarantees granted under the facility limit may extend beyond this date. Repayment of liabilities is secured by a civil law surety.*

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

- bank guarantees totaling PLN 153.8 m extended by Pekao SA, ING Bank Śląski SA and mBank SA to Energa-Obrót SA,
- bank guarantee of PLN 17.7 m granted by PKO BP SA to Energa-Operator SA.

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

All the transactions within the Energa SA Group are made on the basis of the market prices of goods, products or services based on their manufacturing costs. Detailed information on this subject is presented in Note 32 to the consolidated financial statements for the year ended 31 December 2017.

### **Evaluation of financial resources management**

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

The execution of investment projects was based on the use of own funds and debt financing. The structuring of projects assumes the maintenance of financial security for the Energa SA Group manifesting itself in the use of long-term debt financing, pursuit of a dividend policy consistent with the adopted strategy, maintenance of financial covenants at levels agreed upon with debt financing providers and maintenance of investment-grade ratings. The last two elements are the limitations, which determine Energa Group's capital expenditure capabilities, which are defined for the long term. Such a conservative approach allows the Group to implement its capital expenditure policy in a manner that minimizes the risk of violating financial covenants or having the rating downgraded, while optimizing the Group's financial structure taking into account the current and predicted trends on the financial market. Based on the above conditions, the Energa Group is equipped with adequate financial resources and is financed with diverse long-term debt liabilities and it does not see any threats for the implementation of its planned capital expenditures.

The Company monitored the liquidity risk using the periodic liquidity planning tool that takes into account the payment due/maturity dates both for investment liabilities and financial assets and liabilities and projected cash flows from operating activity, in order to maintain balance between continuity and flexibility of financing through utilization of various sources of financing.

To efficiently manage liquidity, the Energa SA Group used – to a lesser extent than in previous years – the mechanism of issuing short-term bonds offered by the issuer – a Group company – only to other Group companies.

In 2017, the Energa SA Group continued optimization of the liquidity management process with utilization of the zero-balancing cash pooling service, which comprises functions associated with issue of short-term bonds, and additionally maximizes the possibility of using the Group's cash surpluses to finance the current operations of individual Group companies.

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

As at 31 December 2017, Energa SA was party to 12 court proceedings. The Company acted as a plaintiff in 2 cases where the aggregated value of the disputed matters was approx. PLN 1.22 m. The Company acted as a defendant in 9 cases with the aggregated value of the disputed matters of approx. PLN 1.19 m.

None of the aforementioned proceedings pertaining to the liabilities or receivables of the Issuer 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.

## 1.10. HR and payroll situation

### Headcount in Energa SA

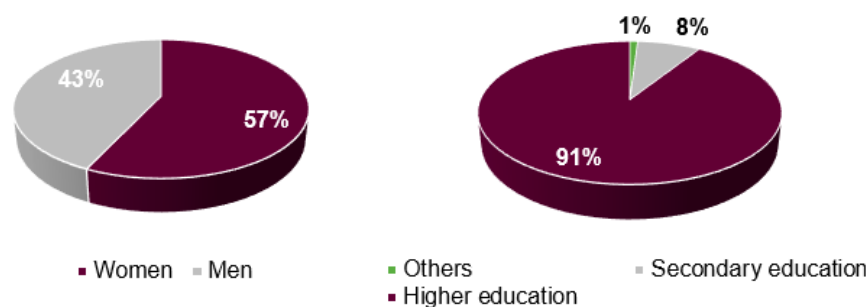
Table 3: Headcount in Energa SA as at 31 December 2014-2017\*

Headcount as at 31 December 2014	Headcount as at 31 December 2015	Headcount as at 31 December 2016	Headcount as at 31 December 2017	Average headcount in 2014	Average headcount in 2015	Average headcount in 2016	Average headcount in 2017
persons	persons	persons	persons	FTEs	FTEs	FTEs	FTEs
99	101	144	150	111.2	95.4	117.7	141.3

\* excluding unpaid, parental or rehabilitation leaves

The headcount growth in 2017 was attributable to change of the organizational structure in connection with the need to adjust it to the new tasks ensuing from the Cooperation Agreement implemented in the Energa SA Group pursuant to which the role of Energa SA, as the Group coordinator, increased.

Figure 5: Headcount structure in Energa SA as at 31 December 2017





## Remuneration systems

The Company's remuneration system is described in the "Rules for remunerating Energa SA employees" approved by Resolution No. 46/I/2007 adopted by the Energa SA Management Board on 25 July 2007, annex no. 6 to the Remuneration Rules from September 2017 introducing a new classification table of positions and base salary rates in Energa SA, and annex no. 7 from December 2017 introducing, as an attachment to the Remuneration Rules, the Rules governing the bonus fund for the Energa SA employees and the Agreement to secure employee, social and union rights.

Among other things, due to acquisition of employees through a trilateral agreement (agreement between work establishments), the following regulations are also applicable to certain remuneration components:

- 1) Multi-Company Collective Bargaining Agreement for Employees of the Utilities Sector,
- 2) Remuneration Rules of Energa-Operator SA,
- 3) Company Collective Bargaining Agreement of Energa-Operator SA Branch Office in Gdańsk,
- 4) Company Collective Bargaining Agreement of Energa Kogeneracja Sp. z o.o.
- 5) Company Collective Bargaining Agreement in effect in Energa Wytwarzanie SA

As at 31 December 2017, 37 managers were employed under contracts for the provision of management services, including 4 persons in the Company's Management Board. Their compensation is not part of the payroll fund.

## Important information affecting the HR and payroll situation

### Employee benefits

In 2017, the Company had an extensive employee benefits system in place, of which the most important elements include:

- (1) Annual bonus constituting 8.5% of the annual payroll fund from last year, paid out pro rata to the length of employment,
- (2) 'Employee tariff' for electricity, available to employees with one year of professional experience in the utilities sector,
- (3) Holidays gift certificates issued to employees for the Easter Holiday, the Power Industry Employee's Day and Christmas,
- (4) The employer remits funds to the Employee Pension Plan in the amount of 7% of employees' remuneration,
- (5) Cash equivalent of coal allowance,
- (6) Benefit for work in hazardous conditions,
- (7) Addition to base salary depending on seniority,
- (8) Jubilee awards,
- (9) Additional Medicare Program. All employees are eligible for additional medical benefits under the Guaranteed Package funded by the employer,
- (10) The company social benefits fund authorizing charges in the amount three times higher than the basic charge defined in the Act on Company Social Benefit Fund ("ZFŚS").
- (11) Agreement to secure employee, social and union rights of 18 September 2017.

As of 31 December 2014, the Company withdrew from the Multi-Company Collective Bargaining Agreement. As a result of this change, employees newly hired after 1 January 2015 are not entitled to the benefits referred to in items 1, 2, 5, 6, 7 and 8 above.

The Company offers its employees training packages and other forms of development to prepare the employees to perform their duties, improve their knowledge and increase their efficiency, motivation and commitment to work.

Development activities executed in Company in 2017 were focused mainly on increasing employee competence and took the form of postgraduate studies, courses, training programs and conferences. The management also developed their management and leadership competence in dedicated management programs. Both the employees and the management also actively improved their knowledge of the English language.

#### Changes of the terms of remuneration

In 2017, there were no significant changes in the prevailing terms of remuneration. With reference to the managers, management contracts services have been replaced for contracts for the provision of management services.**Group layoffs**

The Company did not effect any group layoffs in 2017.

### Collective disputes

As at 31 December 2017, union membership in the Company was roughly 30%. The following three union organizations operate in the Company:

1. Inter-Company Trade Union NSZZ Solidarność Energa-Operator SA Branch Office in Gdańsk,
2. Trade Union of Engineers and Technicians of MOZ in the Energa SA Group, Branch Office in Gdańsk,
3. Independent Trade Union of the Energa SA Group Employees.

In 2017, there was one pending collective dispute in Energa, which was launched in connection with the disputed demands of 12 July 2017. The dispute ended on 1 September 2017 as the union side withdrew the demands submitted in the dispute.

## 1.11. Corporate social responsibility of the Energa SA Group

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

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

Every year, the Group publishes information about all its activities associated with corporate social responsibility in CSR reports. Such reports are prepared on the basis of the guidelines from Global

Reporting Initiative G4.0. at the CORE level (giving consideration to the ratios included in the supplement for utility sector companies).

The basis for preparing such reports takes the form of a dialog with stakeholders, both internal and external. This year's document entitled "Our Responsibility 2017" will cover the whole calendar year 2017 and all Energa SA Group companies.

