



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

Gdańsk,
Publication date: 15 March 2018

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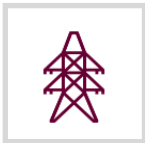
1. SUMMARY



GROUP AFTER 2017

One of the leading energy groups and a reliable supplier of electricity and services for 1/4 of Poland, with a 36-percent of production from RES in own production.

OPERATING DATA



22.1 TWh

volume of electricity supplied



4.3 TWh

gross production of electricity

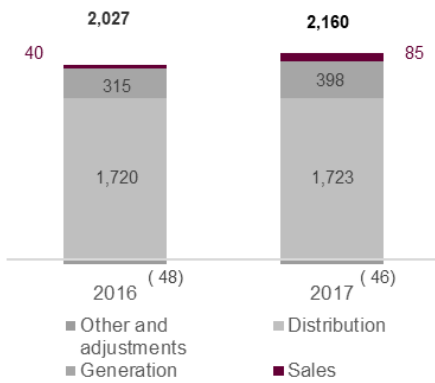


20.6 TWh

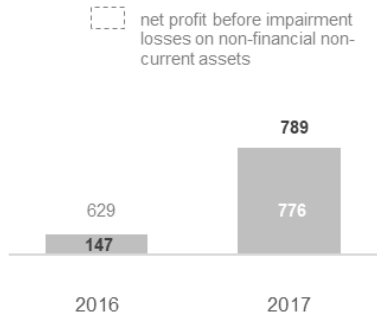
retail sales

FINANCIAL RESULTS

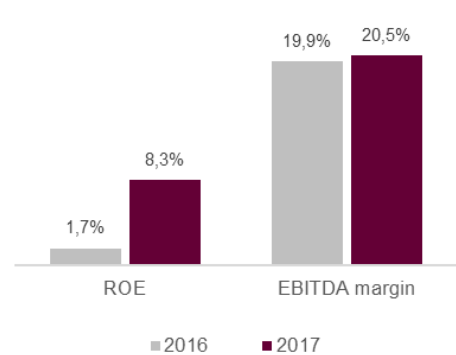
EBITDA (PLN m)



Net profit (PLN m)



Profitability ratios



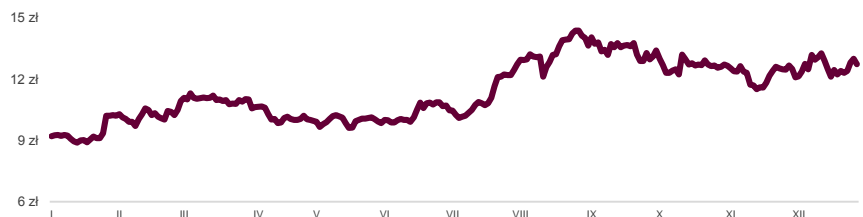
Energa SA ON THE WSE

Market capitalization: **PLN 5.3 bn***

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

* According to share price as at closing on 29 December 2017

Prices of ENERGA SA's shares



KEY RESOURCES



Distribution network with the length of
185 thous. km



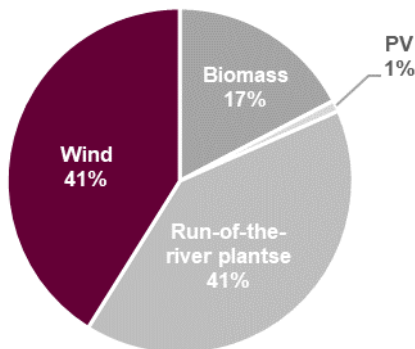
Installed capacity
1.34 GWe
of which **38%** falls to RES



9 thous.
employees



RENEWABLE ENERGY SOURCES



Installed capacity
513 MWe



RES production
1,548 GWh

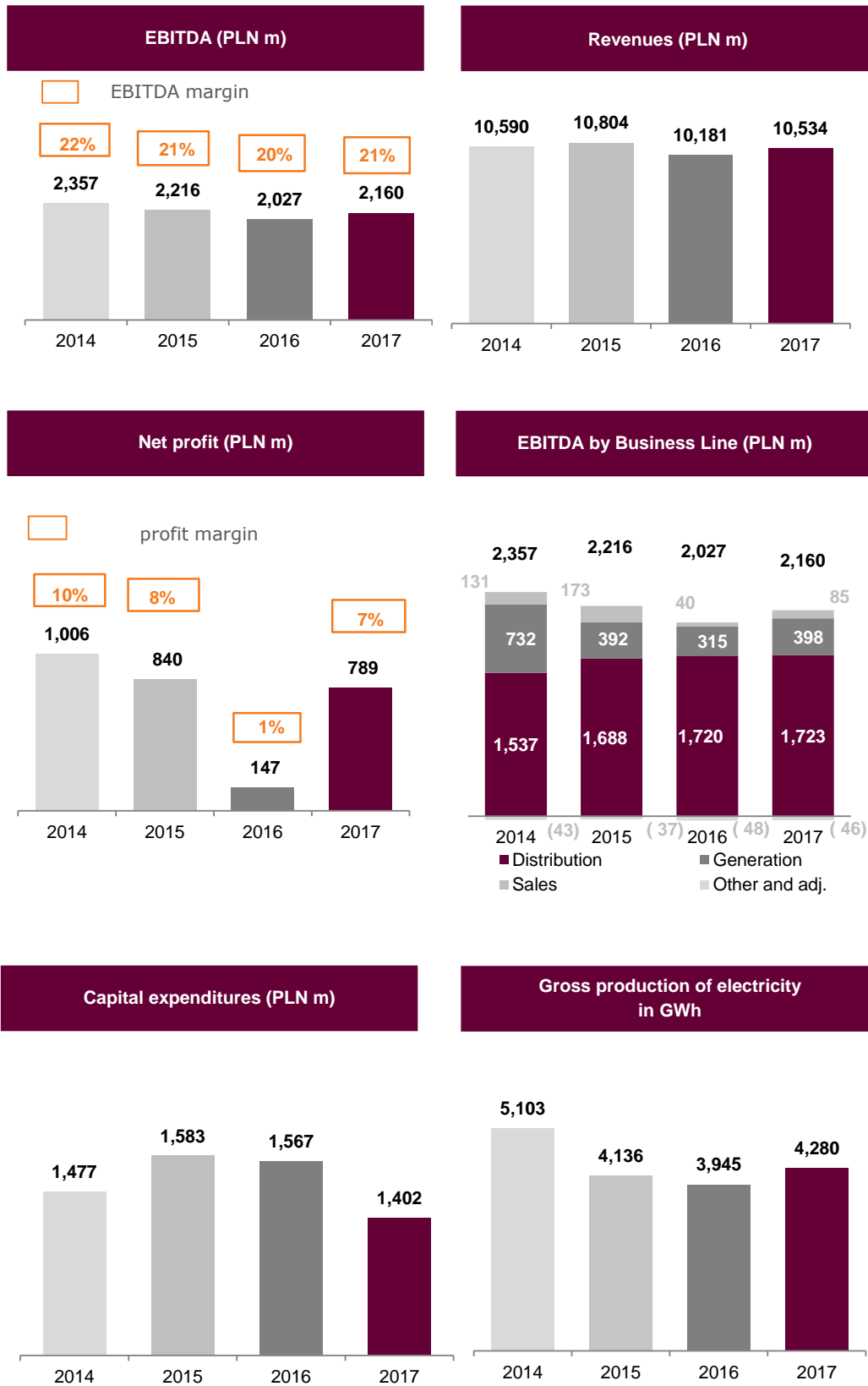
INVESTMENT PROJECTS IN THE ENERGA GROUP

In 2017, the Energa SA Group executed investment projects worth **PLN 1,402 m**, of which almost PLN 1,247 m in the Distribution Business Line*.

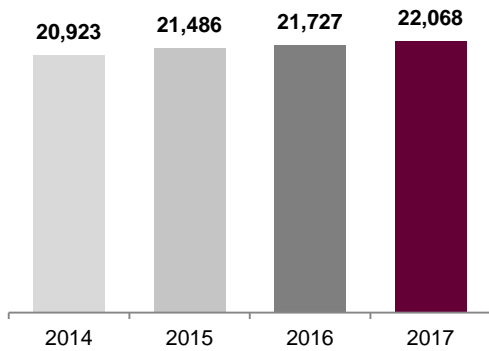
As a result of completed investments, in 2017, nearly **51.7 thousand new customers** were connected, **3,718 km** of high, medium and low voltage lines were built and modernized and **32 MW** of new renewable energy sources were connected to the grid.

* The Group changed the nomenclature from Segments to Business Lines in connection with signing the Cooperation Agreement in December 2017, described in Chapter 2.3. Energa SA Group's management model of this Report.

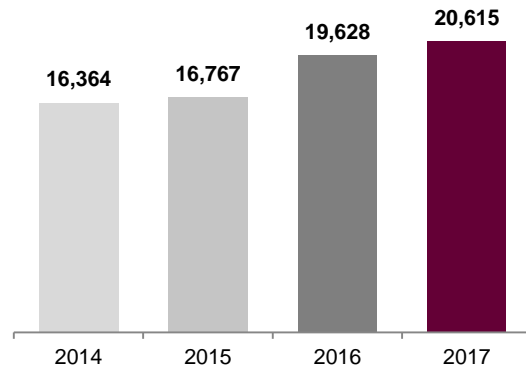
GROUP'S FINANCIAL AND OPERATIONAL HIGHLIGHTS FOR 2014-2017



Distribution of electricity (GWh)



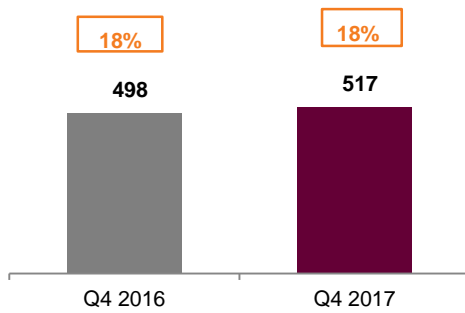
Retail sales of electricity (GWh)



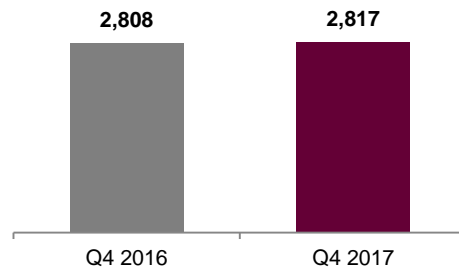
GROUP'S FINANCIAL AND OPERATIONAL HIGHLIGHTS FOR Q4 2017

EBITDA (PLN m)

EBITDA margin

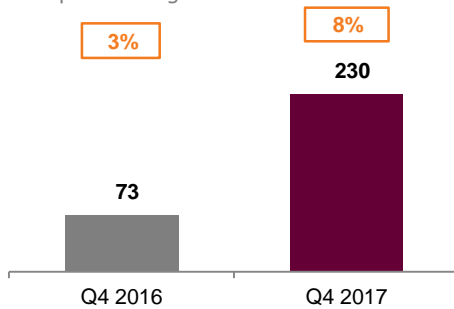


Revenues (PLN m)

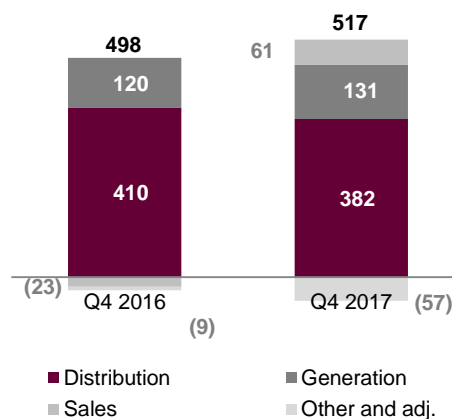


Net profit (PLN m)

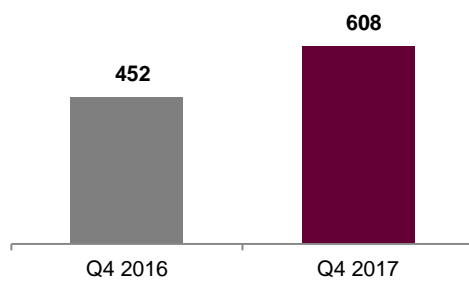
profit margin



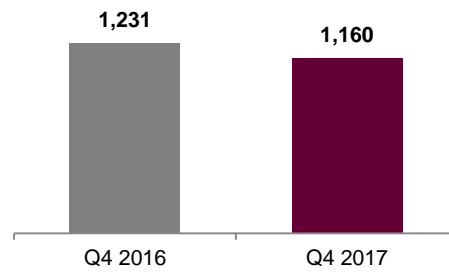
EBITDA by Business Line (PLN m)



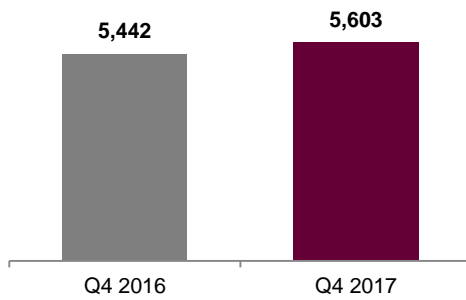
Capital expenditures (PLN m)



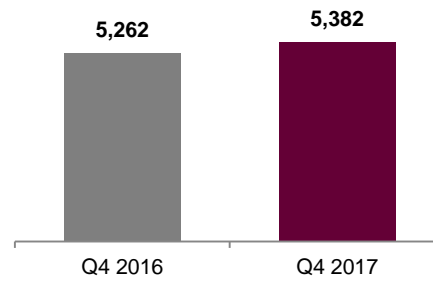
Gross production of electricity in GWh



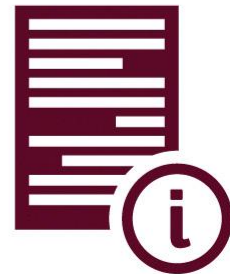
Distribution of electricity (GWh)



Retail sales of electricity (GWh)



Key information about the Group



2. KEY INFORMATION ABOUT THE GROUP

2.1. 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 lines¹:

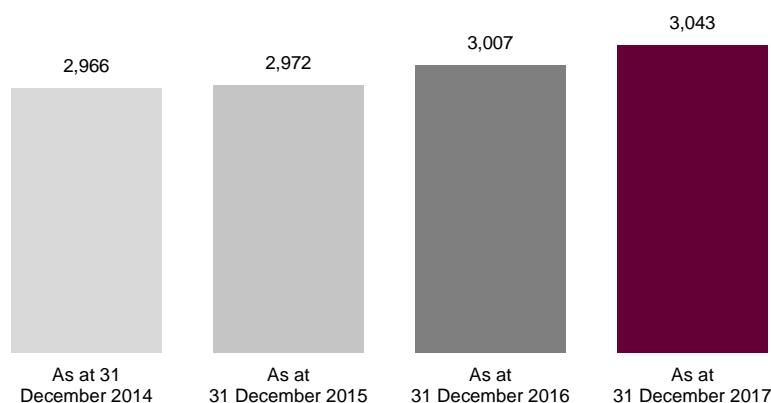
Figure 1: Location of the Group's operations and key assets



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. A breakdown of Energa-Operator SA's customer by energy group is presented in Chapter 3.5. *Key operational data.* As at 31 December 2017, the total length of the power lines was over 185 thousand km and covered almost 75 thousand km², i.e. about 24% of the country's landmass. Energa-Operator SA acts as the Leading Entity in this Line.

¹ The Group changed the nomenclature from Segments to Business Lines in connection with signing the Cooperation Agreement in December 2017, described in Chapter 2.3. *ENERGA SA Group's management model* of this Report.

Figure 2: Number of Energa-Operator SA's customers (thousands)



Generation Business Line operates on the basis of four Power Divisions²: 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.

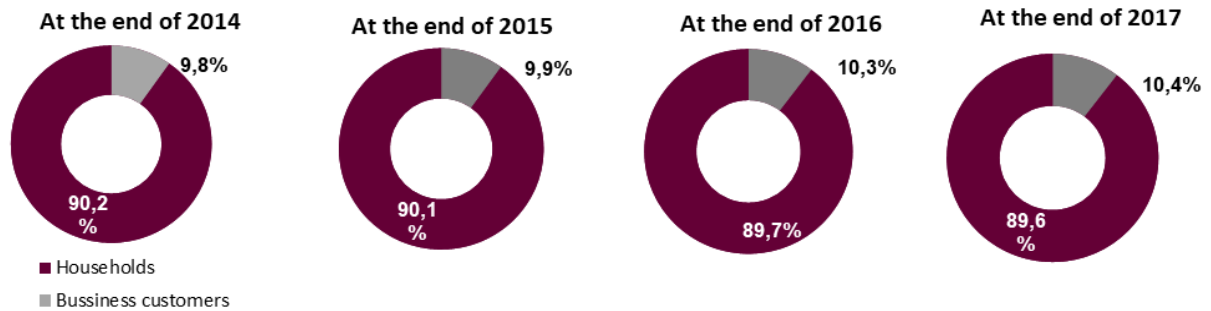
At the end of 2017, the Group had the installed capacity of 0.5 GW in renewable energy sources, with a gross production of 509 GWh of electricity in the fourth quarter of 2017 and 1.5 TWh in the whole 2017.

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.

The **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.

² 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 2.3. *Energa SA Group's management model* of this Report.