Corporate social responsibility in the Energa SA Group also translates into our approach to environmental protection which forms one of the pillars of the Group's strategy for 2016-2025. Development of new and modernization of the existing generation and grid infrastructure, climate-related obligations and diversification of supplies are the tasks that have a direct impact on the business pursued by the Group companies. In this respect, 2017 was a period of intensive efforts for the Group to improve its environmental management, among others including efforts to cover all the Group companies with EMAS and extend it to energy management based on the PN-EN ISO 50001:2012 standard. Measures have been taken to adjust the existing environmental management system to the requirements of the updated PN-EN ISO 14001:2015 standard. In the period from July to September 2017, an independent certification body conducted an audit of the environmental management system in the key Group companies. The system has been operating in the Group since 2015 and extends to 167 locations of the Companies. The positive result of the audit allowed the Group companies to maintain their entry in the prestigious EMAS register kept by the Ministry of the Environment. As part of the implementation of the integrated environmental and energy management system, in 2017 the Group companies conducted energy reviews that met the criteria of the PN-EN ISO 50001 standard and took into account the scope of the energy audit of the company referred to in the Energy Efficiency Act of 20 May 2016.

In December 2017, Energa SA was included for the fourth time in the RESPECT index (which groups listed companies committed to social responsibility and managed according to the best standards). Energa SA is also included in the FTSE4Good Emerging Index. This is an index grouping companies from more than 20 emerging economies that are selected on the basis of compliance of their operations with the environmental, corporate social responsibility and corporate governance criteria.

Energa SA was also included in the "Best Emerging Markets" ranking compiled by the rating agency Vigeo Eiris. The ranking presents 100 companies from emerging markets. It assesses numerous aspects, especially corporate social responsibility. In this year's edition, 850 companies from five continents were examined. The ranking is updated every six months. The current one was issued on 1 December 2017. The research methodology was based on 330 indicators.

The companies selected for the ranking list originate from 19 countries and represent 27 sectors of the economy with employment above 5 million. They are distinguished by good practices in employment, protection of the environment, corporate governance, business ethics and their contribution to social and economic development in the geographic area where they operate.

Non-financial information as required by art. 49b of the Accounting Act (Journal of Laws 1994 No. 121 Item 591) can be found in the CSR Report published on the Group's website on 15 March 2018.

## 1.12. Awards and recognitions for the Energa SA Group

Table 4: Prizes, awards and certificates received in 2017

2017
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### January 2017

The Federation of Consumers awards the prestigious Consumer Service Quality Certificates to

Energa Operator.

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### March 2017

Energa SA Group receives the “2017 Children’s Friend” award from the Cultural Center 105 in Koszalin for support it provides to children.

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### April 2017

Energa receives a Leaders in the World of Energy distinction award in the Producer of the Year category.

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### May 2017

- Innovation Award 2017 given 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 customers
- The Imagine Cup Project sponsored by Energa to support Polish start-ups, receives a distinction in the ranking of Socially Engaged Companies published by Gazeta Bankowa.
- CSR Golden Leaf awarded to the Energa SA Group. The award is granted by the “Polityka” weekly to companies paying close attention to corporate social responsibility.

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### June 2017

- Polish Power Exchange grants “Platinum Megawatts” to Energa Obrót for being the most active entity in international trade in 2016.
- Ranked 15th on the list of largest companies of the Economic Patriotism Index prepared by the Rzeczpospolita newspaper.

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### August 2017

Editors of the Computerworld magazine recognize Energa Obrót as 2017 IT Leader for the Indexed Offer Platform, an innovative IT system developed by the company’s in-house team to service business customers.

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### September 2017

- The Energa Foundation receives Amber Cranes and the title of the Philanthropist of the Year 2016 for benevolence and helping other human beings. The award was granted by the Hospice Foundation and the Father Eugeniusz Dutkiewicz SAC Hospice.
- Energa SA Group receives Golden Paddle 2017 for supporting Energa Manekin Toruń (now Energa KTS Toruń), a table tennis club.

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### October 2017

- Gazeta Bankowa editors award the 2017 Polish Compass to the Energa SA Group for efforts and determination in repairing the customer service system and damages resulting from natural disasters. The Group is also recognized for significant improvements in its performance.
- Energa Informatyka i Technologie obtains the ISO27001 certificate in the field of information security.
- Energa Centrum Usług Wspólnych Sp. z o. o. obtains the ISO 14001:2015 certificate for accounting, payroll and advisory services provided within the framework of the business conducted by the Energa SA Group.



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#### **November 2017**

- Energa SA Group is awarded the Statuette of a Patron of Sports in Toruń in recognition of its support for sports clubs in Toruń and their players.
- Energa SA Group receives the Superbrands Polska – Brand of 2018 award. The distinction is based on consumer opinions. The title is awarded on the basis of the largest independent survey of brands in Poland.

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#### **December 2017**

- Energa SA is included in the “100 Emerging Markets” ranking compiled by the Vigeo Eiris rating agency. The ranking presents 100 companies from emerging markets with the highest environmental, social and corporate governance scores. The study included more than 850 companies from 37 sectors in 31 countries.
  - Energa Operator receives a certificate of compliance with the ISO 22301:2012 standard issued by Lloyd's Register Quality Assurance for the next 3 years.
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# Analysis of the financial situation and assets



## 2. ANALYSIS OF THE FINANCIAL STANDING AND ASSETS

### 2.1. Rules for preparing the annual consolidated financial statements

The financial statements of Energa SA for the twelve-month period ended 31 December 2017 were prepared:

- in accordance with the International Financial Reporting Standards and IFRS approved by the European Union;
- on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives;
- unless stated otherwise, in millions of Polish zloty (PLN m);
- under the assumption of Energa SA's being a going concern for the foreseeable future and there are no circumstances indicating a threat to the Company's continuing operations.

To the extent not regulated by the EU IFRS standards, Energa SA keeps its accounting ledgers in accordance with the accounting policy (principles) defined by the Accounting Act of 29 September 1994 (Journal of Laws of 2018 Item 395) and the regulations issued on its basis ("Accounting Act", "Polish accounting standards", "PAS").

The accounting (policy) principles used to prepare the annual financial statements are presented in note 8 to the financial statements of Energa SA for the twelve-month period ended 31 December 2017.

### 2.2. Explanation of the economic and financial data disclosed in the Company's annual financial statements

Table 5: Statement of profit or loss

in PLN m	2016	2017	Change	Change (%)
Sales revenues	68	80	12	18%
Cost of sales	(51)	(78)	(27)	-53%
<b>Gross profit on sales</b>	<b>17</b>	<b>2</b>	<b>(15)</b>	<b>-88%</b>
Other operating revenue	12	10	(2)	-17%
General and administrative expenses	(81)	(72)	9	11%
Other operating expenses	(15)	(18)	(3)	-20%
Dividend income	874	203	(671)	-77%
Other financial income	224	225	1	0%
Financial costs	(266)	(271)	(5)	-2%
<b>Profit before tax</b>	<b>765</b>	<b>79</b>	<b>(686)</b>	<b>-90%</b>
Income tax	19	28	9	47%
<b>Net profit</b>	<b>784</b>	<b>107</b>	<b>(677)</b>	<b>-86%</b>

Energa SA's operating income is largely related to the services which the Company provides to other Group companies. The increase in revenues in 2017 was driven predominantly by growing revenues from marketing and IT activities.

Dividend income was the main source of the Company's financial income in 2017 was. It decreased by PLN 671 m compared to the previous year. Interest income dropped by PLN 21 m, accompanied by an increase in interest expense by PLN 26 m.

The increase in cost of sales was driven by the impairment losses recognized in 2018 on the capital expenditures incurred for projects conducted in cooperation with the Institute of Fluid-Flow Machinery.

The above factors affected Energa SA's net result, which reached PLN 107 m and was 86% more than the net profit earned in 2016.

The Company did not report any unusual events affecting the result of its operations in 2017.