Figure 3: Structure of Energa-Obrót's end buyers by customer type



The company consistently aims to set market trends in the area of solutions for customers, responds to the activity of competitors, but first of all observes variable needs and preferences of customers and, consequently, adjusts its offering, contact channels and service forms to increase, on an ongoing basis, the level of customer satisfaction and trust in the Energa SA Group.

In 2017 the Company focused on actions aimed at developing a comprehensive offer, adapted to individual customer segments and cost-optimized customer service. The company's new products fitted directly the Integrator Business Model following from the Energa SA Group strategy adopted for 2017-2025. The key products include: Professionals with Energy, Energetic Professionals, Business with Energy, Rescue with Energy, Family Entertainment, Entertainment with Energy, Energy Audit, Rebate Hunters, Benefit Zone, In touch with Energy, We give you positive Energy, EnerGO.

In 2018 Energa – Obrót SA, as the leading entity of the Sales Business Line, together other Line companies, plans to launch further products which will help it diversify revenue sources and increase the customer portfolio.

Last year the company consistently executed actions aimed at increasing the effectiveness of sales efforts and development of customer service infrastructure, which currently comprises: 9 own showrooms and 58 showrooms operated by external partners in cities with the largest concentration of Energa-Obrót customers.

The company continues to develop electronic customer service and sales channels. As at the end of December 2017, nearly 7,000 agreements with customers were executed using the electronic channel.

After implementing the eCommerce transactional environment and modernizing the website www.energa.pl, the project named "System of Internet sales and customer service of Energa Obrót SA" was launched; the system had been developed in the omni-channel environment. The implemented project will bring customers many benefits and conveniences.

In 2017, optimization of service processes was continued to reduce the number of complaints, shorten the time of their handling and identify actions to be completed while a customer contacts the company for the first time. The communication channels were also improved continuously and the available technical solutions were optimized.

Due to analyzing customers' needs and expectations and suggesting improvements, the Energa SA Group continuously optimizes channels and methods of customer service. One result of such actions is the appointment of Customer Ombudsman in August 2017. His tasks include:

- educating customers about the use of the contact channels prepared for them,
- participation in building a positive image of Energa among employees and external stakeholder groups – customers, regulatory institutions, and local, national and industry media,
- mediations and developing solutions making it possible to satisfactorily handle the customers' interventions and matters, taking into consideration the Company's image and business interests,

- analyzing the customer service processes and recommending changes expected by customers,
- gathering all sorts of suggestions and ideas regarding the activity of the Company and its individual organizational units, based on which the Ombudsman and his collaborators can put forward recommendations for organization, process or system improvements or other solutions optimizing customer service.

The Company also continues to sell the dual fuel offer, both to business and to retail customers.

Thanks to the initiatives completed in 2017, in the period from 1 January 2017 to 30 November 2017, the number of electricity offtake points increased by 71 thousand and exceeded 3 million. The increase results mainly from the acquisitions in the public institutions and business segment and new connections in the retail customer segment.

2.2. Key events and achievements of the Energa SA Group

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).

Initiation by the Energa SA Group of judicial and arbitral proceedings related to framework agreements for the sale of property rights arising from certificates of origin

Energa-Obrót SA has concluded that, among others, 22 long-term framework agreements for purchase of property rights following from certificates of origin ("CPA agreements"), including bundle agreements – linked to electricity sales agreements – concluded with the owners of wind farms with the total capacity of approx. 530 MW, were absolute invalid. The reason for the absolute invalidity of the CPA Agreements is the fact that they were inconsistent with the Act of 29 January 2004 entitled Public Procurement Law (Journal of Laws 2017.1579).

Consequently, as of 11 September 2017, the Company ceased to perform the CPA Agreements and filed claims with common and arbitration courts to declare these agreements invalid. CPA Agreements were concluded for a period of as much as 20 years of the date of commencement of generation of electricity in the given installation. The investment capital engaged in the wind farms comes from many countries, among others from Germany, US, Spain, Austria and Japan.

The sole basis for the Company's claims regarding the invalidity of the CPA Agreements is provided by the legal determinants associated with conclusion of these agreements. The Company became convinced about the absolute invalidity of the CPA Agreements on the basis of the legal opinions prepared by renowned law firms. The Company took a decision to cease to perform the CPA Agreements and take legal action on the basis of these opinions.

The legal actions pertaining to invalidity of CPA Agreements are pending. The litigations were instigated in September 2017 (Current Report No. 37/2017); currently they are at the initial stage of proceedings before first instance courts.

The Company has received statements of defense from nearly all defendant wind farms and banks (assignees of the receivables under the CPA Agreements). An analysis of the counter-arguments

raised against the Company's claims leads to a conclusion that there are important arguments supporting the viability of the statements of claim made. Having analyzed the claims and allegations of the defendants, the Company continues to be convinced about the absolute invalidity of the CPA Agreements. This position was confirmed in the course of the initiated proceedings by independent experts from different areas of law, and by another law firm of international renown.

What is important, in the course of the instigated proceedings, the defendants started to show the will to resolve them amicably. Currently, the Company conducts negotiations with several entities which may lead to settlements and amicable resolution of the litigations.

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.

Assessment of the impact of amendments to the RES Act on the results of the Sales Business Line

In connection with the amendments to the RES Act, on 16 August 2017, the Company published estimates of the potential positive impact of the reduction in costs and revenues arising from deregulation

of the amount of the substitution fee and serving as an offtaker of last resort at a level of PLN 150 m in 2018. The scope of this impact takes into account cuts in both costs and revenues arising from the role of an offtaker of last resort and the setting of the amount of the substitution fee at a market level in a portion of long-term contracts for the purchase of green certificates. The said calculations do not constitute a forecast of the Energa SA Group's future performance and are based on the assumption that the volume of retail sales remains at the 2016 level (19 TWh) and the unit substitution fee in 2018 is PLN 43 per MWh (Current Report No. 34/2017).

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 all EDF's shares in ZEC "Kogeneracja" S.A., which is the owner of 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., Węglkokoks S.A., Towarzystwo Finansowe Silesia sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Ak-

tywów Niepublicznych [Polish Corporates Mutual Fund – Private Assets Closed-End Mutual Fund] and PGG.

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

1. as part of the first tranche, in April 2017 the company subscribed for shares in PGG in exchange for a cash contribution of PLN 50 m,
2. as part of the second tranche, in June 2017 the company subscribed for shares in PGG in exchange for a cash contribution of PLN 20 m,
3. 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 develop-

ment 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 6.7. Company's corporate bodies of this Report.

2.3. 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 Corporate 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 Cooperation Agreement, which replaced the previously prevailing Energa SA Group's Organizational Governance.

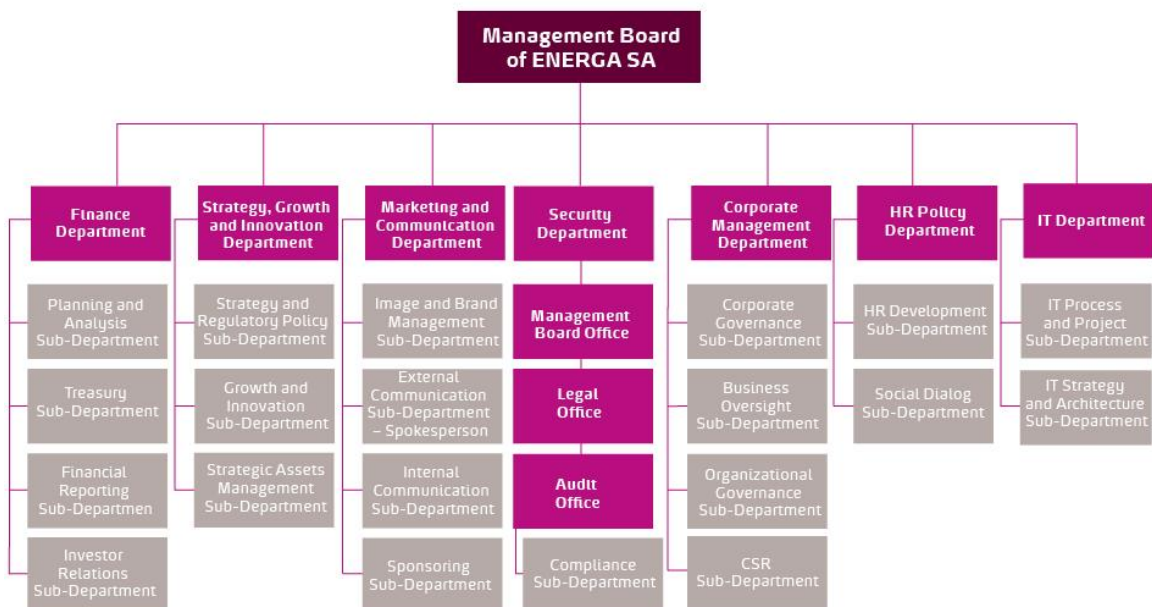
Changes to the Group's and Energa SA's management rules

Energa SA Group's Organizational Governance operated on the basis of a Energa SA's Management Board 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 remaining parts 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 cells. 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 4: 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.

Key changes in the Group's structure and organization

As at 31 December 2017, the Energa SA Group was composed of the parent company Energa SA and 34 subsidiaries.

Figure 5: Simplified organizational structure chart of the Energa SA Group as at 31 December 2017



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

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

On 23 November 2017, the General Meeting of Elektrownia Ostrołęka SA, by virtue of resolution 1, resolved to transform this entity into a limited liability company. Registration is currently in progress in the National Court Register.

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

On 28 August 2017, a resolution was adopted by the Extraordinary General Meeting of ENSA PGK3 Sp. z o.o. to increase the share capital by PLN 1,490,000.00 i.e. up to PLN 1,500,000.00. The newly issued shares in the number of 2,980 were subscribed for by the sole shareholder, i.e. Energa SA, in exchange for a cash contribution. At the same time, at the Meeting, a resolution was also adopted to change the company's name to Energa Ochrona Sp. z o.o. The changes were registered in KRS on 27 October 2017.

Also on 28 August 2017, a Meeting was held at which a resolution was adopted to increase the share capital of Energa Finance AB (publ), from EUR 20,000,000 up to EUR 24,200,000 by issuing 4,200,000 new shares of the nominal value of EUR 1 each, which were subscribed for by Energa SA and covered by it with its own contribution. The share capital of the company was increased on 19 September 2017.

On 31 August 2017, Energa SA entered into two agreements with its subsidiaries:

- 1) the first with Energa-Obrót SA regarding a transfer of ownership title to shares in Energa Oświetlenie Sp. z o.o. in exchange for redemption of bonds issued by Energa-Obrót SA,
- 2) the second with Energa-Operator SA regarding a transfer of ownership title to shares in Energa-Operator Logistyka Sp. z o.o. in exchange for redemption of bonds issued by Energa-Operator SA.

The redemption and the transfers of ownership titles to shares in Energa Oświetlenie Sp. z o.o. and Energa-Operator Logistyka Sp. z o.o. in favor of Energa SA took place on 6 September 2017 and 14 September 2017, respectively.

On 13 September 2017, the Extraordinary Partner Meeting of ENSA PGK1 Sp. z o.o. adopted a resolution to merge ENSA PGK1 Sp. z o.o. (the receiving company) with Energa Invest SA (the acquired company) - under the procedure of Article 492 §1 Item 1 of the Commercial Company Code - by transferring all the assets of the acquired company worth PLN 67,700,000 onto the receiving company in exchange for 94,692 shares of the total nominal value of PLN 47,346,000. The merger was entered to KRS on 12 October 2017. At the same time, as at merger date, the business name of ENSA PGK1 Sp. z o.o. was changed to Energa Invest Sp. z o.o.

On 9 November 2017, the court entered in KRS the merger of Energa Wytwarzanie SA (acquiring company) with its subsidiaries, i.e. Elektrownia CCGT Grudziądz Sp. z o.o., Elektrownia CCGT Gdańsk Sp. z o.o. and AEGIR 4 Sp. z o.o. (acquired companies). The merger has been carried out without increasing the share capital of Energa Wytwarzanie SA.

On 1 December 2017, the takeover of Energa Obsługa i Sprzedaż Sp. z o.o. as a result of merger with Energa-Obrót SA without increasing the share capital of Energa-Obrót SA was registered in KRS.

The changes made by the resolution adopted by the Extraordinary General Meeting of EOB PGK2 Sp. z o.o. on 3 July 2017 to increase the share capital by PLN 290,000, i.e. up to PLN 300,000, were registered in KRS on 13 December 2017. The new 580 shares were subscribed for by Energa SA (the sole shareholder), which covered them with a cash contribution. On the same date, also the company's business name was changed to Centrum Badawczo-Rozwojowe im. M. Faradaya Sp. z o.o.

On 12 December 2017, the Extraordinary General Meetings of ENSA PGK2 Sp. z o.o., ENSA PGK4 Sp. z o.o., ENSA PGK5 Sp. z o.o., ENSA PGK6 Sp. z o.o., ENSA PGK7 Sp. z o.o. (acquired companies) and ENSA PGK8 Sp. z o.o. (acquiring company) adopted resolutions on the merger of these companies. On 29 December 2017, the merger was registered in KRS.

2.4. 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 6: Chart illustrating the objectives and programs under the updated Energa SA Group's Strategy



Implementation of the investment program in 2017

In 2017, capital expenditures in the Energa SA Group amounted to PLN 1,402 m, of which most investments were made in the Distribution Business Line – PLN 1,247 m.

Investment projects in the Distribution Business Line included expansion of the grid to connect new clients and producers as well as modernization, which is aimed at improving the reliability of electricity supply. Expenditures were also made for innovative grid technologies and solutions.

Work related to compliance with environmental requirements and modernization projects in the Ostróżka B Power Plant constitute an important part of the Generation Business Line’s capital expenditures.

Table 1: Execution of the capital expenditure program in 2017

Description of the project	Location	Capital expenditures (PLN m)	Execution stage
Distribution Business Line			
Distribution grid modernization to improve reliability of supply.	Distribution areas	604.0	In progress continuously
Grid development related to connection of new customers.	Distribution areas	413.3	In progress continuously
Smart metering and other elements implementing the smart grid concept, including AMI.	Distribution areas	62.4	In progress continuously
Grid development related to the flows in the HV grid and connection of electricity sources	Distribution areas	29.7	In progress continuously
Other capital expenditures, collisions and adjustments	Distribution areas and Distribution Business Line companies	137.1	In progress continuously
Generation Business Line			

Overhauls of the Ostrołęka B Power Plant	Ostrołęka	26.0	Stage I has been completed
Construction of a NOx emission reduction installation at the Ostrołęka B Power Plant.	Ostrołęka	10.2	Stage I has been completed
Other capital expenditures	The power division and Generation Business Line Companies	51.4	-
Sales Business Line			
Capital expenditures for lighting assets	Business area of Energa Oświetlenie	19.6	In progress
Sales Support System	Business area of the company Sales Business Line	19.0	In progress
Other capital expenditures	Sales area and Sales Business Line companies	4.6	-
Other companies, projects and adjustments	-	24.7	-
Total:		1,401.9	

2.5. 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 and 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 look for 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 test was continued in households, 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 CO₂ 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, it has been planned to commission further TAN B lines to allow for communication of the total of 35.9 thousand stations by the end of 2018.

In 2018, it is planned to complete the modernization of the TAN A technological network from the standpoint of installation of stand-by teletransmission equipment in all the network nodes. This will significantly improve the continuity of operation of the SCADA system. It also planned to commence work on commissioning the 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 coming to an end. 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 for 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 the 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 was 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 increased 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” and 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 as well as service and communication methods. The business model defined this way requires execution of initiatives on many planes 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,
- loyalty 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 partnerships enhancing the attractiveness of the offering or expanding the sales network,
- introduction of new segmentation in the company.