**Table 6: Statement of financial position**

	Balance as at 31 December 2016	Balance as at 31 December 2017	Change	Change (%)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	24	13	(11)	-46%
Shares in subsidiaries, associates and joint ventures	6,780	7,149	369	5%
Bonds	3,959	3,805	(154)	-4%
Deferred tax assets	5	19	14	> 100%
Derivative financial instruments	147	33	(114)	-78%
Other non-current assets	158	149	(9)	-6%
	<b>11,073</b>	<b>11,168</b>	<b>95</b>	<b>1%</b>
<b>Current assets</b>				
Cash pooling receivables	577	553	(24)	-4%
Trade receivables and other current financial receivables	52	99	47	90%
Bonds	1,243	444	(799)	-64%
Current tax receivables	102	19	(83)	-81%
Cash and cash equivalents	1,295	3,013	1,718	> 100%
Other current assets	38	96	58	> 100%
	<b>3,307</b>	<b>4,224</b>	<b>917</b>	<b>28%</b>
<b>TOTAL ASSETS</b>	<b>14,380</b>	<b>15,392</b>	<b>1,012</b>	<b>7%</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders</b>				
Share capital	4,522	4,522	-	-
Reserve capital	1,018	1,018	-	-
Supplementary capital	728	1,433	705	97%



Cash flow hedge reserve	41	2	(39)	-95%
Retained earnings	828	151	(677)	-82%
	<b>7,137</b>	<b>7,126</b>	<b>(11)</b>	<b>-0%</b>
<b>Non-current liabilities</b>				
Loans and borrowings	4,673	5,087	414	9%
Bonds issued	1,000	2,043	1,043	> 100%
Non-current provisions	1	-	(1)	-100%
Deferred income and non-current grants	94	79	(15)	-16%
Derivative financial instruments	-	78	78	-
	<b>5,768</b>	<b>7,287</b>	<b>1,519</b>	<b>26%</b>
<b>Current liabilities</b>				
Cash pooling liabilities	1,009	477	(532)	-53%
Trade payables and other financial liabilities	19	23	4	21%
Current loans and borrowings	290	326	36	12%
Bonds issued	20	30	10	50%
Deferred income and grants	23	19	(4)	-17%
Accruals	12	8	(4)	-33%
Other current liabilities	102	96	(6)	-6%
	<b>1,475</b>	<b>979</b>	<b>(496)</b>	<b>-34%</b>
<b>Total liabilities</b>	<b>7,243</b>	<b>8,266</b>	<b>1,023</b>	<b>14%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>14,380</b>	<b>15,392</b>	<b>1,012</b>	<b>7%</b>

As at 31 December 2017, total assets of Energa SA reached PLN 15,392 m and were PLN 1,012 m (7%) higher than on 31 December 2016. Significant changes were related to the acquisition of stakes in subsidiaries (mainly in Energa Oświecenie Sp. z o.o., Energa Kogeneracja Sp. z o.o.), which was associated with ownership changes within the Group. At the same time, the value of investments in bonds issued by subsidiaries declined due to their redemption.

The increase in bonds issued is attributable to the hybrid bonds with the nominal value of EUR 250 m, issued by Energa SA in September 2017, which were subscribed in full by European Investment Bank.

The increase in liabilities under loans and borrowings was associated with execution, in June 2017, of a EUR 200 m loan agreement with Energa Finance AB (publ) earmarked for financing current operations. This was partly offset by repayment of the liabilities incurred in previous years.

The level of assets and liabilities is also affected by the one-way zero-balancing cash pooling service launched in 2016 for funds denominated in Polish zloty. According to the assumptions about the structure, at the end of each business day, cash owned by the Group's companies is consolidated on Energa SA's accounts and on the following day it may be used to finance payment liabilities of the individual participants.

Energa SA's result for 2016 was allocated for supplementary capital (PLN 705 m) and dividend for shareholders (PLN 79 m). As at 31 December 2017, equity covered 46.3% of the Company's assets, compared to 49.6% at yearend 2016.

**Table 7: Statement of cash flows**

in PLN m	2016	2017	Change	Change (%)
Net cash flow from operating activities	(22)	1	23	> 100%
Net cash flow from investing activities	752	386	(366)	-49%
Net cash flow from financing activities	88	1,335	1,247	> 100%
Net increase / (decrease) in cash	818	1,722	904	> 100%
Cash and cash equivalents at the end of the reporting period	1,293	3,015	1,722	> 100%

The balance of Energa SA's cash as at 31 December 2017 was PLN 3,015 m. The total net cash flows from the Company's operating, investing and financing activities in 2017 were positive at PLN 1,722 m, compared to PLN 818 m in 2016.

In terms of operating cash flows, an increase was recorded by PLN 23 m. This resulted primarily from a lower operating result, adjusted by non-cash items and income tax refund for 2016.

The decline in net proceeds from the Company's investing activities is attributable to the lower dividend income from subsidiaries and expenditures as part of cash pooling services. This was partly offset by lower acquisition of shares and bonds in subsidiaries.

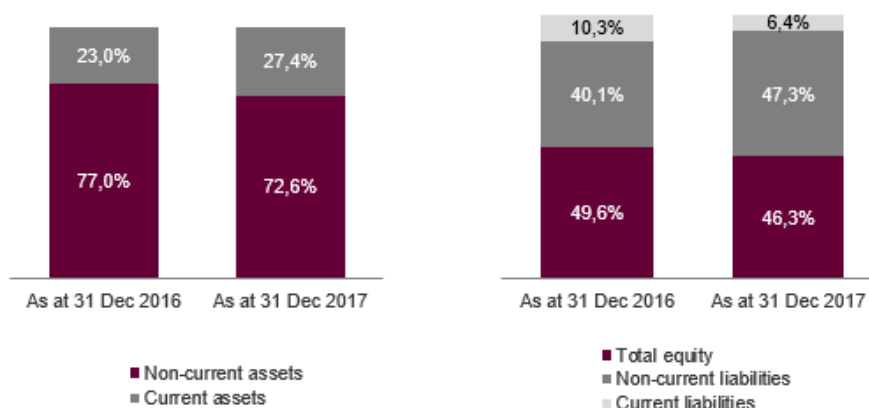
Increase in net proceeds from financing activities was associated primarily with the issue of hybrid bonds by the Company, proceeds from loans and borrowings and repayments of liabilities incurred in previous years as well as lower dividends paid.

## 2.3. Structure of the assets and liabilities in the statement of financial position

**Table 8: Structure of the annual statement of financial position**

Consolidated Statement of Financial Position	Balance as at 31 December 2016	Balance as at 31 December 2017
<b>ASSETS</b>		
Non-current assets	77.0%	72.6%
Current assets	23.0%	27.4%
<b>TOTAL ASSETS</b>	100.0%	100.0%
<b>EQUITY AND LIABILITIES</b>		
<b>Total equity</b>	49.6%	46.3%
Non-current liabilities	40.1%	47.3%
Current liabilities	10.3%	6.4%
<b>Total liabilities</b>	50.4%	53.7%
<b>TOTAL EQUITY AND LIABILITIES</b>	100.0%	100.0%

**Figure 6: Structure of assets and liabilities**



As at 31 December 2017, non-current assets represented 72.6% of total assets and current assets represented 27.4% of total assets. The increase in current assets in 2017 was driven primarily from the increase in cash, as described above. As at 31 December 2017, equity represented 46.3% of the sum of liabilities and equity. The remaining part of liabilities and equity was comprised of liabilities, with the highest portion attributable to financial liabilities.

## 2.4. Description of significant off-balance sheet items

There are no significant contingent assets and liabilities in the Company.

## 2.5. Projected financial results

The Management Board of Energa SA has not published projections for the Company's and consolidated financial results for the financial year 2017.

## 2.6. 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). At the end of October 2017, the agreement with Moody's expired. Accordingly in subsequent reporting periods Energa will no longer publish information about the ratings awarded by that agency.

On 13 September 2017, Fitch Ratings assigned rating of BB+ level to the issue of hybrid bonds. In accordance with Fitch's methodology (Non-Financial Corporates Hybrids Treatment and Notching Criteria), the bonds are classified, for the purposes of calculating financial leverage ratios, as equity in the amount of 50 percent of the financing.

**Table 9: 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

## 2.7. Dividend

By the date of approval of these financial statements for publication, the proposed distribution of the 2017 profit has not been adopted.

On 26 June 2017, the Annual General Meeting 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. By the date of these statements, the entire declared amount has been paid out, including PLN 28 m on account of shares with voting preference.

## 2.8. Information about the audit firm auditing the financial statements

The entity authorized to audit the Financial Statements of Energa SA and the Energa SA Group is KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. ("KPMG").

The agreement between Energa SA and KPMG was entered into on 12 April 2017 and pertained to an audit of the Company's financial statements and the consolidated financial statements for 2017 and to a review of the financial statements for H1 2017.

**Table 10: Auditor's fee for services provided to the Company (PLN 000s)**

PLN 000s	Year ended 31 December 2016	Year ended 31 December 2017
Audit of the annual financial statements	59	50
Other assurance services, including a review of financial statements	84	14
Other services	190	-
Total	333	64



# Shares and shareholding structure



## 3. SHARES AND SHAREHOLDING STRUCTURE

### 3.1. Energa's shareholding structure

Table 11: 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

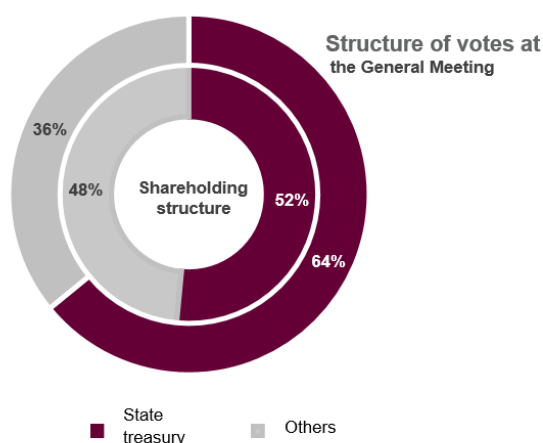
\* One preferred share entitles its holder to 2 votes at the General Meeting. These shares are owned by the State Treasury.

Table 12: Shareholding structure of Energa as at 9 November 2017, 31 December 2017 and the date of preparing these financial statements

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

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

Figure 7: Shareholding structure of Energa and structure of votes at the Shareholder Meeting as at 9 November 2017, 31 December 2017 and the date of preparing these financial statements



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

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

The Company does not have employee stock ownership programs.

In 2017, the Company and subsidiaries did not purchase any treasury stock of Energa. As at 31 December 2017, the Company and subsidiaries did not hold shares in Energa.

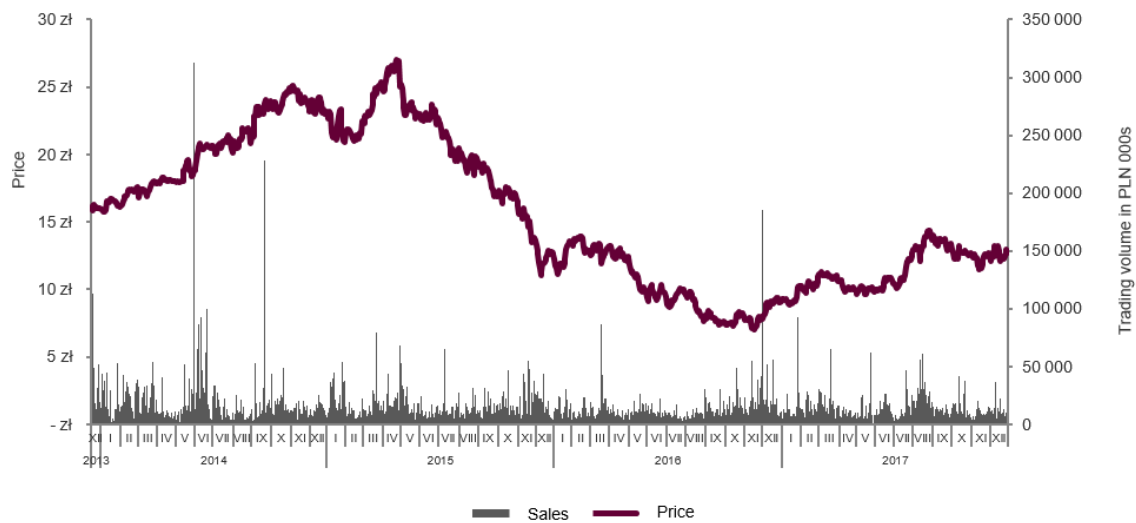
### 3.1. Company stock prices on the Warsaw Stock Exchange

**Table 13: Data for Energa stock as at 31 December 2017**

Data	Value
Issue price	PLN 17.00
Number of shares	414,067,114
Stock price at the end of the period	PLN 12.73
Capitalization at the end of the period	PLN 5.3 bn
Minimum at closing in Q4	PLN 11.50
Maximum at closing in Q4	PLN 13.26
Minimum at closing in 2017	PLN 8.89
Maximum at closing in 2017	PLN 14.38
Minimum in 2017	PLN 8.75
Maximum in 2017	PLN 14.38
Average trading value	PLN 14.6 m
Average trading volume	1,279.6 thousand
Average number of trades	2.2 thousand

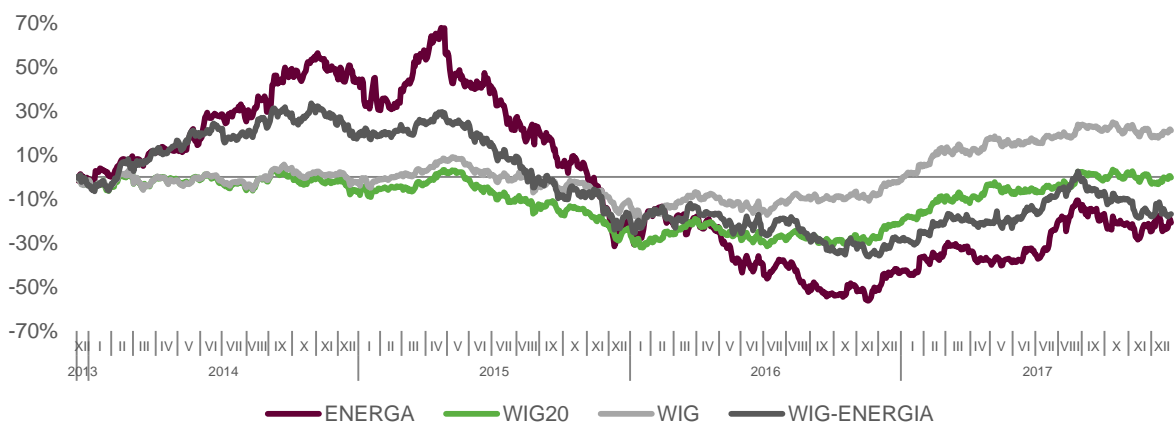
*Source: Proprietary material based on data from [www.infostrefa.com](http://www.infostrefa.com)*

**Figure 8: Energa SA stock price, in the period from IPO (i.e. 11 December 2013) to 31 December 2017**



Source: Proprietary material based on data from infostrefa.com

**Figure 9: Changes in Energa stock prices in comparison with changes in WIG, WIG20 and WIG-ENERGIA indices**



Source: Proprietary material based on data from infostrefa.com

As at 31 December 2017 Energa SA was listed in the following stock exchange indices: WIG, WIG20, WIG30, WIG-Energia, WIGdiv, WIG-Poland, RESPECT Index, FTSE All World, FTSE4Good Emerging Index and MSCI Global Sustainability Indexes.

### 3.2. Investor relations in Energa SA

The investor relations team executes tasks aimed at boosting the effectiveness of communication in the capital market. In 2017 these were, the following activities, among others:

- (1) Publication of 41 current reports and 4 periodic reports,
- (2) More than 130 individual meetings with institutional investors: investor conferences or non-deal roadshows,
- (3) Thematic workshops on the Group's activities for brokerage house analysts,
- (4) Online publication of the 2016 annual report,
- (5) 3 results conferences accompanied by online broadcast,
- (6) Cooperation with the Individual Investors Association to improve communication with individual investors, including participation in the Wall Street Conference in Karpacz,
- (7) Investors chat with a Management Board members (addressed mainly to individual investors),



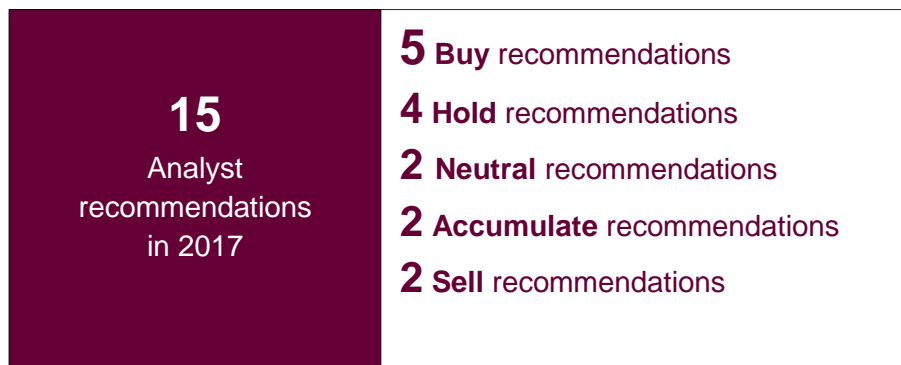
- (8) Constant communication with analysts issuing recommendations on companies to their customers.

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

### 3.3. Recommendations for the Company's stock

In 2017, the analysts of brokerage houses and investment banks issued 15 recommendations for Energa SA shares. A list of the recommendations can be found at the Company's Investor Relations website.

Figure 10: Recommendations issued for Energa's shares in 2017



# Representation on the application of Corporate governance principles



## 4. REPRESENTATION ON THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

In 2017, the Company and its authorities were subject to corporate governance rules, which are described in the set adopted by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015 as "Code of Best Practice for WSE Listed Companies 2016" ("Code of Best Practice", "DPSN") and were posted on the Warsaw Stock Exchange's website and the Company's website in the "Investor Relations" tab.