The aforementioned actions, combined with an 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 a synergy of the activities of the organizational cells and increase the 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 7: Material factors relating to Energa SA Group's development at least for 2018

Consequences of the decision to recognize long-term contracts for the purchase of green certificates as invalid	Entry into force of the amendments to the RES act significantly reducing the costs of discharging the function of the Offtaker of Last Resort as of 1 January 2018	Increasing competition in the market of electricity sellers
Incurring expenditures on the grid in connection with the quality regulation requirements in the Distribution Business Line	Change in the structure of distributed energy in relation to the structure set in the tariff	Electricity prices on the spot and balancing markets
Amendment to the Renewable Energy Sources Act changing the basis of the property tax	Must-run production level at Energa Elektrownie Ostrołęka	Weather and hydrometeorological conditions
Actual rate received and the operating reserve volume	Share in the net result of PGG and Polimex-Mostostal and valuation of the options for Polimex-Mostostal shares	

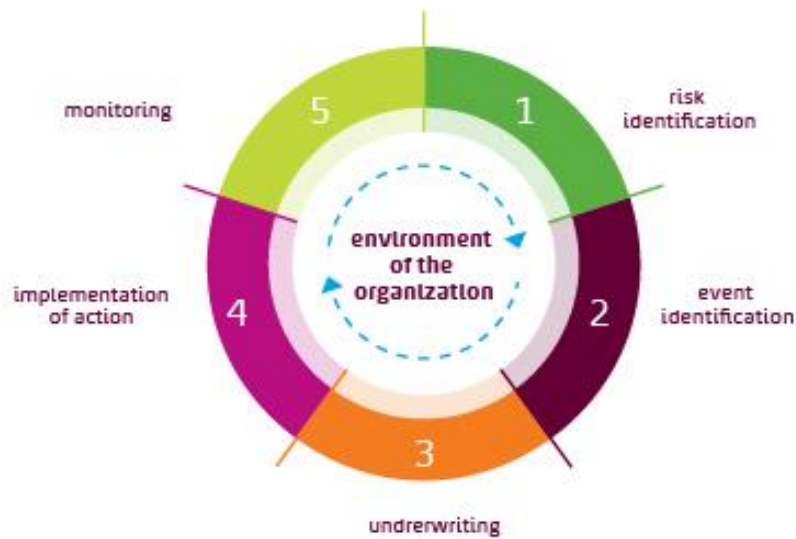
2.6. Risk management in the Energa SA Group

Integrated Risk Management System in the Energa SA Group

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 and it is based on international standards (ISO, COSO, FERMA), 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 8: 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
Image risk	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"> • Internal regulations pertaining to communication and marketing and sponsorship activity • Cooperation with a PR agency and creative agency • Vision and plan of communication and promotion actions • Current cooperation and maintaining good relations with the stakeholders • Monitoring of the environment for the brand presence and ongoing response to changes regarding the image
Risk associated with service and relations with the Energa SA Group’s customers	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"> • Ongoing control of the customer service standards, recommendation of changes in the risk areas • Monitoring the timeliness of responding in the complaint process and trends as regards customer loss • Mystery shopping research

		<ul style="list-style-type: none"> • Unification and standardization of service depending on the contact channel.
Investment risk	<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, the weakening of the Group's competitive position, the undermining of 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"> • Long-Term Plan of Strategic Investments (clear guidelines regarding the Group's investment policy) • Ongoing contacts with financial institutions • Reporting on the project performance status on a regular basis, including risk analysis • Ongoing monitoring of performance of investment projects
Development risk	<p>The risk is associated with lack of or misguided approach to development of particular companies comprising the Energa SA Group. The effects of the risk may involve, among other things, financial losses and losses to image, reduction of production capacities or loss of part of the market.</p>	<ul style="list-style-type: none"> • Strategy and strategy performance control • Feasibility analyses • Analysis of the external environment and internal conditions supporting flexible response and adaptation to changing environment (scenario-based analysis)
Risk associated with investor's oversight over Polska Grupa Górnicza SA	<p>The risk pertains to 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"> • Task force for the purposes of ongoing monitoring and enforcement of investment terms in the PGG project • Participation of an Energa Kogeneracja representative in the Monitoring Committee at the PGG Supervisory Board

Legal and regulatory area

Risk	Description of the risk and its potential effects	Control mechanisms used
Regulatory risk	<p>The risk concerns legislative changes affecting the functioning of the 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 to adopt the new legal solutions which could facilitate raising additional funds or ensure a support system for the Group's assets.</p>	<ul style="list-style-type: none"> • Monitoring changes in the law • Participation in the legislative process • Participation of the Group's representatives in the work of industry associations
Risk of the Group's non-compliance with new laws	<p>The risk involves, among other things, legal, financial, organizational or image-related effects of the Energa SA Group's failure to comply with new laws or their incorrect interpretation.</p>	<ul style="list-style-type: none"> • Monitoring changes in the law • Task forces on ensuring compliance of the Group's operations with the changing laws (among others, GDPR) • Compliance management in the

Energa SA Group

Risk associated with environmental protection	<p>Risk associated with conducting the operations in accordance with 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 withdrawn and the ISO 50001 certificate may not be obtained. Failure to comply with environmental regulations may lead to an increase in the costs associated with removal of potential incidents affecting the environment, imposition of financial penalties and shutdown of elements of defective installations.</p>	<ul style="list-style-type: none"> • Internal regulations • Monitoring changes in the law on an ongoing basis • Analyses and measurements of emissions • Controls and audits • EMAS System implemented in the Group's main companies
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Risk of abuse	<p>The risk concerns situations and actions related to abuse, including conflict of interest, corruption and fraud, which can be committed by employees of the 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 emergence of financial losses and may involve the law enforcement authorities conducting procedures against employees or bodies of the Group companies. The risk may have an adverse effect on the Energa SA Group's image and reputation, and it may contribute to deterioration of the employees' trust in their supervisors, colleagues and the organization as a whole.</p>	<ul style="list-style-type: none"> • Internal regulations related to abuse • Training for employees (related to, among others, corruption prevention) • The organization's three lines of defense (internal control system, risk management system, internal audit) • External controls • Explanatory actions
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Legal risk	<p>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, and also giving bonuses to customers resulting from failure to comply with the electricity quality standards prescribed by law.</p>	<ul style="list-style-type: none"> • Collaboration with law firms • The system for monitoring important matters • Internal regulations
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Operating area

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

interruption of operational continuity.

- Physical and technical security systems in the Group's facilities
- Security incidents monitoring in the Group
- Employee training

Risk associated with unreliability of IT systems

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.

- Procedures for creating IT system backups
- Internal regulations related to ICT security
- Service Level Agreements (SLA) and Service Agreements signed with the IT service and hardware suppliers
- Eliminating the possibility of entering incorrect data in the system (system validations and the authorizations system)
- Training to improve specialist qualifications of the IT area employees
- IT Audits

Risk of untimely customer and seller service

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.

- Outsourcing of the handling of some of the notifications
- Customer satisfaction surveys
- Monitoring KPIs designated in the notifications handling process
- Processes and Rules for managing the points of contact of the processes among the Energa SA Group companies
- IT systems

Risk associated with a failure to effect the Compliance Program

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.

- The provisions of the Compliance Program allowing for the pursuit of damages on general principles from the employee who breached his/her duties, which resulted in a fine being imposed by the ERO President
- Provisions of the agreements related to subcontractors' and service providers' conformity with the Compliance Program
- Training conducted on regular basis

Finance area

Risk	Description of the risk and its potential effects	Control mechanisms used
Risk of tax settlements	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.	<ul style="list-style-type: none"> • Internal regulations related to transfer prices and tax management • Collaboration with tax consultants (permanent and incidental) • Filing petitions with the Ministry of Finance to hand down individual tax rulings • Employee training • Monitoring changes to tax laws

		<ul style="list-style-type: none"> • Verification of agreements from tax standpoint before signing • Procedures protecting from criminal tax liability
<p>Risk associated with the pricing policy</p>	<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"> • 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 • 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 • Ongoing analyses of the offering mechanisms (including the Conjugate Model) and correctness of operation of IT trade systems and databases • Close collaboration to acquire the information necessary to shaping the pricing policy • Audits and controls • Offering monitoring system
<p>Risk associated with reporting and management accounting</p>	<p>The risk is related to business decisions made on the basis of the following:</p> <ul style="list-style-type: none"> • budgeting and monitoring the performance of the companies' budgets, reports and management information for the companies' governing bodies and for the Group; • feasibility analyses of the investment projects; • impairment tests; • long-term modeling. <p>If the risk materializes, this may result in making incorrect decisions on the execution or abandoning of investment tasks, the need to make impairment losses and lost revenues or additional costs.</p>	<ul style="list-style-type: none"> • Macroeconomic guidelines and assumptions for the price paths for financial models • Best practices • Analytical skills of the team • IT tools • Management control matrices

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.

2.7. Information on material agreements and transactions

Material agreements

Updating the estimated value of the contract to supply coal to Ostrołęka B

On 10 January 2018, the subsidiary Energa Elektrownie Ostrołęka SA signed an amendment letter to the contract to supply coal to Ostrołęka B (“Annex”) with Polska Grupa Górnicza S.A. (“PGG”), which was announced in Current Report No. 53/2016 on 27 December 2016.

The amendment letter increased the volume of supplies up to 750 thousand tons of coal, with possible volume deviations by $\pm 20\%$. For 2018, the Parties agreed on the supply of 750 thousand tons of the raw material.

The Contract to which the Amendment Letter was signed had been executed for a definite term from 1 January 2017 to 31 December 2030, with an option to extend its term. In connection with a considerable change in the volume to be supplied, the estimated value of the Contract was updated and it now amounts to PLN 3.28 billion during the contractual term. As a result of the increase in the volume, PGG has become the majority coal supplier to Ostrołęka B power plant (Current Report No. 1/2018).

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 programme 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 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 a short-term loan of PLN 10 million to Elektrownia Ostrołęka SA with the original maturity date of 31 January 2018, which was then extended until 30 March 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 2: 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
TOTAL		4,162,615.2

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 m 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 Program is executed in collaboration with a 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 given

Table 3: 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 granted	Entity in favor of which the surety or guarantee was granted	Form of the surety or guarantee	Surety or guarantee amount (PLN m)	Amount of liability secured by the surety or guarantee as at 31 December 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	ENSPIRON Sp. z o.o.	Grupa Azoty Zakłady Azotowe Kędzierzyn SA	Surety agree- ment	0.2	0.2
5	2017-11-22	2021-03-31	Energa- Operator SA	State Treas- ury	surety agree- ment	40.00	40.0
6	2017-11-28	2021-03-31	Energa Obrót SA	Enea Trading Sp. z o.o.	surety agree- ment	25.00	00.0
7			Other EN- ERGA SA Group Com- panies		surety** - agreement to extend a guar- antee	14.2	4.8
TOTAL						5,312.2	3,412.5

* 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.

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

As at 31 December 2017, the Energa SA Group was a party to 11,636 court procedures. The Group acted as a plaintiff in 9,936 cases, where the aggregated value of the disputed matters was approx. PLN 466.3 m. The Group acted as a defendant in 1,691 cases, where the aggregated amount of the disputed matters was approx. PLN 458.9 m.

As at 31 December 2017, the total amount of claims for locating power installations on properties of other parties without the necessary legal title, awarded by final judgments, was approx. PLN 19 m in approx. 3,585 cases. There were 2,109 pending court cases and the value of the disputed matters in such pending cases was PLN 201.5 m.

Based on the available data about the value of pending procedures, we assume that the actual amount to be paid after the disputes are resolved may reach PLN 74.7 m, with a reservation that this amount may change if new court cases related to placement of power devices on third party's real properties without the necessary legal title are launched against Energa-Operator SA.

Moreover, these data do not include the cases in which court and enforcement-based collection is conducted on behalf and for Energa-Obrót SA as the Company pursues amounts due from its Customers and bankruptcy cases, with the exception of the case filed by Energa-Obrót SA against ERGO ENERGY Sp. z o.o. for the amount of approx. PLN 13 m. The aggregated amount of all such cases was approx. PLN 182.2 m as at 31 December 2017, including:

Type of receivable	Balance as at 31 December 2017 (PLN m)
court and enforcement-based	114.7
bankruptcies	58.3
non-billing	7.0
Non-billing – bankruptcies	2.3
Total	182.2

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

The table below presents the continuation of proceedings with the highest value of the dispute, which remained pending in Q4 2017. The Company's previous periodic reports and Prospectus contain information on legal steps taken in earlier periods.

Table 4: Proceedings pending before courts, arbitration bodies or public administration authorities

Parties	Subject matter	Description of the case
T- Matic Systems S.A., Arcus S.A. (defendant) Energa-Operator SA (plaintiff)	Lawsuit for payment of contractual penalties arising from the agreements to supply and launch the metering infrastructure (re: stage I of AMI).	On 7 April 2015, a statement of claim was filed (the value of the disputed matter being PLN 23,152,481). On 10 June 2015, the defendants filed a statement of defense, requesting it to be dismissed in its entirety, arguing that the defendants are not to blame for the delays, while some of the delays were attributable to Energa-Operator SA, and invoking the operation of force majeure, that fact that Energa-Operator SA suffered no losses and grossly excessive amount of contractual penalties. In a letter of 30 September 2015, Energa-Operator SA filed a rejoinder to the statement of defense, responding in detail to all the charges and reporting new evidence. On 18 December 2015 the defendant filed a second rejoinder comprising similar argumentation to the one presented in the statement of defense, but extended to include a charge of invalidity of the agreements due to their lack of precision and contractual inequality of the parties. On 13 January 2016, a hearing was held at which the court obligated Energa-Operator S.A. to file a reply to the defendant's second rejoinder within 45 days. The plaintiff's pleading was sent on 25 February 2016. In H1 2016, a number of witness hearings were held. At the session held on 23 November 2016, the court, in accordance with the petition of the parties, issued a Decision to delay the hearing due to the pending negotiations. On 8 February 2017, a hearing was held in which the parties failed to reach an agreement. At further sessions, more witnesses were heard. The next court session dates were set at 5 and 6 April 2018.
T- Matic Systems S.A., Arcus S.A. (plaintiff) Energa-Operator SA (defendant)	Lawsuit to rule invalidity of an agreement regarding stage II of AMI <ul style="list-style-type: none"> Counterclaim for payment of contractual penalties for stage II of AMI 	On 8 February 2016, the statement of claim filed by T-Matic Systems SA and ARCUS SA was delivered to Energa-Operator SA. The case is pending before the Regional Court in Gdańsk, under file ref. no. IX GC 893/15. The defendant's representative filed a pleading to extend the court deadline for responding to the rejoinder. Because the time limit for the response elapsed on 1 July 2016 and the court failed to issue a decision to extend the time limit, the defendant sent a pleading of 1 August 2016 responding to the legal issues and another pleading of 1 September 2016 responding to the technical issues. On 7 November 2016, a counterclaim was filed against Arcus and T-Matic to pay PLN 157,063,142 on account of the pay-

<p>T- Matic Systems S.A., Arcus S.A. (plaintiff) Energa-Operator SA (defendant)</p>	<p>For payment of injunctive relief in the form of an insurance guarantee from STU Hestia</p>	<p>ment of contractual penalties of PLN 156,060,200 and PLN 1,002,942 of a reduction in remuneration, in accordance with the demand for payment of 9 November 2015. On 30 January 2017, the court issued a decision to resume the proceedings, which were earlier suspended upon request of the parties. On 13 June 2017, the court decided to discontinue the grievance proceedings to dismiss the Plaintiff's petition for injunctive relief in the form of a prohibition on the use of the insurance guarantee, in connection with a petition to withdraw the grievance. The files will be forwarded to the Regional Court in Gdańsk. In this case, evidence proceedings have started and further witnesses are being heard. The court set the session dates until the end of 2018; the nearest session date is on 18 March 2018.</p> <p>As regards the counterclaim, it was delivered to the plaintiffs (counterclaim defendants) who filed statements of defense. Evidence proceedings to examine this aspect have not commenced yet.</p>
<p>T- Matic Systems S.A., Arcus S.A. (plaintiff) Energa-Operator SA (defendant)</p>	<p>For payment of compensation for unlawful acts/unfair competition practices</p>	<p>In connection with the inadequate performance of the agreement by the Consortium, Energa-Operator SA submitted the insurance guarantee issued in its favor for execution. On 3 March 2017, Hestia paid the guarantee amount of PLN 9,597,702.30 to Energa-Operator SA. In connection with the Court's decision to award injunctive relief, EOP returned the STU Hestia guarantee amount, subject to its refund. On 5 May 2017, EOP filed a grievance against this decision. Arcus SA and T-Matic SA applied to STU Hestia requesting it to issue a new payment guarantee and such a guarantee was delivered to EOP on 12 May 2017. On 22 June 2017, Energa-Operator SA received a statement of claim in writ of payment proceedings for payment of the injunctive relief in the form of an insurance guarantee from STU Hestia. On 26 June 2017, the Consortium's response to the grievance was received. With a decision of 16 August 2017, the case was combined for joint examination with the case from files IX GC 893/15, while the petition to suspend the procedure was dismissed. With a decision of 26 September 2017, the Appellate Court examining the grievance filed by Energa-Operator SA against the decision to award injunctive relief, dismissed the grievance in a legally final manner (case file I Acz 733/17).</p> <p>On 29 January 2018, Energa-Operator SA received a statement of claim from Arcus SA and T-Matic Systems SA for payment of PLN 174,111,458.96 for compensation for unlawful acts allegedly committed by Energa-Operator SA. The compensation, as described in the statement of claim, concerns losses resulting from an unlawful act/unfair competition practice committed deliberately by EOP and involving illegal actions or omissions associated with the process of performing execution agreements for stage I and II of the AMI system. The justification to the document shows that the loss incurred by Arcus SA and T-Matic SA is connected with EOP's calculation of contractual penalties, contrary to the law, as a result of which a dispute arose and was escalated, leading to numerous court proceedings, which caused a loss "which was connected with the occurrence of the circumstances [described in the statement of claim] concerning the conducted business activity." The Company challenges the viability of the statement of claim and will petition</p>

		for dismissing it.
		The Company filed a petition to extend the period for filing a statement of defense to 3 months (the original period was one month); at present, no steps in the proceedings have been taken.
Energa-Operator SA (plaintiff); PKN ORLEN SA (defendant)	Suit for payment	On 19 April 2016, the Appellate Court in Warsaw announced its judgment in the case brought by Energa-Operator SA Branch in Plock against PKN Orlen S.A. The court partially dismissed the defendant's appeal and consequently the judgment of the Regional Court in Warsaw of 27 October 2014, case file XVI GC 782/11 became final, awarding the plaintiff PLN 16.1 m with interest from 30 June 2004. The judgment is non-appealable. Energa-Operator SA applied for delivery of the judgment with a justification, which was delivered to the Plaintiff's representative on 1 August 2016. On 29 September 2016, Energa-Operator SA filed a cassation complaint with the Supreme Court against the judgment of 19 April 2016 handed down by the Appellate Court in Warsaw. On 24 October 2016, the representative of Energa-Operator SA received PKN ORLEN's cassation complaint filed against this judgment of the Appellate Court in Warsaw. Energa-Operator SA responded to the complaint in a pleading sent on the same date to the Appellate Court in Warsaw. The new date of the court session was set at 20 July 2017. The Supreme Court dismissed the complaint filed by the defendant PLN Orlen, while accepting the complaint by EOP SA, repealing the appealed decision of the Appellate Court and referring the case to it for re-examination. On 1 August 2017, the judgment with a justification was received. The court session was set at 15 November 2017. The Appellate Court, re-examining the case, with a judgment of 15 November 2017 repealed the challenged decision of the Regional Court of 27 October 2014 in the part ordering PKN Orlen to pay PLN 30,093,882.82. Thus, the Appellate Court remanded the case for re-examination of this aspect to the Regional Court. The date of the hearing before the Regional Court has not yet been set.
Energa -Operator SA (party); PRESIDENT OF THE ENERGY REGULATORY OFFICE (authority)	Pecuniary penalty imposed by the authority	Energa-Operator SA received a decision dated 21 December 2016 in which the ERO President imposed a fine of PLN 11 m on Energa-Operator SA for misleading the ERO President. The Company appealed against this decision and petitioned for it to be repealed in its entirety or, if it is not repealed in its entirety, to be changed by waiver of the fine or its reduction to PLN 50,000.00. The ERO President also responded to the appeal, requesting among others for it to be dismissed. By the date of this Report, the court handling the proceedings has not taken any further steps in the case.
Energa-Operator SA (party); PRESIDENT OF THE ENERGY REGULATORY OFFICE (authority)	Pecuniary penalty imposed by the authority	Energa-Operator SA received the decision of 6 November 2017 imposing fines in the total amount of PLN 13,600,000 for breaching the Distribution Code by: (1) communication with trading companies using other codes than provided for in the Distribution Code; (2) failure to meet the deadlines to provide measurement data to trading companies; (3) failure to meet the deadlines to review complaints from trading companies; (3) failure to meet the deadlines to verify reports on changing the seller; (4) failure to meet the deadlines for the final settlement of electricity sales agreements; (5)

failure to restart power supplies to one of the customers. The Company appealed against this decision and petitioned for it to be repealed or, if it is not repealed, to be changed by waiver of the fine or its reduction. The case is pending under file reference XVII AmE 68/18 and by the date of preparing this Report, no steps have been taken in it.