### 4.1. Corporate governance principles not applied in the Company

On 7 June 2017, Energa SA published information through the EBI system that the Company does not apply certain principles set out in the Best Practice, that is:

- Principle III.Z.3 – the Company does not meet the requirement of standard 1110-1 only in respect to the organizational independence, that is appointment and dismissal of an Internal Audit Head and approval and changes of his/her remuneration.

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

Additionally the Internal Audit Head is not functionally subordinated to the Supervisory Board.

- Principle V.Z.6 – The Company has implemented a Code of Ethics which lays down a number of rules that define the behaviors which the Company intends to follow in its relations with the external environment and within the Energa SA Group. The Company is of the position that issues related to the identification, prevention and resolution of conflicts of interest should also be addressed in its internal regulations. Accordingly, the Company will take steps to ensure that such provisions are included in its corporate documents.

Since no decision on the publication of projections has been made, in light of the Finance Minister's regulation on current and periodic information of 19 February 2009, detailed principle I.Z.1.10 was also not be applied.

### 4.2. Major shareholders

Information on the shareholding structure is presented in chapter 3.1. *Energa SA's shareholding structure* of these financial statements.

### 4.3. Holders of securities giving special rights of control and description of these rights

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

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

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

- 1) information on the Company and its Group in the form of a quarterly report in accordance with the current guidelines, subject to relevant provisions on disclosure of confidential information,
- 2) copies of announcements, which must be published in the Court and Economic Monitor,



- 3) set of documents, which are to be examined at the Annual General Meeting pursuant to Article 395 § 2 of the Commercial Company Code ("CCC"), i.e. financial statements (consolidated financial statements of the Group), Management Board's report on the Company's activity (Management Board's report on the activity of the Group) for the previous financial year, statutory auditor's opinion and report from the audit of the financial statements (consolidated financial statements of the Group), Supervisory Board's report, and the Management Board's motion on distribution of profit and coverage of loss,
- 4) consolidated version of the Articles of Association, within four weeks from the date of entering the amendments to the Articles of Association in the business register.

#### **4.4. Restrictions regarding the exercise of voting rights**

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

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

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

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

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

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

#### **4.5. Restrictions on the transfer of ownership title to securities**

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

#### **4.6. Rules for amending the Company's Articles of Association**

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

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

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

On 26 June 2017, the Annual General Meeting of Energa SA among others amended the wording of the Company's Articles of Association, which remains in effect up to this date.

## **4.7. Company's corporate bodies**

### **General Meeting**

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

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

### **Manner of convening the General Meeting**

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

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

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

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

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

### **Course of the General Meeting**

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

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



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

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

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

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

### **Powers of the General Meeting**

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

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

One General Meeting of the Company was held in 2017, i.e. Annual General Meeting held on 26 June 2017. The wording of resolutions adopted during that Meeting was published in Current Report No. 30/2017 of 27 June 2017.

## Supervisory Board

### Composition

In the 2017 financial year and until the date of this Report the Energa SA Supervisory Board operated in the following composition:

- 1) in the period from 1 January 2017 to 10 February 2017:
  - a) Paula Ziemecka-Księżak – Supervisory Board Chairwoman,
  - b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
  - c) Agnieszka Terlikowska-Kulesza – Supervisory Board Secretary,
  - d) Andrzej Powałowski – Supervisory Board Member,
  - e) Marek Szczepaniec – Supervisory Board Member,
  - f) Maciej Żółtkiewicz – Supervisory Board Member,
  - g) Jacek Kościelniak – Supervisory Board Member,
- 2) in the period from 10 February 2017 to 26 June 2017:
  - a) Paula Ziemecka-Księżak – Supervisory Board Chairwoman,
  - b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
  - c) Agnieszka Terlikowska-Kulesza – Supervisory Board Secretary,
  - d) Andrzej Powałowski – Supervisory Board Member,
  - e) Marek Szczepaniec – Supervisory Board Member,
  - f) Maciej Żółtkiewicz – Supervisory Board Member,
- 3) in the period from 26 June 2017 to 22 August 2017:
  - a) Paula Ziemecka-Księżak – Supervisory Board Chairwoman,
  - b) Zbigniew Wtulich – Supervisory Board Member,
  - c) Agnieszka Terlikowska-Kulesza – Supervisory Board Member,
  - d) Andrzej Powałowski – Supervisory Board Member,
  - e) Marek Szczepaniec – Supervisory Board Member,
  - f) Maciej Żółtkiewicz – Supervisory Board Member,
- 4) in the period from 22 August 2017 till the date of preparing this Report:
  - a) Paula Ziemecka-Księżak – Supervisory Board Chairwoman,
  - b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
  - c) Agnieszka Terlikowska-Kulesza – Supervisory Board Secretary,
  - d) Andrzej Powałowski – Supervisory Board Member,
  - e) Marek Szczepaniec – Supervisory Board Member,
  - f) Maciej Żółtkiewicz – Supervisory Board member.

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

In connection with the end of the Supervisory Board's 4th Term of Office, on 26 June 2017 the Annual General Meeting of Energa SA set the number of Supervisory Board Members and appointed three Supervisory Board members for the 5th Term of Office: Andrzej Powałowski, Marek Szczepaniec and Maciej Żółtkiewicz.

By the representation from the Energy Minister made by the power of its personal rights, the following were appointed to the Supervisory Board on 26 June 2017: Paula Ziemecka-Księżak (as Supervisory Board Chairwoman), Zbigniew Wtulich and Agnieszka Terlikowska-Kulesza.

Mr. Marek Szczepaniec and Mr. Andrzej Powałowski satisfy the criteria envisaged for independent supervisory board members within the meaning of the Commission Recommendation of 15 February 2005 on the role of executive or supervisory directors of listed companies and on the committees of the (supervisory) board, taking into account the requirements following from the Code of Best Practice for WSE Listed Companies, and also for independent Audit Committee members within the meaning

of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws No. 2017, Item 1089).

The current term of the Company's Supervisory Board ends on 26 June 2020.

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

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

**Zbigniew Wtulich** graduated from the Faculty of Drainage and Water Engineering at the Warsaw University of Life Sciences. He started his professional career in 1984 as a Designer Assistant in the Water Drainage Design Department. Then he became a construction engineer in the Regional Drainage Projects Enterprise (in October 1984). He held this position until April 1988. From 1988 to 1991 he worked as an engineer in an international company doing business as "Amak" (construction industry) and from 1993 to 1997 he was employed by the State Treasury Agricultural Property Agency. Before appointment to the Company's Supervisory Board, Zbigniew Wtulich served as a chief specialist at the State Treasury Department of Assets Records at the State Treasury Ministry (1997-1998), a chief specialist - team coordinator at the State Treasury Restitution and Compensation Department at the State Treasury Ministry (1998-2001), sub-department head in the Restitution and Equity Allocation Department at the State Treasury Ministry (2002-2006), sub-department head in the Department of Records, Restitution, Compensation and Equity Allocation (2006-2010). In 2010-2017 he was a sub-department head in the Property Department at the State Treasury. He also served as a Supervisory Board member in Zakłady Tworzyw Sztucznych "GAMRAT" SA (2011) and in Przedsiębiorstwo Gospodarki Wodnej i Rekultywacji S.A. (2002-2009). Currently, the Minister's Advisor in the Department of Forestry in the Ministry of the Environment.

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

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

**Andrzej Powałowski** studied from 1969 to 1973 at the Faculty of Law and Administration in the Nicolaus Copernicus University in Toruń. In 1973 he started to work as an assistant in the National Economy Management Law Section at the Faculty of Law and Administration in the University of Gdańsk. In 1980 he obtained the title of doctor of legal sciences and was employed at the position of assistant professor. From 1992 he worked on the position of senior lecturer at the Public Economic Law Faculty and from 1994 at the Public Economic Law and Environmental Protection Faculty. In 2009 he obtained the title of habilitated doctor of legal sciences in the area of public economic law. In 2010 he was nominated to the position of associate professor of Gdańsk University. At the Law and Administration Faculty in the University of Gdańsk he is currently the head of the Public Economic Law Section and head of the post-graduate study programs entitled “Legal conditions for conduct of economic activity” and “Public procurement law and system”. He is also a lecturer at the Off-Site Faculty of the Gdańsk School of Higher Education in Olsztyn. He was employed as an associate professor of the Baltic College of the Humanities and the Real Estate Management College. Author of numerous publications in the form of books and articles for scientific magazines; he is a member of the governing bodies of non-governmental organizations and scientific periodicals. He worked as a legal advisor and since 2010 he has been an advocate in his own law firm in Gdańsk. He discharges the function of arbitrator at the International Court of Arbitration at the Polish Chamber of Maritime Commerce.

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

#### Supervisory Board’s powers



The Supervisory Board's powers include in particular:

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

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

#### Operation of the Supervisory Board

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

In the period from 1 January to 31 December 2017, the Energa SA Supervisory Board held 14 meetings and adopted 124 resolutions. Four Supervisory Board meetings were held in 2017 with not all members in attendance.

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

The most important matters handled by the Supervisory Board in the 2017 financial year included, among others:

- 1) conducting executive recruitment procedures for Energa SA Management Board members and determining the rules for and amount of compensation for Energa SA Management Board members,
- 2) approving the "Organizational Bylaws of the Enterprise of Energa Spółka Akcyjna",
- 3) analyzing the current economic and financial position of the Company and the Group and the execution and return on the investments conducted in the Energa SA Group.

- 4) adopting the consolidated version of the Articles of Association of Energa SA,
- 5) conducting supervisory activities related to development and deployment of the Sales Support System encompassing the billing system and the CRM system in the Energa SA Group.

Additionally, in 2017, the Supervisory Board decided on how to vote during general meetings of subsidiaries in the scope resulting from the Company's Articles of Association, approved the physical and financial plans of Energa SA and the Energa SA Group, evaluated financial statements and consolidated financial statements for the 2016 financial year with the motion to distribute profit and it monitored the Management Board's execution of the sponsoring activity plan.

## Audit Committee

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

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

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

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

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

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

The Audit Committee is composed of at least three Supervisory Board members, including at least one member who satisfies the independence criteria specified by the legal regulations and holds accounting or financial audit qualifications within the meaning of the Act on Statutory Auditors. According to the Articles of Association, such a person should meet the requirements set forth for independent Supervisory Board Members within the meaning of the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC), taking into account the requirements following from the Code of Best Practice for WSE Listed Companies and also for independent Audit Committee members within the meaning of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws No. 2017, Item 1089).

In the 2017 financial year and to this date, the Audit Committee operated in the following composition:

- 1) in the period from 1 January 2017 to 26 June 2017:
  - a) Marek Szczepaniec – Committee Chairman,
  - b) Zbigniew Wtulich,
  - c) Andrzej Powałowski,
- 2) in the period from 22 August 2017 to 18 October 2017:
  - a) Paula Ziemiecka-Księżak,
  - b) Marek Szczepaniec,
  - c) Zbigniew Wtulich,
  - d) Andrzej Powałowski,

- 3) in the period from 18 October 2017 to 20 October 2017:
  - a) Marek Szczepaniec – Committee Chairman,
  - b) Paula Ziemiecka-Księżak,
  - c) Zbigniew Wtulich,
  - d) Andrzej Powałowski,
- 4) in the period from 20 October 2017 till the date of preparing this Report:
  - a) Marek Szczepaniec – Committee Chairman,
  - b) Zbigniew Wtulich,
  - c) Andrzej Powałowski.

In the period from 1 January 2017 to 26 June 2017, the function of the Audit Committee Chairman was discharged by Mr. Marek Szczepaniec.

In connection with the appointment of the Supervisory Board of the 5th term of office by the Annual General Meeting of Energa SA on 26 June 2017, the following Supervisory Board Members were appointed to the Audit Committee on 22 August 2017:

- 1) Ms. Paula Ziemiecka-Księżak,
- 2) Mr. Marek Szczepaniec,
- 3) Mr. Zbigniew Wtulich.

Subsequently, during the Supervisory Board meeting held on 18 October 2017, Mr. Andrzej Powałowski was also appointed to the Committee. On the same date, at the Audit Committee meeting, Mr. Marek Szczepaniec was appointed the Committee Chairman.

On 20 October 2017, Ms. Paula Ziemiecka-Księżak tendered her resignation from membership in the Committee.

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

In 2017, the Audit Committee held 5 meetings with all members in attendance.

### **Nomination and Compensation Committee**

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

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

The following tasks in particular fall among the powers and duties of the Nomination and Compensation Committee:

- 1) conducting activities to recruit the Company's Management Board members to the extent designated by the Supervisory Board,
- 2) preparing draft versions of contracts and other model documents in connection with serving as the Company's Management Board members and overseeing the performance of the contractual obligations taken by the parties,
- 3) overseeing the implementation of the Management Board's compensation system, in particular preparing billing documents concerning variable and bonus elements of compensation,

- 4) monitoring and analyzing the compensation system for the Management Boards and management of companies in the Energa SA Group,
- 5) overseeing the correct execution of perks for the Company's Management Board stemming from contracts, among others: personal and medical insurance, usage of company cars, apartment and others.

In the 2017 financial year, the Nomination and Compensation Committee operated in the following composition:

- 1) in the period from 1 January 2017 to 26 June 2017:
  - a) Paula Ziemiecka-Księżak – Committee Chairwoman,
  - b) Agnieszka Terlikowska-Kulesza,
  - c) Zbigniew Wtulich,
- 2) in the period from 22 August 2017 till the date of preparing this Report:
  - a) Paula Ziemiecka-Księżak,
  - b) Agnieszka Terlikowska-Kulesza,
  - c) Zbigniew Wtulich.

Two Nomination and Compensation Committee meetings were held in 2017 – all of them with all members in attendance.

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

## Management Board

### Rules for appointing and dismissing Management Board Members

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

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

A Management Board Member may be also:

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

Pursuant to § 16 of the Articles of Association of Energa SA, the Supervisory Board appoints Management Board Members after conducting a recruitment procedure.

A Management Board Member shall submit his or her resignation to another Management Board Member or to the commercial proxy or, if this is impossible, to the Supervisory Board. The notice of resignation should be submitted in writing. The resigning Management Board Member shall inform the Supervisory Board Chairman of his/her resignation

### Composition

In 2017 and up to the date of preparation of this Report, the Company's Management Board operated with the following composition:

- 1) in the period from 1 January 2017 to 17 January 2017:
  - a) Dariusz Kaśków – President of the Management Board,
  - b) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,

- c) Mariusz Rędaszka – Vice-President of the Management Board for Financial Matters,
  - d) Przemysław Piesiewicz – Vice-President of the Management Board for Development Strategy,
  - e) Mariola Anna Zmudzińska – Vice-President of the Management Board for Investor Relations,
- 2) in the period from 17 January 2017 to 10 February 2017:
- a) Jacek Kościelniak – Energa SA Supervisory Board Member delegated to perform temporarily the duties of a Management Board member acting in the capacity of President of the Management Board,
  - b) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
  - c) Mariola Anna Zmudzińska – Vice-President of the Management Board for Investor Relations,
- 3) in the period from 11 February 2017 to 16 February 2017:
- a) Jacek Kościelniak – Vice-President of the Management Board for Financial Matters,
  - b) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
  - c) Mariola Anna Zmudzińska – Vice-President of the Management Board for Investor Relations,
- 4) in the period from 17 February 2017 to 1 March 2017:
- a) Jacek Kościelniak – Vice-President of the Management Board for Financial Matters,
  - b) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
- 5) in the period from 1 March 2017 to 2 March 2017:
- a) Alicja Barbara Klimiuk – Vice-President of the Management Board for Operations,
  - b) Jacek Kościelniak – Vice-President of the Management Board for Financial Matters,
  - c) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,
- 6) in the period from 2 March 2017 to 5 February 2018:
- a) Daniel Obajtek – President of the Management Board
  - b) Alicja Barbara Klimiuk – Vice-President of the Management Board for Operations,
  - c) Jacek Kościelniak – Vice-President of the Management Board for Financial Matters,
  - d) Grzegorz Ksepko – Vice-President of the Management Board for Corporate Matters,

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

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

Also on 17 January 2017, the Energa SA Supervisory Board launched an executive search to recruit the Company's Management Board members for its fifth term of office, i.e.:

- 1) President of the Management Board,
- 2) Vice-President of the Management Board for Financial Matters,
- 3) Vice-President of the Management Board for Operations.



As a result of the executive search procedure, the Energa SA Supervisory Board appointed the following to the position of:

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

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

On 5 February 2018, Mr. Daniel Obajtek tendered his resignation from the function of the President of the Energa SA Management Board as of the end of that date.

The current 5th Term of Office of the Energa SA Management Board will elapse on 4 January 2019.