Office for Competition and Consumer Protection (UOKiK) (authority) vs. ENERGA-OBRÓT SA (party)

proceedings against Energa-Obrót SA in the matter of practices violating collective consumer interests involving the sale of the "Fixed price guarantee" (GSC) package

On 9 March 2016, proceedings were initiated by the Office for Competition and Consumer Protection (UOKiK) in the matter of practices violating collective consumer interests. UOKiK put forward 7 allegations concerning failure to comply with reporting duties, misrepresentation of the identity and circumstances of a contract, failure to deliver a counterpart of a contract or annexes to or confirmation of a contract, misrepresentation of the time limit for withdrawal from a contract, activation of a contract despite formal defects, demand for payment for electricity sold in breach of the law, provision of information on a grossly excessive contractual penalty for terminating a contract before the end date of the offer.

On 11 April 2016, Energa-Obrót SA submitted an application for a binding decision, pursuant to Article 28 Section 1 of the Act on Competition and Consumer Protection, to take or discontinue certain actions aimed at ending the violation of collective consumer interests or removing the effects of such violations, together with a request to set a date for a meeting. Between April and October, the company held several meetings with UOKiK to present its arguments and determine the directions for commitments that the company would make to satisfy UOKiK's requirements to reduce the amount of the penalty to a minimum.

In 2016, the date of the proceedings was postponed three times. In 2017, the Company held further meetings with UOKiK to discuss the directions for commitments and present arguments. Finally, the proceedings were postponed till 31 December 2017.

On 28 December 2017, a decision was issued, which became final and non-appealable on 6 February 2018. The decision presented a number of actions that Energa-Obrót SA was obligated to take by set deadlines. These actions include: introduction of new content of sales scripts, a new process for executing contracts remotely, allowing Retail Consumers to terminate an Agreement free of charge, or informing Retail Consumers about their rights. After completing all the actions, Energa-Obrót SA is obligated to submit a report on the extent to which the obligations have been fulfilled and provide evidence for their fulfillment.

<p>Energa Kogeneracja Sp. z o.o. (plaintiff) - Mostostal Warszawa S.A. (defendant)</p>	<p>Suit for payment for reducing the contractual price</p>	<p>Case file: IX GC 494/17; on 22 June 2017, Energa Kogeneracja Sp. z o.o. filed a suit with the Regional Court in Gdańsk against Mostostal Warszawa S.A. to award the amount of PLN 106,417,065.12 from the defendant to the plaintiff with statutory interest for the period from the date of filing the suit to the payment date. The subject matter of the statement of claim is reduction of the contractual price for EKO for performing CONTRACT no. EKO/86/201 by PLN 90,286,722.15 (legal basis: Article 637 § 2 of the Civil Code, in connection with Article 656 § 1 of the Civil Code). On 15 September 2017, the Regional Court in Gdańsk issued a decision to secure evidence in the form of an opinion from an expert (institute). Inquiries about the possibility of preparing a relevant opinion sent by the Court were met by refusals from the institutes. The defendant was granted extension of the period for preparing a statement of defense until 15 December 2017. On 22 December 2017, Energa Kogeneracja Sp. z o.o. received a statement of defense with a counterclaim for PLN 7,753,230. Energa Kogeneracja Sp. z o.o. should file a response to the counterclaim by 18 March 2018.</p>
<p>Boryszewo Wind Invest Sp. z o.o. (plaintiff) Energa-Obrót SA (defendant)</p>	<p>Statement of claims for payment of damages for the failure on the part of Energa-Obrót to perform part of the agreement to purchase property rights to certificates of origin for electricity generated in RES.</p>	<p>On 25 August 2017, Boryszewo Wind Invest filed a statement of claim against Energa-Obrót S.A. to the Regional Court in Gdańsk for payment of PLN 31,931,614.78 with interest on account of compensation for the failure to perform part of the Framework Agreement for the Sale of Property Rights following from Certificates of Origin no. W/HH/210/2010/1, which involved making a representation about partial termination of the agreement and refusal to acquire property rights from the certificates of origin. The claim amount includes the "losses" incurred by the plaintiff in connection with the necessity to sell the property rights at TGE with statutory interest (PLN 25,694,540.08) as well as the amount of additional costs in connection with debt service under a loan agreement (PLN 6,282,074.70).</p> <p>The case was assigned the file number: IX GC 701/17.</p> <p>On 11 September 2017, Boryszewo Wind Invest submitted a pleading supplementing the evidence.</p> <p>On 30 October 2017, Energa-Obrót S.A. filed a statement of defense.</p> <p>On 27 December 2017, a session was held at which Boryszewo Wind Invest withdrew the statement of claim with regard to the amount of PLN 150,000.00.</p>

<p>Energa-Obrót S.A. (plaintiff) - "RELAX WIND PARK I" Sp. z o.o. (defendant 1), Bank of China Luxembourg SA Company Akcyjna acting through its Branch Office in Poland (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Warsaw, 16th Commercial Division.</p> <p>The case was assigned the file number: XVI GC 801/17.</p> <p>Relax Wind Park I Sp. z o.o. and the Bank of China filed statements of claim.</p> <p>From Relax Wind Park I Sp. z o.o., a counterclaim was received.</p>
<p>Energa-Obrót S.A. (plaintiff) - "MEGA-WATT BALTICA" S.A. (defendant 1), Powsteczna Kasa Oszczędności Bank Polski S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Court of Arbitration at the Polish Chamber of Commerce in Warsaw.</p> <p>The case was assigned file number SA 128/17.</p> <p>5 December 2017 – Megawatt Baltica filed a statement of defense with a counterclaim and motion to secure the claim. On the same date, PKO BP S.A. also filed a statement of defense.</p> <p>On 7 February 2018, the first hearing was held.</p> <p>On 29 January 2018, with the participation of Megawatt Baltica S.A., a session was held regarding a call for a settlement attempt. No settlement was signed.</p>
<p>Energa-Obrót S.A. (plaintiff) - ZAJĄCZ-KOWO WINDFARM sp. z o.o. (defendant)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Gdańsk, 9th Commercial Division.</p> <p>The case was assigned the file number: IX GC 737/17.</p> <p>On 14 November 2017, the defendant filed a statement of defense.</p>
<p>Energa-Obrót S.A. (plaintiff) - EOLICA KISIELICE sp. z o.o. (defendant 1), RAIF- FEISEN BANK POLSKA S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Gdańsk, 9th Commercial Division.</p> <p>The case was assigned the file number: IX GC 739/17.</p> <p>On 7 November 2017, Energa-Obrót S.A. filed a pleading to specify the claim in more detail.</p>

<p>Energa-Obrót S.A. (plaintiff) - PGE ENERGA ODNAWIALNA S.A. (defendant)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Warsaw, 20th Commercial Division.</p> <p>The case was assigned the file number: IX GC 839/17.</p> <p>On 8 November 2017, PGE filed a statement of defense.</p>
<p>Energa-Obrót S.A. (plaintiff) - C&C WIND sp. z o.o. (defendant 1), Bank Ochrony Środowiska S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Court of Arbitration at the Polish Chamber of Commerce in Warsaw.</p> <p>The case was assigned the file number: SA 127/17.</p> <p>On 5 December 2017, C&C Wind filed a statement of defense with a counterclaim.</p> <p>On 5 December 2017, BOŚ SA filed a statement of defense.</p> <p>On 29 December 2017, Energa-Obrót S.A. withdrew the statement of claim against BOŚ.</p> <p>In its decision of 16 January 2018, the Court of Arbitration at the Polish Chamber of Commerce in Warsaw discontinued the proceeding against the defendant BOŚ SA because of the withdrawal of the statement of claim with reference to that entity.</p> <p>On 7 February 2018, the first hearing was held.</p>
<p>Energa-Obrót S.A. (plaintiff) - BORYSZEWO WIND INVEST Sp. z o.o. (defendant 1), MBANK S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Warsaw, 16th Commercial Division.</p> <p>The case was assigned the file number: XVI GC 799/17.</p> <p>On 31 October 2017, MBANK filed a statement of defense.</p> <p>On 10 November 2017, Boryszewo Wind Invest filed a statement of defense.</p> <p>On 21 December 2017, Energa-Obrót S.A. filed a reply to the statements of defense.</p>

<p>Energa-Obrót S.A. (plaintiff) - JEŻYCZKI WIND INVEST Sp. z o.o. (defendant 1), MBANK S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Warsaw, 16th Commercial Division.</p> <p>The case was assigned the file number: XVI GC 805/17.</p> <p>On 16 November 2017, MBANK and Jeżyczki Wind Invest filed statements of defense.</p>
<p>Energa-Obrót S.A. (plaintiff) - WIND INVEST Sp. z o.o. (defendant 1), MBANK S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Warsaw, 16th Commercial Division.</p> <p>The case was assigned the file number: XVI GC 798/17.</p> <p>On 28 November 2017, Wind Invest and MBANK filed statements of defense.</p>
<p>Energa-Obrót S.A. (plaintiff) - STARY JAROSŁAW WIND INVEST Sp. z o.o. (defendant 1), MBANK S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Warsaw, 16th Commercial Division.</p> <p>The case was assigned the file number: XVI GC 802/17.</p> <p>On 17 November 2017, Stary Jarosław Wind Invest and MBANK filed statements of defense.</p>
<p>Energa-Obrót S.A. (plaintiff) - LIVINGSTONE Sp. z o.o. (defendant 1), DNB BANK POLSKA SPÓŁKA AKCYJNA S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Warsaw, 26th Commercial Division.</p> <p>The case was assigned the file number: XXVI GC 713/17.</p> <p>On 22 December 2017, Livingstone and DNB Bank filed statements of defense.</p>

Energa-Obrót S.A. (plaintiff) - PGE ENERGA ODNAWIALNA S.A. (defendant)	Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")	On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Warsaw, 20th Commercial Division. The case was assigned the file number: XX GC 842/17. On 24 November 2017, PGE filed a statement of defense.
Energa-Obrót S.A. (plaintiff) - KRUPY WIND INVEST Sp. z o.o. (defendant 1), MBANK S.A. (defendant 2)	Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")	On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Warsaw, 16th Commercial Division. The case was assigned the file number: XVI GC 803/17. On 24 November 2017, Krupy Wind Invest and MBANK filed statements of defense.
Energa-Obrót S.A. (plaintiff) - PGE ENERGA NATURY Sp. z o.o. (defendant)	Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")	On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Warsaw, 20th Commercial Division. The case was assigned the file number: XX GC 841/17. On 16 November 2017, PGE filed a statement of defense.
Energa-Obrót S.A. (plaintiff) - "WINDVEST - POLAND" sp. z o.o. (defendant 1), RAIFFEISEN BANK POLSKA S.A. (defendant 2)	Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")	On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Warsaw, 26th Commercial Division. The case was assigned the file number: XXVI GC 711/17. On 22 December 2017, Windvest and Raiffeisen filed statements of defense.

<p>Energa-Obrót S.A. (plaintiff) - NIDZICA Sp. z o.o. (defendant 1), BANK OCHRONY ŚRODOWISKA S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Warsaw, 16th Commercial Division.</p> <p>The case was assigned the file number: XVI GC 800/17.</p> <p>On 6 November 2017, Nidzica filed a statement of defense.</p> <p>On 23 November 2017 – notice of reassignment from BOŚ to Nidzica.</p> <p>On 24 November 2017, Nidzica filed a supplement to its statement of defense.</p> <p>On 24 November 2017, BOŚ filed a statement of defense by BOŚ [sic!].</p> <p>On 11 December 2017, Energa-Obrót S.A. withdrew the statement of claim against BOŚ.</p>
<p>Energa-Obrót S.A. (plaintiff) - "SAGITTARIUS SOLUTIONS" Sp. z o.o. (defendant 1), RAIFFEISEN BANK POLSKA S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Warsaw, 16th Commercial Division.</p> <p>The case was assigned the file number: XVI GC 804/17.</p> <p>On 22 December 2017, Sagittarius and Raiffeisen filed a statement of defense.</p>
<p>Energa-Obrót S.A. (plaintiff) - "EW CZYŻEWO" Sp. z o.o. (defendant 1), BANK BGŻ BNP PARIBAS S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Gdańsk, 9th Commercial Division.</p> <p>The case was assigned the file number: IX GC 736/17.</p> <p>On 5 December 2017 – Energa-Obrót S.A. filed a letter to specify the claim in more detail.</p> <p>On 22 December 2017, EW Czyżewo filed a statement of defense with a counterclaim.</p> <p>On 22 December 2017, BGŻ BNP filed a statement of defense.</p>

<p>Energa-Obrót S.A. (plaintiff) - ELEKTROWNIA WIATROWA EOL Sp. z o.o. (defendant 1), BANK ZACHODNI WBK S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Warsaw, 26th Commercial Division.</p> <p>The case was assigned the file number: XXVI GC 712/17.</p> <p>On 21 November 2017, EW EOL filed a statement of defense.</p> <p>On 14 November 2017, BZWBK filed a statement of defense.</p>
<p>Energa-Obrót S.A. (plaintiff) - WIELKOPOLSKIE ELEKTROWNIE WIATROWE Sp. z o.o. (defendant 1), BANK BGŻ BNP PARIBAS S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Gdańsk, 9th Commercial Division.</p> <p>The case was assigned the file number: IX GC 735/17.</p> <p>On 7 November 2017 – Energa-Obrót S.A. filed a letter to specify the claim in more detail.</p> <p>On 15 December 2017, Wielkopolskie Elektrownie Wiatrowe filed a statement of defense.</p> <p>On 19 December 2017, BGŻ BNP filed a statement of defense.</p>
<p>Energa-Obrót S.A. (plaintiff) - "EW KOŹMIN" Sp. z o.o. (defendant 1), BANK BGŻ BNP PARIBAS S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Regional Court in Gdańsk, 9th Commercial Division.</p> <p>The case was assigned the file number: IX GC 738/17.</p> <p>On 18 December 2017, EW Koźmin filed a statement of defense with a counterclaim.</p> <p>On 18 December 2017, BGŻ BNP filed a statement of defense.</p>
<p>Energa-Obrót S.A. (plaintiff) - "WIATROWA BALTICA" Sp. z o.o. (defendant 1), Raiffeisen Bank Polska S.A. (defendant 2)</p>	<p>Statement of claim to ascertain the non-existence of the legal relationship that was allegedly established as a result of Energa-Obrót S.A. entering into an agreement for the sale of property rights arising from certificates of origin ("CPA")</p>	<p>On 11 September 2017, Energa-Obrót S.A. filed a statement of claim to the Court of Arbitration at the Polish Chamber of Commerce in Warsaw.</p> <p>The case was assigned the file number: SA 129/17.</p> <p>On 4 December 2017, Wiatrowa Baltica and Raiffeisen Bank filed a statement of defense with a counterclaim.</p> <p>On 7 February 2018, the first hearing was held.</p>

2.9. HR and payroll situation

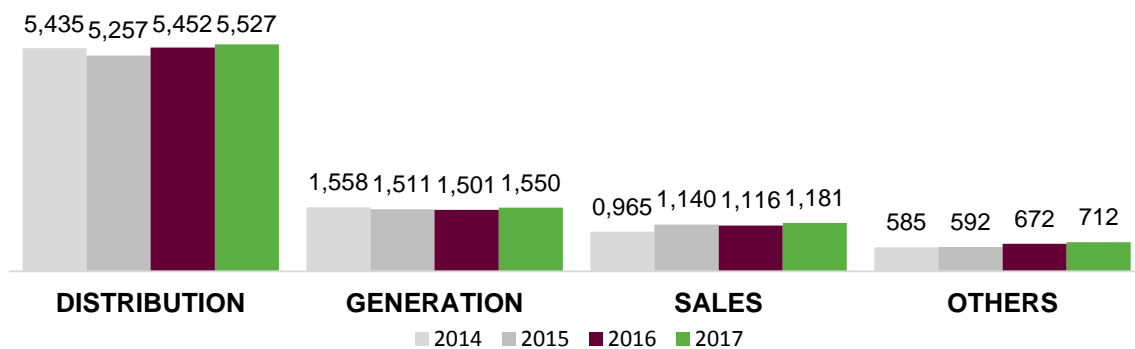
Headcount in the Energa SA Group

As at the end of 2017, the Energa SA Group employed 8,970 persons. Compared to the end of 2016, the headcount increased by 229 persons or 2.6%.

Changes to the headcount level in 2017 are mainly caused by taking actions aiming to counteract the so called competence gap affecting mainly the engineering and technical staff as well as implementing the policy of gradual replacement of outsourced services with services performed by human resources of the Energa SA Group.

In Q4 2017, the Group recorded a headcount increase by 134 persons or 1.5%.

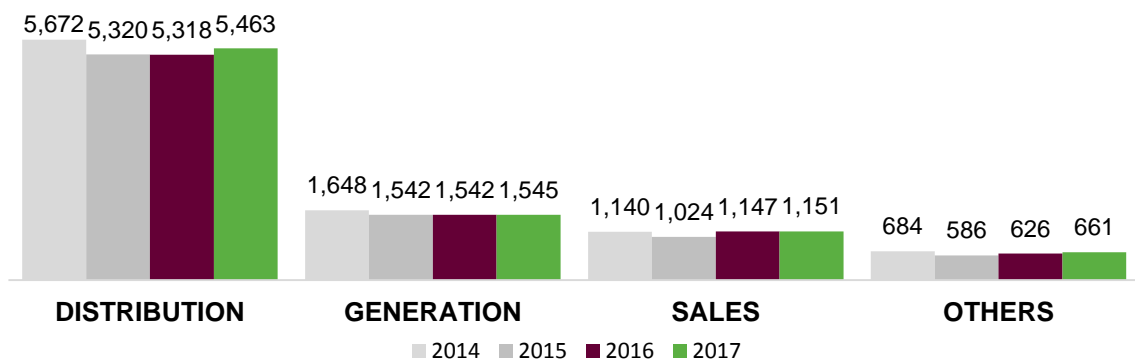
Figure 9: Headcount in the Energa SA Group as at 31 December 2014, 2015, 2016 and 2017 (persons)*



* refers to employment contracts, excluding unpaid, parental or rehabilitation leaves; the data for 2014-2016 are restated according to the structure of the Energa SA Group in force in 2017

The average headcount (FTEs) in the Energa SA Group in the January-December 2017 period was 8,820 FTEs, compared to 8,615 FTEs in the corresponding period of the previous year. The chart below presents the average headcount by business lines.

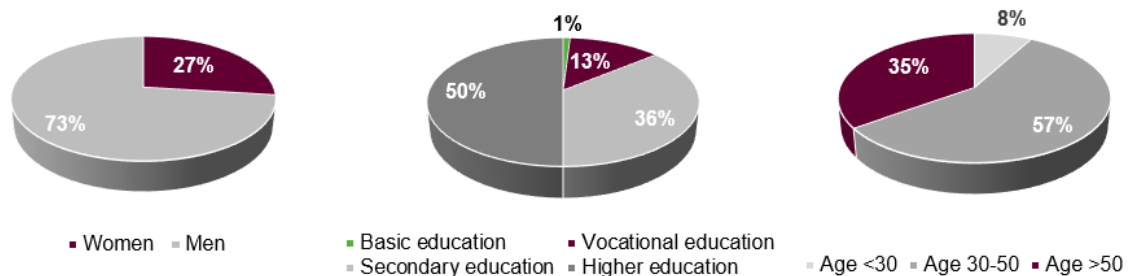
Figure 10: Average headcount in the Energa SA Group in 2014, 2015, 2016 and 2017 (FTEs)*



* refers to employment contracts, excluding unpaid, parental or rehabilitation leaves; the data for 2014-2016 are restated according to the structure of the Energa SA Group in force in 2017

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

Figure 11: Headcount in the Energa SA Group as at 31 December 2017 (persons) by gender, education and age



Remuneration systems

The remuneration system in the Energa SA Group is decentralized and diversified. It is regulated by the Multi-Company Collective Bargaining Agreement for Employees of the Utilities Sector of 13 May 1993, the Company Collective Bargaining Agreements, the Remuneration Bylaws, the Labor Code and the collective bargaining agreements with trade unions. In 2017, there were no significant changes in the remuneration systems of any Energa SA Group companies.

Important information affecting the HR and payroll situation

Rules for setting and monitoring objectives in the Energa SA Group

Strategic objectives were set for Business Line Leading Entities and directors of Energa SA's departments in the arrangement process in accordance with the 'top to bottom' principle which recognizes the Group's strategic objectives as the basis for setting all objectives for managers covered by the system. Objectives for the leaders of the leading companies and department heads at Energa SA were prepared on the basis of the Energa SA Group's Strategy, long-term financial plans and budgets for the given financial year of Energa SA. These objectives form the basis for payment of bonuses to the Energa SA Group's managers.

Standardization of personnel processes in the Energa SA Group

In 2017, in the Energa SA Group, the actions aimed at the standardization of personnel processes at Group level were continued.

Employee benefits

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

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

- (6) Training offered by all Energa SA Group employers; various forms of employee development are aimed at preparing staff to perform tasks in the workplace, improve performance and increase their knowledge, motivation and commitment to work,
- (7) Agreement to secure employee, social and union rights of 18 September 2017.

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

- (1) Annual bonus constituting 8.5% of the annual payroll fund from last year, paid out pro rata to the length of employment,
- (2) Addition to base salary depending on seniority,
- (3) Cash equivalent of coal allowance,
- (4) 'Employee tariff' for electricity, available to employees with one year of professional experience in the utilities sector,
- (5) Benefit for work in hazardous conditions,
- (6) Jubilee awards.

Changes of the terms of remuneration

On 10 October 2017, in Energa Wytwarzanie SA, an Agreement was executed with the Trade Unions that are party to the Company Collective Bargaining Agreement (ZUZP), aiming to introduce amendments to the ZUZP. With an additional report, the ZUZP was amended as of 1 October 2017, by introducing a new tariff table for positions and a new table of base salaries for application. The regulations aimed to adjust the tariff table for job positions prevailing at the company to the actual state of affairs at the Employer and to counteract discrimination with regard to remuneration at comparable job positions, taking into consideration the right to the same remuneration for the same work or the same kind of work as provided for in Article 183c of the Labor Code.

Group layoffs

The Group Companies did not carry out any group layoffs in 2017.

Collective disputes

As at the end of 2017, there were thirty one trade union organizations in Energa SA Group companies. More than 5,100 Group employees were members of the trade unions as at 31 December 2017. In 2017, trade unions sent a number of statements to individual employers containing, among others, demands concerning:

- (1) raising wages and salaries in Group companies,
- (2) payment of awards or bonuses,
- (3) securing employee, social and union rights of Energa SA Group employees.

In 2017, there were 3 collective disputes in the Energa SA Group (one of them being a multi-company dispute concerning 27 Employers of the Energa SA Group, including Energa SA). The Multi-Company Collective Dispute initiated by the address given by the trade union organizations on 12 July 2017 regarding 27 employers from the Group ended with the signing of an agreement on 7 December 2017. The collective dispute at the Energa Serwis Sp. z o.o. employer that arose in connection with the address given by the trade union organizations on 28 July 2017 ended with the signing of an agreement on 16 August 2017.

The collective dispute continued at the Energa Elektrownie Ostrołęka SA employer, initiated by the address given by the trade union organizations on 8 September 2017 is at the mediation stage now.

2.10. 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 be-

tween 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 involvement,
- 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 conti-

nents 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.

2.11. Awards and recognitions for the Energa SA Group

Table 5: Prizes, awards and certificates received in 2017

2017
<p>January 2017</p> <p>The Federation of Consumers awards the prestigious Consumer Service Quality Certificates to Energa Operator.</p>
<p>March 2017</p> <p>Energa SA Group receives the “2017 Children’s Friend” award from the Cultural Center 105 in Koszalin for support it provides to children.</p>
<p>April 2017</p> <p>Energa receives a Leaders in the World of Energy distinction award in the Producer of the Year category.</p>
<p>May 2017</p> <ul style="list-style-type: none"> • 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.
<p>June 2017</p> <ul style="list-style-type: none"> • 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.
<p>August 2017</p> <p>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 ser-</p>

vice business customers.

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.
-

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.
-

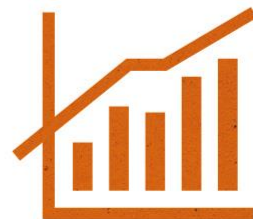
November 2017

- The 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.
-

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.
-

Analysis of the financial situation and assets



3. ANALYSIS OF THE FINANCIAL STANDING AND ASSETS

3.1. Rules for preparing the annual consolidated financial statements

The Consolidated Financial Statements of the Energa SA Group for the year ended 31 December 2017 were prepared:

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

The Management Board of the Parent Company used its best knowledge in the application of standards and interpretations as well as measurement methods and principles for the individual items of the consolidated financial statements of the Energa SA Group in accordance with IFRS EU for the year ended 31 December 2017. All the tables and explanations have been prepared with due care.

The accounting (policy) principles used to prepare the annual consolidated financial statements are presented in Note 9 to the consolidated financial statements of the Energa SA Group for the year ended 31 December 2017.

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

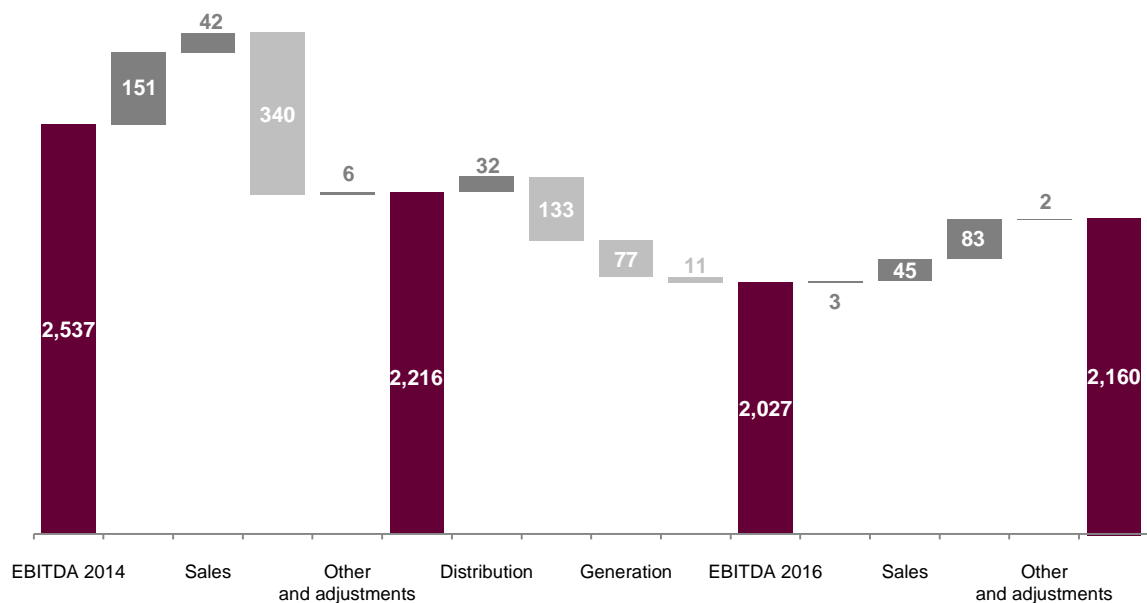
Table 6: Consolidated statement of profit or loss

PLN m	2014	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
Sales revenues	10,590	10,804	10,181	10,534	353	3%
Cost of sales	(8,464)	(8,786)	(8,846)	(8,615)	231	3%
Gross profit on sales	2,126	2,018	1,335	1,919	584	44%
Other operating revenue	107	91	117	118	1	1%
Selling and distribution expenses	(312)	(336)	(338)	(341)	(3)	-1%
General and administrative expenses	(350)	(344)	(318)	(326)	(8)	-3%
Other operating expenses	(125)	(149)	(309)	(160)	149	48%
Operating profit	1,446	1,280	487	1,210	723	> 100%
Result on financial activity	(198)	(228)	(230)	(232)	(2)	-1%
Share in profit/(loss) of the entities measured by the equity method	-	-	(52)	24	76	> 100%
Profit or loss before tax	1,248	1,052	205	1,002	797	> 100%
Income tax	(239)	(212)	(58)	(213)	(155)	< -100%

Net profit or loss on continuing operations	1,009	840	147	789	642	> 100%
Net profit or loss on discontinued operations	(3)	-	-	-	-	-
Net profit or loss for the period	1,006	840	147	789	642	> 100%
EBITDA	2,357	2,216	2,027	2,160	133	7%

PLN m	Q4 2016	Q4 2017	Change	Change (%)
Sales revenues	2,808	2,817	9	0%
Cost of sales	(2,459)	(2,181)	278	11%
Gross profit on sales	349	636	287	82%
Other operating revenue	36	(26)	(62)	< -100%
Selling and distribution expenses	(95)	(85)	10	11%
General and administrative expenses	(78)	(88)	(10)	-13%
Other operating expenses	(109)	(53)	56	51%
Operating profit or loss	103	384	281	> 100%
Result on financial activity	(55)	(83)	(28)	-51%
Share in profit/(loss) of the entities measured by the equity method	8	7	(1)	-13%
Profit or loss before tax	56	308	252	> 100%
Income tax	17	(78)	(95)	< -100%
Net profit or loss for the period	73	230	157	> 100%
EBITDA	498	517	19	4%

Figure 12: EBITDA bridge, by business lines, 2014-2017 (PLN m)



In 2017, the Group's sales revenues amounted to PLN 10,534 m and were 3%, or PLN 353 m higher than in 2016. The 6% increase in Distribution Business Line's revenues was mainly caused by a higher average distribution rate and a higher volume of distributed electricity. An increase in sales revenues was also recorded by the Generation Business Line (an increase in revenues on selling green property rights and higher revenues on the sale of Regulatory System Services with the simultaneous decrease in the sales of electricity). A reverse trend was observed in the Sales Business Line, where the major factor for the decrease in the revenues were lower revenues on sales of electricity in wholesale market.

The Group's EBITDA in 2017 was PLN 2,160 m, which was 7% more than in the previous year. In 2017, an increase in EBITDA was recorded in all the Business Lines.

The Distribution Business Line contributed the most to the Group's EBITDA in 2017 (80%), while the Generation Business Line and the Sales Business Line accounted for 18% and 4%, respectively. The highest EBITDA growth was posted by the Generation Business Line (an increase by PLN 83 m to PLN 398 m), which was driven mainly by the aforementioned increase in sales revenue, partially offset by higher purchase cost of fuel. As regards the Sales Business Line, the EBITDA growth by PLN 45 m yoy resulted primarily from a non-recurring event – after an analysis of provisions of IFRS 9, impairment losses for disputable receivables were dissolved. On the other hand, the EBITDA growth in the Distribution Business Line followed from a more favorable margin on the sale of distribution services yoy, with a simultaneously higher level of OPEX costs.

The operating profit in 2017 rose by PLN 723 m compared to 2016. Apart from operating factors, the following ones contributed for the most part to the EBIT yoy level: the change in the level of impairment losses for non-financial non-current assets (presented mainly in the Generation Business Line), dissolution of impairment losses on account of disputable receivables in the Sales and Distribution Business Lines.

In 2017, a share in the results of associated entities and joint ventures of PLN 24 m was recognized. Compared to the loss recognized in 2016 in the amount of PLN 52 m, this represents a change by PLN 76 m.

The Group's net result in 2017 was PLN 789 m, which is an increase by PLN 642 m against 2016.

The Group's EBITDA in Q4 2017 was PLN 517 m and was 4% higher than in the corresponding period of the previous year. The main positive contributors to the Group's EBITDA levels were these Business Lines: Sales (increase of EBITDA by PLN 84 m yoy), which resulted mainly from non-recurring events (dissolution of impairment losses for disputable receivables and provisions), and Generation (increase of EBITDA by PLN 11 m). An adverse influence on the Group's EBITDA was exerted by the Distribution Business Line (decrease of EBITDA by PLN 28 m), where the major driving factor was an increase in employee benefit expenses compared to the same period of the previous year, in which material actuarial provisions were dissolved. In Q4 2017, a significant contribution to the Group's EBITDA structure was also made by the Services and Other Line (a negative share of 11%), which was connected with the final settlement of the purchase of shares of Polimex – Mostostal S.A.