#### **Alicja Barbara Klimiuk – acting President of the Management Board, Vice-President for Operations**

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

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

He graduated from the Economic Academy (currently University of Economics) in Katowice, specializing in finance and accounting. In 1989 he began his professional career as an accountant, finance specialist and Chief Accountant in private limited liability companies. Then, from 1992 to 1998, he provided accounting, tax and legal and economic advisory services running his business activity. He conducted training workshops on the subject of taxes, accounting and mandatory prevention of the introduction of funds originating from illegal or undisclosed sources into financial circulation. He also worked as an auditor for the National Cooperative Savings and Loans Organization (Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa). From 1998 to 2002 he served as the Finance Department Director at the Silesian Voivodship Office. He was also the Supervisory Board chairman of

the Upper Silesia Regional Development Agency and a supervisory board member of the Upper Silesia Restructuring Fund. He was elected as Member of the Parliament of the 5th Term and, during that period, he served as a member of the Parliamentary Public Finance Committee. From January to November 2007 he was Secretary of the State in the Prime Minister's Office and Deputy Chairman of the Standing Committee of the Council of Ministers. From 2007 to 2011 he served as the Vice-President of the Supreme Audit Chamber. He acted as an expert in the twin cooperation project to strengthen the audit potential of the Audit Authority in Georgia and Albania.

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

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

In 1996 he completed the Fourth Annual Summer School for Young Social and Political Leaders under the Polish Robert Schuman Foundation and in 1997 the English language school at the University of California Los Angeles.

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

#### **Management Board's powers**

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

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

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

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

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

Moreover, in connection with the resignation of Mr. Daniel Obajtek as President of the Management Board, on 6 February 2018, pursuant to § 1 section 6 of edition IV of the Energa SA Management Board Bylaws, the Management Board entrusted Ms. Alicja Barbara Klimiuk, Vice-President of the Management Board for Operations to discharge the duties of the President of the Energa SA Management Board.

This decision was approved by the Company's Supervisory Board. At the same time, the Management Board entrusted functional oversight over the following areas of the Company's business to Ms. Alicja Barbara Klimiuk, Vice-President of the Management Board for Operations currently also the acting President of the Energa SA Management Board:

- 1) press support,
- 2) audit and control,
- 3) strategic risk management,
- 4) legal support,
- 5) security,

- 6) Group's personnel policy, including the hiring of members of corporate bodies of Energa SA Group Companies,
- 7) marketing and sponsoring activity,
- 8) management of an organization,
- 9) social dialogue,

#### Manner of the Management Board's functioning

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

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

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

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

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

In 2017 the Energa SA Management Board held 58 meetings and adopted 504 resolutions.

The Management Board's most important actions and decisions were as follows:

- 1) actions aimed at stabilizing the implementation of the Sales Service System in the Energa SA Group,
- 2) issue of subordinated (hybrid) bonds,
- 3) implementation of the ISO/IEC 27001 "Information Security Management" standard,
- 4) launch of actions associated with entry into force of the General Data Protection Regulation,
- 5) actions aimed at implementation of an optimum structure of the Energa SA Group and standardization of procurement and logistic processes and streamlining of collections,
- 6) adoption of the "Organizational Bylaws of the Enterprise of Energa Spółka Akcyjna".

## 4.8. Compensation of persons in management and supervisory bodies

### Management Board

On 15 December 2016, by the power of Resolution no. 27 adopted by the Extraordinary General Meeting, the rules for remunerating the Management Board Members to the provisions of the Act of 9 June 2016 on the Rules for Remunerating Persons Managing Certain Companies (Journal of Laws of 2016 Item 1202),

As at the date of this report, the fixed part of compensation for work payable to the Members of the Energa SA Management Board was set within the range from 7 to 15 times the average salary in the corporate segment without profit-sharing awards in the fourth quarter of the previous year, as announced by the President of the Main Statistical Office.

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

- 1) the right to compensation for refraining from conducting competitive activity (no-compete) for a period up to 12 months after the contract termination date,
- 2) the right to severance pay in the amount of three times the basic monthly salary if the manager is dismissed from the function of a Management Board member.

The compensation paid individually to each of the Company's Management Board members in 2017 is presented in the table below.

**Table 14: Compensation paid to the persons in the Energa SA Management Board in the period from 1 January to 31 December 2017 (PLN 000s)**

Full name	In office	Compensation	Other benefits	Total*
Alicja Barbara Klimiuk	from 1 March to 31 December 2017	591	32	623
Jacek Kościelniak	from 11 February to 31 December 2017	658	51	709
Grzegorz Ksepko	from 1 January to 31 December 2017	701	28	729
Daniel Obajtek	from 2 March to 31 December 2017	632	57	689
Dariusz Kaśków	from 1 January to 17 January 2017	350	18	368
Mariusz Rędaszka	from 1 January to 17 January 2017	325	2	327
Przemysław Piesiewicz	from 1 January to 17 January 2017	325	24	349
Mariola Anna Zmudzińska	from 1 January to 16 February 2017	390	0	390
<b>TOTAL</b>		<b>3,972</b>	<b>212</b>	<b>4,184</b>

\*the differences in sum are caused by rounding.



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

- 1) medical insurance for the Management Board member and his/her direct family and the right to select either life insurance or medical insurance,
- 2) company apartment in justified cases or a reimbursement of rental expenses,
- 3) covering or refinancing the costs of individual training related to the range of activities performed in favor of the Company,
- 4) benefiting from the Company's asset items.

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

A system designed in such a way combines focus on the activities that are important from the Group's point of view, with effective achievement of its intentions. It is also important for the Company's shareholders, since it allows to build a long-term boost in Energa's value and ensures the Company's stable operation.

## Supervisory Board

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

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

The compensation will not be due for the month in which the Supervisory Board member did not attend any of the formally convened meetings and failed to provide any formal justification. The table below presents the compensation of Energa SA's Supervisory Board members in 2017.

**Table 15: Compensation of persons sitting in the Energa SA Supervisory Board in the period from 1 January to 31 December 2017 (PLN 000s)**

Full name	Period in office in 2017	Compensation	Other benefits	Total
Paula Ziemiańska-Książak	from 1 January to 31 December 2017	90	0	90
Zbigniew Wtulich	from 1 January to 31 December 2017	79	0	79
Marek Szczepaniec	from 1 January to 31 December 2017	79	0	79
Jacek Kościelniak	from 1 January to 10 February 2017	4	0	4

Full name	Period in office in 2017	Compensation	Other benefits	Total
Maciej Żółtkiewicz	from 1 January to 31 December 2017	79	0	79
Agnieszka Terlikowska – Kulesza	from 1 January to 31 December 2017	79	0	79
Andrzej Powałowski	from 1 January to 31 December 2017	79	0	79
<b>TOTAL*</b>		<b>489</b>	<b>0</b>	<b>489</b>

\*the differences in sum are caused by rounding.

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

No member of Energa SA's Management Board or Supervisory Board held shares in the Company as at 31 December 2017.

## 4.9. Diversity policy

Energa SA does not have a specific diversity policy in place. In 2017, the Company developed and implemented the Group's Personnel Policy. The document regulates a number of issues in the HR area, however Energa SA bears in mind a description of the diversity area. The document will be ultimately expanded to include a description of diversity issues, which is currently being prepared by the Company.

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

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

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

The financial reporting area is additionally an element of the annual Assessment of the Internal Control System, Risk Management and Compliance System in Energa SA, which in 2017 was effected with the participation of PricewaterhouseCoopers ("PwC") – the work of the advisors pertaining to the financial reporting process was positive.

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

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

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

The Supervisory Board is responsible for selecting a statutory auditor to audit the Company's financial statements and the Group's consolidated financial statements. The auditor authorized to audit the Company's financial statements is the entity specified in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws No. 2017, item 1089).

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

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

In connection with the entry into force of the Regulation of the European Parliament and of the Council (UE) on specific requirements regarding statutory audit of public-interest entities and the expected enactment, by the Polish parliament, of an act implementing the EU regulations providing for the minimum period of two years for which a statutory audit agreement should be signed, the Supervisory Board decided to carry out a procedure to elect an auditor for the years 2017-2018. Following the procedure, on 20 December 2016 the Company's Supervisory Board selected the authorized entity KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. with its registered seat in Warsaw at ul. Inflancka 4A ("KPMG") as the statutory auditor to audit and review the financial statements and consolidated financial statements of Energa SA and the Energa SA Group for the annual periods ended on 31 December 2017 and 31 December 2018, respectively.

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

Within the framework of the Integrated Risk Management System in place in the Energa SA Group, the financial reporting risk is identified and managed to ensure timely and error-free preparation of the Company's and the Group's financial statements and the reporting and management information risk related, among others, with collection and preparation of management, operational and financial information needed to make management decisions.

The mechanisms to control these risks, as described above, are registered in the Risk Card and subject to periodic evaluation in respect to adequacy, efficiency and effectiveness.