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

Table 7: EBITDA adjusted for material non-recurring events

EBITDA (PLN m)	
2017	
EBITDA	2,160
Adjusted EBITDA	2,024
<i>of which:</i>	
<i>Actuarial provisions</i>	<i>(60)</i>
<i>Dissolution of impairment losses on account of disputable receivables (IFRS 9)</i>	<i>(60)</i>
2016	
EBITDA	2,027
Adjusted EBITDA	1,990
<i>of which:</i>	
<i>Actuarial provisions</i>	<i>(63)</i>
<i>Dispute with a counterparty</i>	<i>26</i>
EBITDA (PLN m)	
Q4 2017	
EBITDA	517
Adjusted EBITDA	456
<i>of which:</i>	
<i>Bargain purchase gains</i>	<i>50</i>
<i>Actuarial provisions</i>	<i>(35)</i>
<i>Dissolution of impairment losses on account of disputable receivables (IFRS 9)</i>	<i>(60)</i>
Q4 2016	
EBITDA	498
Adjusted EBITDA	482
<i>of which:</i>	
<i>Actuarial provisions</i>	<i>(42)</i>
<i>Dispute with a counterparty</i>	<i>26</i>

Table 8: Consolidated statement of financial position

PLN m	Balance as at 31 De- cember 2014*	Balance as at 31 De- cember 2015	Balance as at 31 De- cember 2016	Balance as at 31 De- cember 2017	Change 2017/2016	Change 2017/2016 (%)
ASSETS						
Non-current assets						
Property, plant and equipment	12,315	12,912	13,053	13,371	318	2%
Intangible assets	393	395	383	338	(45)	-12%
Goodwill	143	143	26	15	(11)	-42%
Investments in associates and joint ventures measured by the equity method	-	-	390	728	338	87%
Deferred tax assets	246	260	396	325	(71)	-18%
Other non-current financial assets	49	60	166	46	(120)	-72%
Other non-current assets	96	103	101	107	6	6%
	13,242	13,873	14,515	14,930	415	3%
Current assets						
Inventories	296	513	472	352	(120)	-25%
Current tax receivables	76	47	111	31	(80)	-72%
Trade receivables	1,551	1,762	1,947	1,843	(104)	-5%
Portfolio of financial assets	764	322	2	-	(2)	-100%
Other current financial assets	22	38	15	83	68	> 100%
Cash and cash equivalents	1,932	1,669	1,471	3,641	2,170	> 100%
Other current assets	208	232	198	176	(22)	-11%
Assets classified as held for sale	27	-	-	-	-	
	4,876	4,583	4,216	6,126	1,910	45%
TOTAL ASSETS	18,118	18,456	18,731	21,056	2,325	12%
EQUITY AND LIABILITIES						
Equity						
Share capital	4,522	4,522	4,522	4,522	-	-
Foreign exchange differences from translation of a foreign entity	-	-	4	(2)	(6)	< -100%
Reserve capital	447	447	1,018	1,018	-	-
Supplementary capital	607	661	728	1,433	705	97%
Cash flow hedge reserve	(17)	6	41	2	(39)	-95%
Retained earnings	2,957	3,134	2,464	2,436	(28)	-1%
Equity attributable to equity holders of the Parent	8,516	8,770	8,777	9,409	632	7%
Non-controlling interest	37	44	40	56	16	40%

	8,553	8,814	8,817	9,465	648	7%
Non-current liabilities						
Loans and borrowings	2,390	2,475	3,086	2,720	(366)	-12%
Bonds issued	3,117	3,116	2,639	4,520	1,881	71%
Non-current provisions	632	664	578	550	(28)	-5%
Deferred tax liability	553	591	593	596	3	1%
Deferred income and non-current grants	526	531	515	501	(14)	-3%
Other non-current financial liabilities	32	25	6	81	75	> 100%
	7,250	7,402	7,417	8,968	1,551	21%
Current liabilities						
Trade payables	869	877	811	792	(19)	-2%
Current loans and borrowings	171	203	334	356	22	7%
Bonds issued	72	76	78	109	31	40%
Current income tax liability	50	2	3	11	8	> 100%
Deferred income and grants	158	161	170	182	12	7%
Short-term provisions	374	471	711	571	(140)	-20%
Other financial liabilities	229	193	157	280	123	78%
Other current liabilities	363	257	233	322	89	38%
Liabilities related to assets classified as held for sale	29	-	-	-	-	-
	2,315	2,240	2,497	2,623	126	5%
Total liabilities	9,565	9,642	9,914	11,591	1,677	17%
TOTAL EQUITY AND LIABILITIES	18,118	18,456	18,731	21,056	2,325	12%

* restated data

As at 31 December 2017, total assets of the Energa SA Group reached PLN 21,056 m and were PLN 2,325 m higher than on 31 December 2016.

In non-current assets, the most significant change pertained to investments in related entities and joint ventures measured by the equity method, which is associated with the Energa SA Group's exposure to Polska Grupa Górnicza S.A., Polimex Mostostal S.A. and a change in the classification of the investment in Elektrownia Ostrołęka S.A., which as at the end of 2016 was recognized as a subsidiary. In current assets the most significant changes concerned: cash (the reasons for changes in cash are described further on in the part devoted to cash flows).

On the liabilities side, the material change concerned the balance of bonds issued (the increase in bonds issued was associated predominantly with the EUR 300 m issue of Eurobonds in Q1 2017 by Energa Finance AB (publ)) and issue of EUR 250 m hybrid bonds in Q3 2017 by Energa SA and repayment of loans and borrowings (decrease in long-term and short-term loans and borrowings in the total amount of PLN 344 m resulted mainly from repayment of the liabilities incurred in previous years).

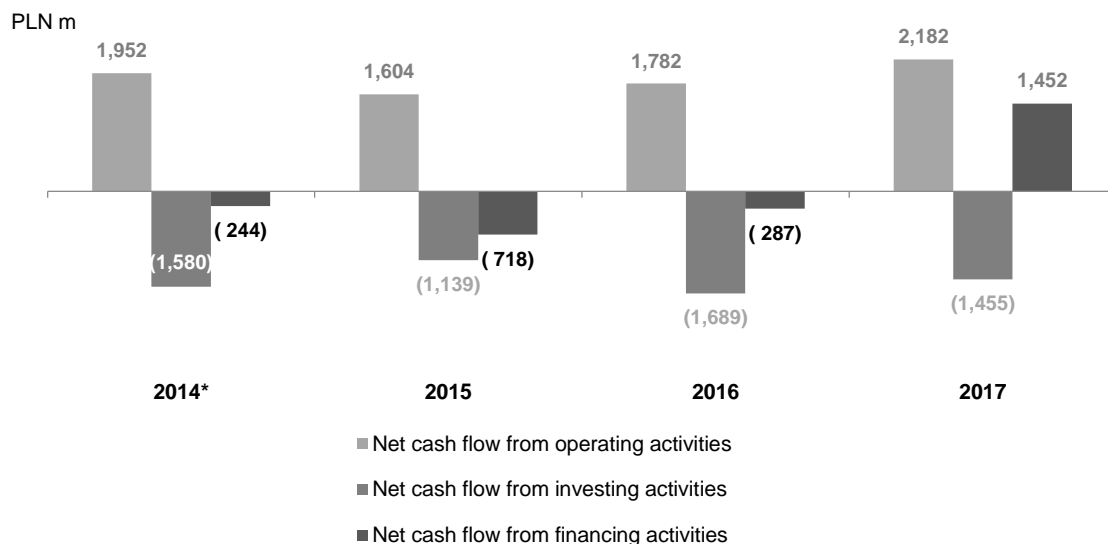
The Energa SA Group's equity as at 31 December 2017 was PLN 9,465 m and financed 45% of the Group's assets. In connection with the distribution of Energa SA's result for 2016, supplementary capital rose by PLN 705 m.

Table 9: Consolidated statement of cash flows

PLN m	2014*	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
Net cash flow from operating activities	1,952	1,604	1,782	2,182	400	22%
Net cash flow from investing activities	(1,580)	(1,139)	(1,689)	(1,455)	234	14%
Net cash flow from financing activities	(244)	(718)	(287)	1,452	1,739	> 100%
Net increase / (decrease) in cash	128	(253)	(194)	2,179	2,373	> 100%
Cash and cash equivalents at the end of the reporting period	1,911	1,658	1,464	3,643	2,179	> 100%

* restated data

Figure 13: Group's cash flows in 2014-2017 (PLN m)



As at 31 December 2017, the balance of the Group's cash was PLN 3,643 m and was PLN 2,179 m higher than the cash balance one year earlier.

The total net cash flows from the Company's operating, investing and financing activities in 2017 were positive at PLN 2,179 m, compared to negative cash flows at PLN 194 m in 2016.

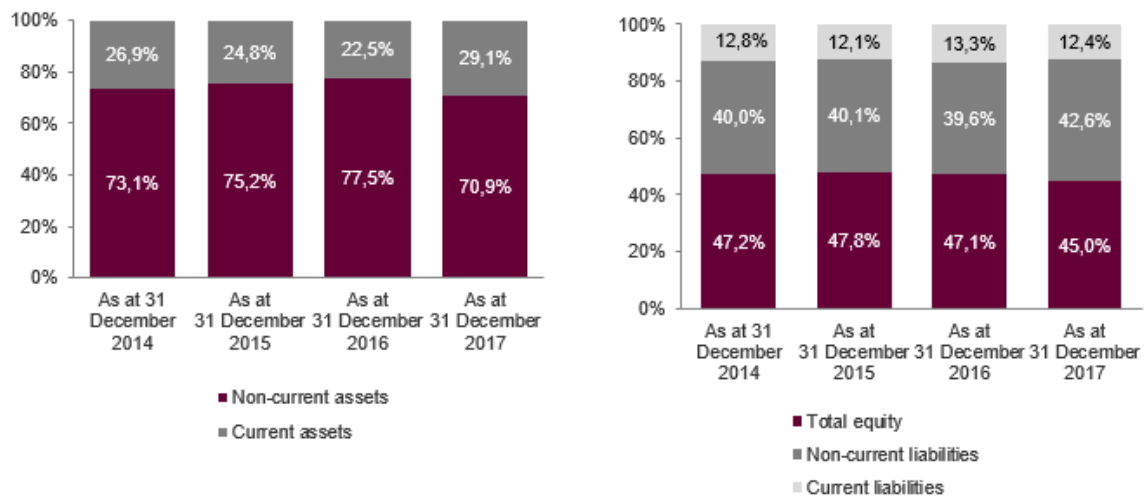
Cash flow from operating activities increased by PLN 400 m compared to the previous year. The increase in cash flows from operating activities compared to 2016 was driven mainly by changes in working capital adjusted for non-cash items and lower amount of income tax paid.

Net expenditures on investing activities in 2017 fell by PLN 234 m (i.e. by 14%). In 2017, lower expenditures were posted on the purchase of property, plant and equipment and intangible assets and also less was expended for investments in associates and joint ventures measured by the equity method; there were also lower proceeds from the sales of participation units in the Energa Trading fund.

In the period in question, cash flows from financing activities were positive and amounted to PLN 1,452 m, or PLN 1,739 m more than in 2016. This increase resulted mainly from the EUR 300 m issue of Eurobonds and the issue of hybrid bonds in the amount of EUR 250 m.

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

Figure 14: Structure of assets and liabilities



* restated data

Table 10: Financial ratios of the Energa SA Group

Ratio	Definition	2014	2015	2016	2017
Profitability					
EBITDA margin	operating result + amortization and depreciation + impairment losses on non-financial non-current assets / sales revenue	22.3%	20.5%	19.9%	20.5%
return on equity (ROE)	net profit for the period / equity at the end of the period	11.8%	9.5%	1.7%	8.3%
return on sales (ROS)	net profit for the period / sales revenues	9.5%	7.8%	1.4%	7.5%
return on assets (ROA)	net profit for the period / total assets at the end of the period	5.6%	4.6%	0.8%	3.7%

Ratio	Definition	Balance as at 31 December 2014*	Balance as at 31 December 2015	Balance as at 31 December 2016	Balance as at 31 December 2017
Liquidity					
current liquidity ratio	current assets/current liabilities	2.1	2.0	1.7	2.3
Indebtedness					
financial liabilities (PLN m)	total liabilities under loans and borrowings and under long- and short-term debt securities	5,750	5,870	6,137	7,705
net financial liabilities (PLN m)	financial liabilities - cash and cash equivalents	3,818	4,201	4,666	4,064
net debt / EBITDA ratio	net financial liabilities / EBITDA	1.6	1.9	2.3	1.9

* restated data

The significant increase in the 2017 net result compared to the net result recorded by the Group in the year before (the net result in 2016 was strongly impacted by the impairment losses on the net value of non-financial non-current assets) contributed to a dynamic increase in profitability ratios. On the other hand, the EBITDA margin remains at a similar level.

Compared to the end of 2016, financial liabilities increased (by 26%). The lower level of the net debt to EBITDA ratio in relation to the end of last year was attributable to the change of net financial liabilities (down by 13%) and an improvement of the Group's 2017 results compared to the previous year (by 7%). Additionally, the increase in the balance of cash associated with the launch of financing in Q1 and Q3 2017 had a favorable impact on the current liquidity ratio.

3.4. Description of significant off-balance sheet items

Information in this respect is presented in chapter 2.7. *Information material agreements and transactions* in this Report and in the consolidated financial statements – note 35: *Contingent assets and liabilities*. Operational leasing liabilities and receivables are described in notes 33.1 and 33.2 of the consolidated financial statements.

3.5. Key operational data of the Energa SA Group

Table 11: Distribution of electricity, by tariff group

Distribution of electricity, by tariff groups (invoiced sales) in GWh	2014	2015*	2016*	2017	Change 2017/2016	Change 2017/2016 (%)
Tariff Group A (HV)	4,143	4,280	3,981	3,512	(469)	-12%
Tariff Group B (MV)	7,210	7,531	7,981	8,436	455	6%
Tariff Group C (LV)	4,246	4,283	4,243	4,620	377	9%
Tariff Group G (LV)	5,323	5,392	5,522	5,500	(22)	-0%
Total distribution of energy	20,923	21,486	21,727	22,068	341	2%

Distribution of electricity, by tariff groups (invoiced sales) in GWh	Q4 2016*	Q4 2017	Change	Change (%)
Tariff Group A (HV)	814	893	79	10%
Tariff Group B (MV)	2,085	2,188	103	5%
Tariff Group C (LV)	1,093	1,136	43	4%
Tariff Group G (LV)	1,451	1,387	(64)	-4%
Total distribution of energy	5,442	5,603	161	3%

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

In 2017, the volume of electricity supplied was higher than in the previous year, by 2% on average. The increase in volume was recorded mainly in the high-margin group C and group B, while in Group A (low-margin) we lost a significant customer (who switched to its own source of supply and the PSE network). As a result, the increase in the average distribution rate was approx. 5% yoy.

Table 12: SAIDI and SAIFI

	SAIDI			SAIFI		
	Unplanned incl. catastrophic	Planned	Total	Unplanned incl. catastrophic	Planned	Total
	Number of minutes per customer in the relevant period			Disruptions per customer in the relevant period		
Q4 2016	59.0	15.7	74.7	0.7	0.1	0.8
Q4 2017	89.7	24.1	113.8	0.7	0.1	0.8
Change	30.7	8.4	39.1	(0.0)	0.0	0.0
Change (%)	52%	54%	52%	-0%	37%	4%
2014	203.7	58.4	262.2	3.1	0.4	3.5
2015	239.4	46.4	285.8	3.1	0.3	3.4
2016	177.0	50.8	227.8	2.5	0.3	2.8
2017	298.0	55.4	353.3	2.7	0.3	3.0
Change 2017/2016	121.0	4.6	125.6	0.2	0.0	0.2
Change 2017/2016 (%)	68%	9%	55%	8%	2%	7%

As at the end of 2017, the Energa SA Group reached a level of SAIDI (planned and unplanned with catastrophic) higher than that of the previous year by 55%. SAIFI increased by 7% from the previous year. Such a significant deterioration of the ratios resulted from mass breakdowns, in particular catastrophic storms in August 2017 and the Ksawery and Grzegorz storm winds.

In 2017, Energa-Operator SA recorded a 1% increase in the number of customers from the previous year. This number increased in tariff groups B and G but declined in tariff group C among small customers whereas the number the so-called big-offtake customers increased. At the same time tariff C saw an increase in consumption per customer yoy. As at the end of 2017, the Company had 3,043 thousand customers.

Table 13: Number of Energa-Operator SA's customers in 2014-2017 (by tariff group)

Tariff groups in Energa Operator (units)	As at 31 December				Change 2017/2016	Change 2017/2016 (%)
	2014	2015	2016	2017		
Tariff Group A	72	90	90	91	1	1%
Tariff Group B	6,540	6,777	7,024	7,181	157	2%
Tariff Group C	299,190	295,030	291,611	288,727	(2,884)	-1%
Tariff Group G	2,660,526	2,670,053	2,708,406	2,746,711	38,305	1%
TOTAL	2,966,328	2,971,950	3,007,131	3,042,710	35,579	1%

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

Table 14: Gross production of electricity in the Energa SA Group

Gross electricity produced (GWh)	2014	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
Power plants - coal-fired	3,109	2,226	2,580	2,586	7	0%
Power plants - biomass co-fired	643	609	11	-	(11)	-100%
CHP plants - coal-fired	153	131	114	115	1	1%
CHP plants - biomass-fired	20	24	28	45	18	63%
Power plants - hydro	837	687	804	1,027	223	28%
Pumped-storage plant	34	37	33	31	(2)	-6%
Power plants - wind	308	419	371	471	101	27%
Power plants - photovoltaics	-	4	5	5	(0)	-9%
Total electricity production	5,103	4,136	3,945	4,280	335	8%
<i>incl. RES</i>	<i>1,808</i>	<i>1,743</i>	<i>1,218</i>	<i>1,548</i>	<i>329</i>	<i>27%</i>

Gross electricity produced (GWh)	Q4 2016	Q4 2017	Change	Change (%)
Power plants - coal-fired	795	594	(200)	-25%
Power plants - biomass co-fired	1	-	(1)	-100%
CHP plants - coal-fired	43	38	(4)	-10%
CHP plants - biomass-fired	0	8	8	> 100%
Power plants - hydro	248	337	90	36%
Pumped-storage plant	12	18	6	53%
Power plants - wind	133	163	31	23%
Power plants - photovoltaics	0	0	0	6%
Total electricity production	1,231	1,160	(72)	-6%
<i>incl. RES</i>	<i>382</i>	<i>509</i>	<i>127</i>	<i>33%</i>

In 2017, the Energa SA Group's generation companies produced approx. 335 GWh (or 8%) more electricity than they did in the corresponding period of the previous year. The increase in production pertains primarily to all hydro and wind sources. The stable level of production in the Ostrołęka power plant (down by 4 GWh) was caused among others by a stable must-run production for the Transmission System Operator in Poland. The higher production of energy in run-of-the-river hydro sources (by 221 GWh) resulted from better hydrological conditions, while the higher wind production (by 101 GWh) was caused by better weather conditions (higher windiness) and high availability of generation sources. Energy production in the Group's combined heat and power plants was mainly a derivative of the production of heat which depends on the temperatures (determining the demand for heat reported by the Group's local customers). At the same time, since the beginning of 2016, the quantity of property rights arising from renewable energy production is not the same as the RES production volume because the new RES Act reduced support for depreciated hydro sources with capacity exceeding 5 MW. As a result, the run-of-river power plant in Włocławek was eliminated from the support system. In addition, since 2017, 10 smaller hydro power plants have been selling the electricity they generate at guaranteed prices resulting from won energy auctions, and hence their energy is not subject to property rights.

Comparing Q4 on a yoy basis, noticeable is a decrease in energy generation (by 6%) driven mainly by the lower production from the Ostrołęka power plant (by 201 MWh due to, among others, the lower availability of units forced by PSE), which was partly offset by higher production from hydro plants (better hydrological conditions) and wind plants (better weather conditions).

Table 15: Production of heat

Gross heat production in TJ	2014	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
Energa Kogeneracja Sp. z o.o.*	2,264	2,226	2,326	2,400	74	3%
Energa Elektrownie Ostrołęka S.A.	1,452	1,399	1,470	1,428	(42)	-3%
Ciepło Kaliskie Sp. z o.o.	137	280	313	312	(1)	-0%
Total gross heat production	3,853	3,905	4,109	4,140	31	1%

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

Gross heat production in TJ	Q4 2016	Q4 2017	Change	Change (%)
Energa Kogeneracja Sp. z o.o.	782	767	(15)	-2%
Energa Elektrownie Ostrołęka S.A.	493	399	(94)	-19%
Ciepło Kaliskie Sp. z o.o.	106	116	10	9%
Total gross heat production	1,380	1,281	(99)	-7%

2017 saw a slight increase of heat production by approx. 31 TJ (1%) attributable to, among others, the temperatures which affect the demand for heat among the Group's local customers.

In Q4 2017, heat production decreased by approx. 99 TJ (7%) which was driven mainly by the decreasing demand on the local markets (the cities of Ostrołęka, Elbląg and Kalisz) recorded by two main companies: Energa Kogeneracja and Energa Elektrownie Ostrołęka.

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

Fuel consumption*	2014	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
Coal						
Quantity (thous. tons)	1,607	1,157	1,288	1,280	(7)	-1%
Cost (PLN m)	413	284	283	306	23	8%
Biomass						
Quantity (thous. tons)	436	406	30	46	16	53%
Cost (PLN m)	176	161	11	16	5	45%
Total fuel consumption (PLN m)	589	445	294	322	28	10%

Fuel consumption*	Q4 2016	Q4 2017	Change	Change (%)
Coal				
Quantity (thous. tons)	400	312	(89)	-22%
Cost (PLN m)	84	73	(11)	-13%
Biomass				
Quantity (thous. tons)	1	8	7	> 100%
Cost (PLN m)	0	3	2	> 100%
Total fuel consumption (PLN m)	84	76	(9)	-10%

* including the cost of transportation

Significant increase in the cost of fuel consumption yoy of the Group's generator (by PLN 28 m) is attributable mainly to the increased unit cost of coal consumption.

In Q4 2017, the cost of consumption of key fuels for production was approx. PLN 9 m (10%) lower than in the corresponding period of 2016. The main reason was the lower volume of energy production from hard coal by the Ostrołęka power plant, which was partly offset by a higher coal purchase price.

Table 17: Sales of electricity by the Sales Business Line

Sales of electricity by the Sales Business Line in GWh	2014	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
Retail electricity sales	16,364	16,767	19,628	20,615	987	5%
Electricity sales on the wholesale market, of which:	9,720	8,892	4,973	3,200	(1,774)	-36%
<i>Electricity sales to the balancing market</i>	331	428	399	476	76	19%
<i>Electricity sales to Energa-Operator to cover network losses*</i>	1,561	(16)	1,520	-	(1,520)	-100%
<i>Other wholesale</i>	7,828	8,480	3,054	2,724	(330)	-11%
Total electricity sales	26,084	25,658	24,602	23,815	(786)	-3%

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

Sales of electricity by the Sales Business Line in GWh	Q4 2016	Q4 2017	Change	Change (%)
Retail electricity sales	5,262	5,382	121	2%
Electricity sales on the wholesale market, of which:	1,894	1,215	(679)	-36%
<i>Electricity sales to the balancing market</i>	117	33	(84)	-72%
<i>Electricity sales to Energa-Operator to cover network losses</i>	398	-	(398)	-100%
<i>Other wholesale</i>	1,379	1,182	(197)	-14%
Total electricity sales	7,156	6,598	(558)	-8%

In 2017, the total volume of electricity sold by the Sales Business Line decreased by 3% (or 0.8 TWh) compared to 2016, which is attributable to the decrease of the sales volume on the wholesale market by 36% (or 1.8 TWh), whereas retail sales volume increased by 5% (or 1.0 TWh) in relation to the previous year.

In retail sales in 2017, increases were recorded in volumes sold to customers on the Polish market (as a result of higher sales to business customers and slight decrease of sales to households), whereas on the Slovak market the sales volume declined (this is connected with the decision to extinguish the activity on the retail market in that country). The increase of the retail sales volume is the result of higher average number of customers (acquisition of a number of new business buyers and households) – in 2017 the Business Line exceeded 3 million customers – and increase in average electricity consumption by customers, which is consistent with the market trend (in 2017 electricity consumption in Poland increased by 2% yoy). In terms of volume, sales to households (tariff G) in 2017 accounted for 27% of the sales billed to end users by Energa Obrót SA (in 2016 this share was 28%).

In the analyzed period, electricity sales fell in the wholesale market (by 36%). This is attributable to non-performance of the electricity sales contract to cover network losses to Energa-Operator SA – as a result of the completed procedure a different provider of electricity was selected for 2017. Furthermore, a better adjustment of forward contracting to the sales volume of electricity to end users resulted in a lower volume of surplus energy sold (other wholesale).

In Q4 2017, the overall volume of electricity sold by the Sales Business Line decreased by 8% (0.6 TWh) when compared to Q4 2016. In quarterly terms, the trends were similar to annual figures, i.e. retail sales increased (by 2%) and sales in the wholesale market clearly decreased (by 36%).

3.6. Financial results by operating segments

Table 18: EBITDA of the Energa SA Group, by Business Line

EBITDA (PLN m)	2014	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
DISTRIBUTION	1,537	1,688	1,720	1,723	3	0%
GENERATION	732	392	315	398	83	26%
SALES	131	173	40	85	45	> 100%
OTHER and consolidation eliminations and adjustments	(43)	(37)	(48)	(46)	2	4%
Total EBITDA	2,357	2,216	2,027	2,160	133	7%

EBITDA (PLN m)	Q4 2016	Q4 2017	Change	Change (%)
DISTRIBUTION	410	382	(28)	-7%
GENERATION	120	131	11	9%
SALES	(23)	61	84	> 100%
OTHER and consolidation eliminations and adjustments	(9)	(57)	(48)	< -100%
Total EBITDA	498	517	19	4%

Distribution Business Line

Figure 15: Results of the Energa SA Group's Distribution Business Line (PLN m)

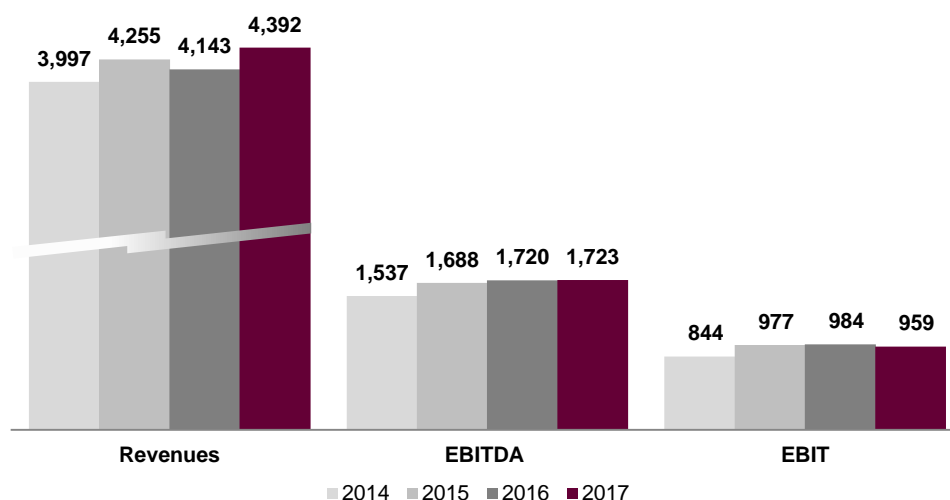


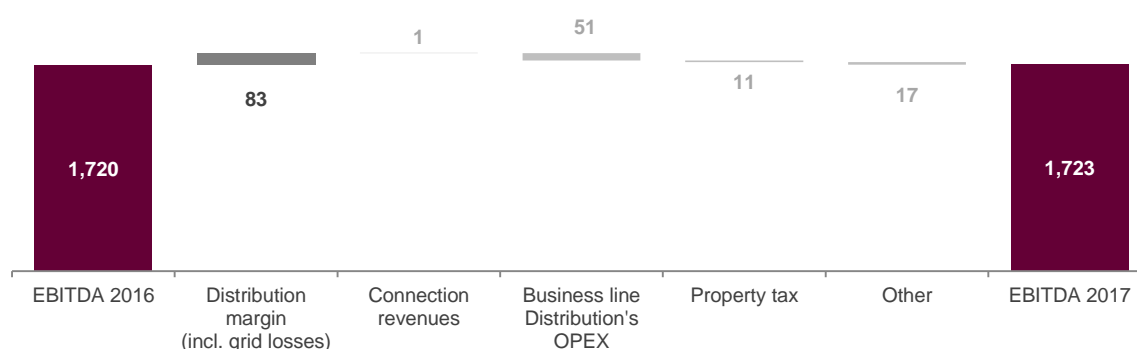
Table 19: Results of the Distribution Business Line

PLN m	2014	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
Revenue	3,997	4,255	4,143	4,392	249	6%
EBITDA	1,537	1,688	1,720	1,723	3	0%
amortization and depreciation	692	711	736	764	28	4%
impairment losses on non-financial non-current assets	1	-	-	-	-	0%
EBIT	844	977	984	959	(25)	-3%
Net result	599	667	703	674	(29)	-4%
CAPEX	1,148	1,123	1,263	1,247	(16)	-1%

PLN m	Q4 2016	Q4 2017	Change	Change (%)
Revenue	1,066	1,124	58	5%
EBITDA	410	382	(28)	-7%

amortization and depreciation	190	191	1	1%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	220	191	(29)	-13%
Net result	151	132	(19)	-13%
CAPEX	388	573	185	48%

Figure 16: EBITDA Bridge of the Distribution Business Line (PLN m)



During the entire 2017, the Distribution Business Line contributed 80% to Enea SA Group's EBITDA (nearly 85% in 2016).

Revenues of the Distribution Business Line in 2017 were 6% higher than in the same period of the previous year. The increase in revenues was driven by an increase of the average distribution rate (by almost 5%) and higher volumes of distributed electricity (by 2%).

EBITDA remained at a similar level yoy. The level of the operating result of PLN 959 m was significantly impacted by the increase of the distribution margin (including network losses of by PLN 83 m). This is primarily the effect of the favorable distribution services sales structure, i.e. increase of the volume in the high-margin C group and in B group, with simultaneous decrease in the low-margin A group. On the other hand, the costs of the property tax were higher by PLN 11 m, OPEX increased by PLN 51 m, mainly due to the higher costs of employee benefits compared to the low base in 2016, when significant actuarial provisions were reversed, and also due to increased headcount in connection with the efforts aimed at preventing the so-called competence gap. In addition the costs of operation and overhaul of the distribution network, which resulted from increased involvement of the engineering and installation staff in operational work. Reversal of some impairment losses for disputed receivables had a positive impact, following an analysis of the provisions of IFRS 9. The balance of other operating activity deteriorated by PLN 17 m. In 2016, the result was positively impacted by the awarded principal receivable received from PKN Orlen in the amount of PLN 16 m on account of the litigation pertaining to the system fee.

Net profit in 2017 was PLN 29 m lower than the year before. It is attributable mainly to higher amortization and depreciation resulting from high capital expenditures.

Capital expenditures of the Distribution Business Line amounted to PLN 1,247 m, that is PLN 16 m less than the year before.

The Q4 2017 EBITDA was shaped primarily by OPEX, which was higher than in Q4 2016 (by PLN 25 m, due to increase employee benefit expenses, as explained above). As a result, EBITDA fell from PLN 410 m to PLN 382 m.

Generation Business Line

Figure 17: Results of the Energa SA Group's Generation Business Line (PLN m)

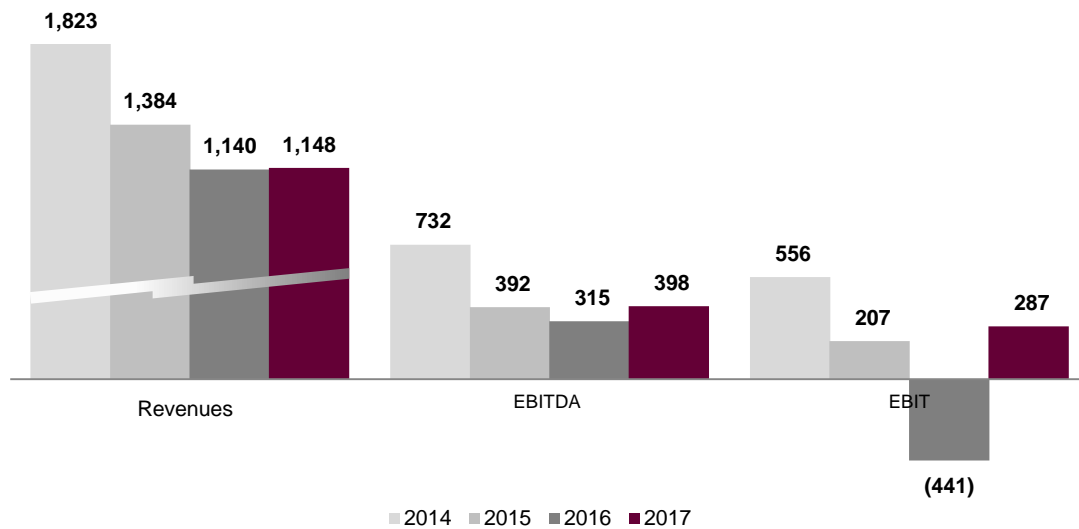
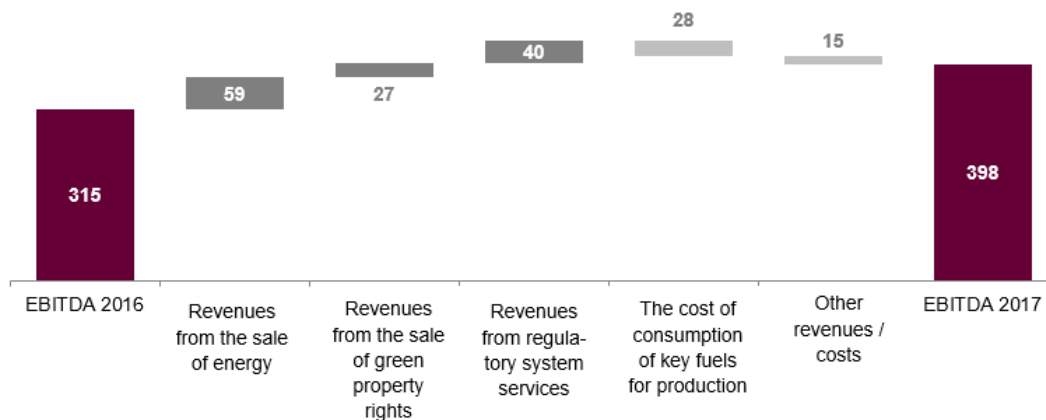


Table 20: Results of the Energa SA Group's Generation Business Line

PLN m	2014	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
Revenue	1,823	1,384	1,140	1,148	8	1%
EBITDA	732	392	315	398	83	26%
amortization and depreciation	142	168	183	164	(19)	-10%
impairment losses on non-financial non-current assets	34	17	573	(53)	(626)	< -100%
EBIT	556	207	(441)	287	728	> 100%
Net result	384	115	(303)	172	475	> 100%
CAPEX	271	392	248	87	(161)	-65%

PLN m	Q4 2016	Q4 2017	Change	Change (%)
Revenue	352	340	(12)	-3%
EBITDA	120	131	11	9%
amortization and depreciation	50	41	(9)	-18%
impairment losses on non-financial non-current assets	132	(139)	(271)	< -100%
EBIT	(62)	229	291	> 100%
Net result	(28)	168	196	> 100%
CAPEX	64	26	(38)	-59%

Figure 18: EBITDA Bridge of the Generation Business Line (PLN m)



* including net electricity trading (revenue less cost)

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

The data presented may be different than the presented historical data, because the methodology for allocating Business Line results to individual Power Divisions changed slightly.