The risk management process, which is described in more detail in item 1.7 of this Report, encompasses all of the Group's business lines and levels of organization. It assumes both ongoing and regular risk reviews as well as independent regular evaluation of the systems effectiveness and efficiency and continuous improvement based on the Deming cycle (PDCA).

The results of the risk identification and evaluation process, including reporting risks, are accepted each time by the Company's Management Board in the form of a Management Board Resolution, which sets the level of the organization's risk appetite, accepts the management strategy for the individual risks and obligates the Risk Owners to implement action plans as recorded in the Risk Cards.

Additionally, as part of the effectiveness monitoring process for the risk management system in the Energa SA Group, a report summarizing risk reviews in the Group is delivered to the Audit Committee operating within the Energa SA Supervisory Board.



# Management board's representation



## 5. MANAGEMENT BOARD'S REPRESENTATION

Gdańsk, 14 March 2018

The Energa SA Management Board hereby represents that:

- (1) according to the best knowledge, the annual 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 its financial result. The Management Board report on the activity of Energa SA contains a true presentation of developments, achievements and situation of the Company, including a description of key risks and threats;
- (2) KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k., an entity authorized to audit the financial statements, which audited the financial statements of Energa SA for the financial year ended 31 December 2017, was selected in accordance with the applicable regulations. That entity as well as the auditors who audited the aforementioned financial statements satisfied the conditions for expressing an unbiased and independent opinion about the audit of the financial statements as required by the binding regulations and professional norms.

Signatures of Energa SA Management Board Members

Alicja Klimiuk  
acting 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

Zbysław Dobrowolski  
Director of the Finance Department

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## Glossary of terms and abbreviations

AMI, Advanced Metering Infrastructure	Integrated set of elements: intelligent electricity meters, communication modules and systems providing the possibility to collect data regarding electricity consumption by specific customers.
Billing	Itemized bill, statement of all fees for added services which a subscriber uses in a given billing period
Biomass	Solid or liquid, biodegradable substances of plant or animal origin, originating from products, waste and remnants of agricultural and forestry production, the industry processing their products, and also a portion of other biodegradable waste, and especially agricultural raw materials.
CAPEX	Capital expenditures
CIRS, CCIRS	Currency Interest Rate Swap and Cross-Currency Interest Rate Swap transactions, in which payments will be made over a specified period with a specified frequency, based on variable interest rates, in two different currencies (CIRS) or in more currencies (CCIRS).
CO <sub>2</sub>	Carbon dioxide
EIB	European Investment Bank
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	ENERGA SA defines EBITDA as operating profit/loss plus amortization and depreciation and impairment losses for non-financial non-current assets. Since the EBITDA definition changed as of 2016, EBITDA for comparative periods (2013-2015) was calculated using the new definition.
EBIT	Operating profit
EBRD	European Bank for Reconstruction and Development
Issuer, issuer	ENERGA SA
ENERGA SA, ENERGA, Energa SA	Parent company in the ENERGA SA Group
ENERGA-OPERATOR, Energa Operator SA, EOP	ENERGA-OPERATOR SA – a subsidiary of ENERGA SA and the Leading Entity of the Distribution Business Line in the ENERGA SA Group.
ENERGA-OBRÓT, Energa Obrót SA, EOB	ENERGA-OBRÓT SA – a subsidiary of ENERGA SA and the Leading Entity of the Sales Business Line in the ENERGA SA Group
EMTN ( <i>Euro Medium Term Notes</i> )	Euro Medium Term Note issue program
EU	European Union
EUA	Emission allowances
EU ETS ( <i>European Union Greenhouse Gas Emission Trading Scheme</i> )	European Union Greenhouse Gas Emission Trading Scheme The rules governing its operation are stated in ETS Directive.
EUR	Euro, currency used in countries belonging to the European Union's Eurozone
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
ENERGA SA Group, Energa SA Group, Group, ENERGA	A group distributing, selling and generating 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 <sup>9</sup> W
GWe	Gigawatt of electrical power
GWh	Gigawatt hour
IBnGR	Market Economy Research Institute (Instytut Badań nad Gospodarką Rynkową)
IPO	Initial Public Offering
IRS (Interest Rate Swap)	An interest rate swap agreement between two parties, under which the parties pay interest on the contractual nominal amount calculated according to a different interest rate.
KNF	Komisja Nadzoru Finansowego (Polish Financial Supervision Authority)
Cogeneration, CHP	Technological process of simultaneous combustion of heat and electricity or mechanical energy in the course of the very same technological process.
Covenants	Contractual clauses offering protection to lenders in loan agreements
KRS	National Court Register
kWh	Kilowatt hour, unit of electricity generated or used by equipment with 1 kW of power in an hour; 1 kWh = 3,600,000 J = 3.6 MJ
MEW	Small hydropower plant
MoT	Ministry of Treasury
MW	Unit of power in the International System of Units, 1 MW = 10 <sup>6</sup> W



MWe	Megawatt of electrical power
MWh	Megawatt hour
MWt	Megawatt of thermal power
NBP	National Bank of Poland, central bank in Poland
NCBiR	National Centre for Research and Development (Narodowe Centrum Badań i Rozwoju)
NFOŚiGW	National Fund for Environmental Protection and Water Management
EGM	Extraordinary General Meeting of ENERGA SA
Renewable Energy Sources, RES	Sources converting the energy of the wind, solar radiation, geothermal energy, waves, currents and marine tides, run of rivers and energy obtained from biomass, garbage dump biogas as well as biogas ensuing from waste removal or treatment processes or the degeneration of stored plant and animal remains to generate electricity.
DSO, Distribution System Operator	Utility dealing with the distribution of gaseous fuels or electricity, responsible for grid operation in the gaseous distribution system or in the electricity distribution system, the current and long-term operational safety of this system, the operation, maintenance, refurbishment and required expansion of the distribution grid, including connections with other gaseous systems or other electrical power systems.
TSO, Transmission System Operator	Utility dealing with the transmission of gaseous fuels or electrical energy, responsible for grid operation in the gaseous transmission system or in the electrical energy transmission system, the current and long-term operational safety of this system, the operation, maintenance, refurbishment and required expansion of the transmission grid, including connections with other gaseous systems or other electrical power systems.
OZEX_A	Volume-weighted average price using all transactions pertaining to the PMOZE_A contract on an exchange session
PGE	PGE Polska Grupa Energetyczna SA
GDP	Gross Domestic Product
PLN	Polish zloty, national currency
PMOZE_A	Property rights to certificates of origin for electricity generated in RES whose period of generation, as specified in the certificate of origin, commenced after 1 March 2009
pp.	Percentage point
Property rights	Negotiable rights constituting a commodity arising from certificates of origin for energy generated from renewable energy sources and co-generation
Vertically-integrated utility	Utility or group of utilities whose reciprocal relationships are prescribed by Article 3 sec. 2 of the Regulation on the Control of Concentrations, dealing with (i) in respect of gaseous fuels: transmission or distribution, or storage, or condensation and generation or the sale of these fuels, or (ii) in respect of electricity: transmission or distribution and generation or the sale of this energy
PSE	Polskie Sieci Elektroenergetyczne Spółka Akcyjna with its registered office in Warsaw, entered in the register of entrepreneurs of the National Court Register under file number KRS 0000197596; company designated by ERO President decision No. DPE-47-58(5)/4988/2007/BT of 24 December 2007 to be the electrical power transmission system operator in the Republic of Poland for the period from 1 January 2008 until 1 July 2014
yoy	Year on year
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SFIO	Specialized Open-end Mutual Funds
Smart Grid	Electrical power system intelligently integrating the actions of all the participants in the processes of generation, transmission, distribution and usage to deliver electricity in an economical, reliable and safe manner. It entails comprehensive energy solutions making it possible to combine, facilitate reciprocal communication and control in an optimum way elements of power grids that have been diverse to date
Spot	Day-Ahead Market (DAM) – energy market operating in the “day ahead” time interval (DA) providing for energy supply on day D
Certificate of origin	Certificate of origin from renewable sources and certificate of origin from co-generation
Certificate of origin from co-generation	Document issued by the ERO President pursuant to art. 9l of the Energy Law confirming the generation of electricity in highly-efficient co-generation generated in: (i) a co-generation 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 co-generation 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 co-generation 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 <sup>9</sup> kWh
EU	European Union
ERO	Energy Regulatory Office
WACC	Weighted average cost of capital
WIBOR	Warsaw Interbank Offered Rate
Cofiring	Generation of electricity or heat using a process of simultaneous and joint combustion of biomass or biogas with other fuels in a single device; a portion of the energy generated in this manner may be deemed to be energy generated in a renewable energy source