Table 21: EBITDA of the Generation Business Line, by Power Division

EBITDA (PLN m)	2014	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
Hydro	283	155	93	127	33	36%
Wind	79	73	26	42	16	61%
Ostrołęka Power Plant	339	149	152	189	37	24%
Other and adjustments	32	15	43	40	(3)	-6%
Total Generation	732	392	315	398	83	26%

EBITDA (PLN m)	Q4 2016	Q4 2017	Change	Change (%)
Hydro	26	43	16	62%
Wind	15	21	6	42%
Ostrołęka Power Plant	71	61	(10)	-14%
Other and adjustments	8	6	(2)	-19%
Total Generation	120	131	11	9%

In 2017, the Generation Business Line's contribution to total EBITDA of the ENERGA SA Group was 18% (16% in the corresponding period of the year before). The EBITDA growth reached PLN 83 m and was driven mainly by the lower revenues on sales of electricity, property rights and regulatory

system services. The above revenue increases were offset among others by the higher fuel consumption costs.

The increase in revenues on sales of electricity was caused by two factors. First of all, electricity production rose yoy in the hydro sources (by 26%) and wind sources (by 27%) and in the Group's CHP plants (by 13%), which was achievable thanks to the high availability of the generation sources. Secondly, the increases were affected by the growing electricity sale prices in the Ostrołęka Power Plant Power Division.

The increase in revenue on the sale of green property rights was caused by the sale of significant inventories of green property rights by the Business Line in 2016, which due to the falling prices pushed EBITDA further down in 2016 (the low base effect).

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

Those increases in revenues were partly offset by the increased consumption costs of key fuels used for production, which was due to, among others, the higher unit cost of coal consumption by the Line.

At the same time, there was a yoy increase in the cost of purchase of CO₂ allowances (by PLN 5 m) as the Line was assigned a smaller pool of free allowances for production for 2017.

In addition to the above factors contributing to the yoy pre-tax results of the Business Line, one should emphasize the recognition (in Q3) and reversal (in Q4) in 2017 of impairment losses on non-financial non-current assets in the Business Line with the total value of (+) PLN 53 m following from:

- in Q3 2017, as a result of recognition of impairment losses on the existing wind farms in the total amount of PLN 71 m and planned wind farms in the amount of PLN 4 m and goodwill in the amount of PLN 11 m;
- in Q4 2017, in connection with the changes in the regulatory environment, in particular the signing, by the President of Poland, of the Capacity Market Act (which guarantees support for generation units and the resulting update of the price path forecasts), from reversal of asset impairment losses for the total amount of PLN 138 m, including PLN 69 m for wind assets and PLN 69 m for the Ostrołęka B Power Plant.

By the same token, in 2016, impairment losses on non-financial non-current assets in the Line with the total amount of (-) PLN 573 m were recognized.

- change of the price paths in Q1 2016 and the related losses regarding operating and planned wind assets (PLN -305 m), including a goodwill loss resulting from the purchase of the wind farm portfolio in 2013 with the value of PLN 117 m;
- entry into force of the act on wind farm investment projects in Q2 2016 (PLN -247 m);
- reversal of the loss recognized in 2012 for the Ostrołęka C power plant construction project, in connection with the decision on execution of the project made in Q3 2016 (PLN +117 m);
- from the new business model of the power plant adopted in the Group's strategy and from the change of the price paths in Q4 2016 and the related loss on the Ostrołęka power plant assets (PLN -138 m).

From the perspective of Q4 2017, the following items are noteworthy, among others: increase in the Business Line's revenues on sales of Regulatory System Services, mainly the Operating Reserve of the Ostrołęka Power Plant, which resulted from the higher capacity reported to the Operator (higher availability of units and lower sales in physical delivery energy contracts) and higher market prices for the service. Among other factors influencing the results of the Business Line in Q4 yoy, one may list: lower energy production in Ostrołęka and no non-recurring events improving the result on the level of the other operating activity in Energa Kogeneracja and Energa Elektrownie in Ostrołęka in Q4 2016 (which pertained to settlements regarding renovation and construction works with the contractors).

Hydro

Table 22: Results of the Hydro Power Division

PLN m	2014	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
Revenue	374	247	180	215	35	20%
EBITDA	283	155	93	127	33	36%
EBIT	255	124	61	94	33	54%
CAPEX	32	15	12	13	1	10%

PLN m	Q4 2016	Q4 2017	Change	Change (%)
Revenue	53	71	18	34%
EBITDA	26	43	16	62%
EBIT	18	35	16	88%
CAPEX	8	7	(0)	-2%

Wind

Table 23: Results of the Wind Power Division

PLN m	2014	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
Revenue	120	112	69	94	25	37%
EBITDA	79	73	26	42	16	61%
EBIT	39	29	(279)	2	280	> 100%
CAPEX	4	9	1	0	(1)	-63%

PLN m	Q4 2016	Q4 2017	Change	Change (%)
Revenue	28	35	7	25%
EBITDA	15	21	6	42%
EBIT	3	77	74	> 100%
CAPEX	1	0	(1)	-92%

Ostrołęka Power Plant

Table 24: Results of the Ostrołęka Power Plant Division

PLN m	2014	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
Revenue	1,159	844	715	659	(55)	-8%
EBITDA	339	149	152	189	37	24%
EBIT	289	88	(56)	195	251	> 100%
CAPEX	42	175	182	49	(132)	-73%

PLN m	Q4 2016	Q4 2017	Change	Change (%)
Revenue	215	178	(36)	-17%
EBITDA	71	61	(10)	-14%
EBIT	(86)	114	199	> 100%
CAPEX	38	13	(25)	-65%

Other and adjustments

Table 25: Results of the Other and adjustments

PLN m	2014	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
Revenue	171	180	177	180	3	2%
EBITDA	32	15	43	40	(3)	-6%
EBIT	(27)	(35)	(168)	(4)	164	98%
CAPEX	193	193	54	25	(29)	-54%

PLN m	Q4 2016	Q4 2017	Change	Change (%)
Revenue	57	56	(1)	-2%
EBITDA	8	6	(2)	-25%
EBIT	2	3	1	50%
CAPEX	18	5	(12)	-70%

Sales Business Line

Figure 19: Results of the Energa SA Group's Sales Business Line (PLN m)

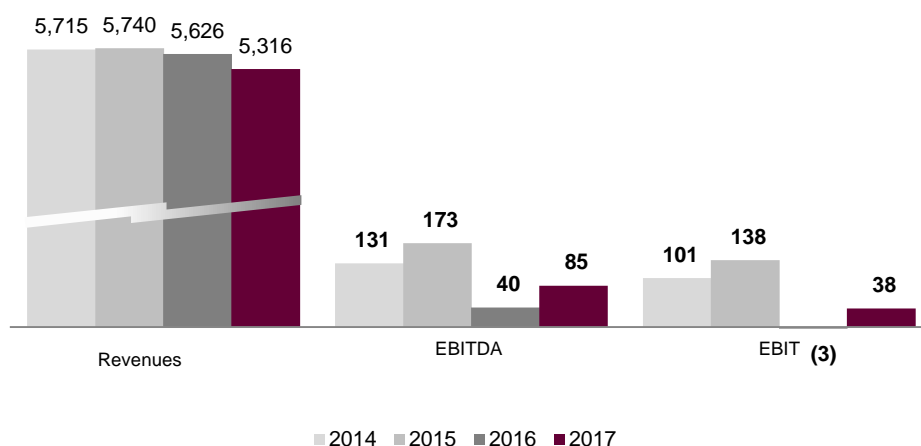
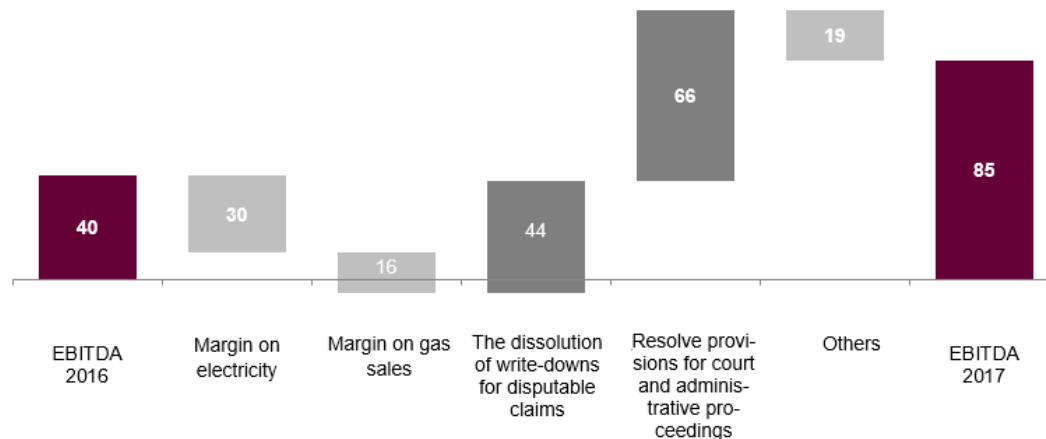


Table 26: Results of the Energa SA Group's Sales Business Line

PLN m	2014	2015	2016	2017	Change 2017/2016	Change 2017/2016 (%)
Revenue	5,715	5,740	5,626	5,316	(310)	-6%
EBITDA	131	173	40	85	45	> 100%
amortization and depreciation	30	34	39	43	4	10%
impairment losses on non-financial non-current assets	-	1	4	4	-	0%
EBIT	101	138	(3)	38	41	> 100%
Net result	108	119	(2)	29	31	> 100%
CAPEX	38	58	92	43	(49)	-53%

PLN m	Q4 2016	Q4 2017	Change	Change (%)
Revenue	1,608	1,457	(151)	-9%
EBITDA	(23)	61	84	> 100%
amortization and depreciation	12	11	(1)	-8%
impairment losses on non-financial non-current assets	4	4	-	0%
EBIT	(39)	46	85	> 100%
Net result	(30)	36	66	> 100%
CAPEX	16	12	(4)	-25%

Figure 20: EBITDA Bridge of the Sales Business Line (PLN m)



In 2017, the Sales Business Line earned EBITDA of PLN 85 m, or 4% of the Energa SA Group's total EBITDA, compared to PLN 40 m in 2016, when the Business Line's contribution to the Group's EBITDA was 2%.

The Sales Business Line's revenues in 2017 stood at PLN 5,316 m, i.e. decreased by PLN 310 m (by 6%) compared to 2016. The largest contributing item to the Business Line's revenues continues to be revenues on sales of electricity, which were 5% (or PLN 247 m) lower yoy in 2017. This situation resulted from the decrease in the revenue on wholesale electricity sales by PLN 319 m (41%) yoy, which was due to: a 36% decline in volume and a 8% drop in the average selling price. Revenues on sales of electricity on the retail market in 2017 were slightly higher by PLN 72 m (or 2%) than in 2016; this resulted from a 5% increase in volume and a 3% lower average selling price. The decline of the Business Line's revenue was also driven by the revenue on sales of gas, which was PLN 71 m lower yoy in the analyzed period, mainly due to a lower volume of sales.

The margin on electricity sales, which is the key contributor to the Business Line's results, fell by PLN 30 m yoy. This was the effect of lower unit margins: average electricity sales prices to end users fell faster (-4% yoy) than the average unit variable cost, composed of the purchase cost of electricity, property rights and excise tax (-3% yoy) and the less advantageous structure of sales according to tariff groups. Presented below are the factors affecting the margin on the sale of electricity:

- a) Volume of retail sales – a 5% increase in volume contributed to the margin growth yoy.
- b) Structure of the sales volume by tariff groups (mix) – the change of the tariff mix adversely affected the margin as it increased the percentage of customers from tariff groups with a lower unit margin.
- c) Price for end users – the prices follow the changes in variable cost and are determined by market competition. The decrease in the average yoy sales price is a consequence of the declining prices of energy and green certificates in the market and reduction of tariff G for 2017 by ERO by over 4%.
- d) Cost of electricity purchase (in PLN/MWh) – the decrease in the average cost yoy (which fell more slowly than sales prices) is a result of a decline in market prices, which contributed to the reduction of contractual prices, and the lower costs connected with the "offtaker of last resort" function discharged by Energa Obrót SA.
- e) Cost of redemption of property rights – the average unit cost in 2017 was lower than in 2016. The key impact on the change in this factor is exerted by the redemption cost of green certificates, where the rate of decline was much lower than could be inferred from the decline in the market prices of green certificates (by 47%). This was caused predominantly by long-term contracts for the purchase of green certificates entered into many years earlier, under which the purchases were effected until September 2017 at prices based on a fixed substitution fee rather than on market prices. The yoy increase in the cost of property rights was also driven by the introduction, on 1 July,

2016, of a new obligation associated with support for the producers of electricity from biogas (blue certificates); in 2017 the obligation was in effect for the entire financial year, compared to the second half of the year in 2016.

In addition, the following factors had an adverse effect on the Business Line's EBITDA:

- a) The gas trading business – the margin on the sale of this fuel dropped by PLN 16 m yoy. This resulted from lower sales volumes and lower unit margins. Compared to previous years, the profitability in this market decreased as a result of higher activity of the main gas seller in Poland, i.e. PGNiG, and introduction of less favorable trade rules in the gas wholesale market (necessity to incur fees for fuel storage in the case of imports).
- b) The increase in costs (included in the "Other" item in the above EBITDA bridge) resulted from the active sales policy.

The Business Line's 2017 EBITDA was driven upwards, in turn, by the following one-off and non-cash events, which more than doubled EBITDA in yoy terms:

- a) Reversal of impairment losses for disputed receivables in the amount of PLN 44 m; following the analysis of the IFRS 9 standard that changed the approach to the recognition of impairment losses for disputed receivables, the losses recognized previously were partially reversed,
- b) Reversal of a part of provisions for administrative and court proceedings recognized in December 2016 in the total amount of PLN 22 m; as a result of this event, EBITDA changed by +PLN 66 m yoy.

In September this year, Energa Obrót SA decided to recognize long-term contracts for purchasing green certificates as invalid because of the procedure used to execute them (without a tender), including agreements that generated enormous losses for the Company (settlements based on the substitution fee rather than market prices). The decision has no material impact on the Sales Business Line's results in 2017 because a substantial majority of the certificates for 2017 were redeemed before this decision. A favorable impact on the results should be expected in the following years but its occurrence and extent will depend on resolutions of court cases. This decision caused an improvement of the Business Line's cash flows in Q4 2017, since the certificates were no longer purchased under long-term contracts.

The best EBITDA in the whole year was reported in Q4 2017. It stood at PLN 61 m. This was caused by non-recurring events (reversal of impairment losses for disputed receivables and provisions in the total amount of PLN 66 m), as described above. Adjusted for the effects of these events, the Business Line's EBITDA in Q4 2017 would stand at PLN -5 m.

3.7. 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.

3.8. Ratings

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

On 9 February 2017, the Moody's Investors Service rating agency affirmed the Company's ratings at Baa1: the Company's long-term rating in domestic currency and rating for junior unsecured debt in domestic currency extended to the EMTN Program of the subsidiary Energa Finance AB (publ) with a total value of EUR 1 bn guaranteed by Energa. The rating outlook remained stable (Current Report No. 11/2017). 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 described in Chapter 2.2. *Key events and achievements of the Energa SA Group*. 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 27: Current ratings of Energa

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

3.9. Dividend

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.

3.10. Information about the entity authorized to audit 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 spółka komandytowa ("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.

The entity authorized to audit the Financial Statements of Energa SA and the Energa SA Group for the year 2016 was PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością spółka komandytowa ("PwC").

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

PLN 000s	Year ended 31 December 2016	Year ended 31 December 2017
Audit of the annual financial statements	377	660
Other assurance services, including a review of financial statements	152	223
Tax consulting services	55	-
Other services	135	18
Total	719	901

Environment



4. ENVIRONMENT

4.1. Macroeconomic situation

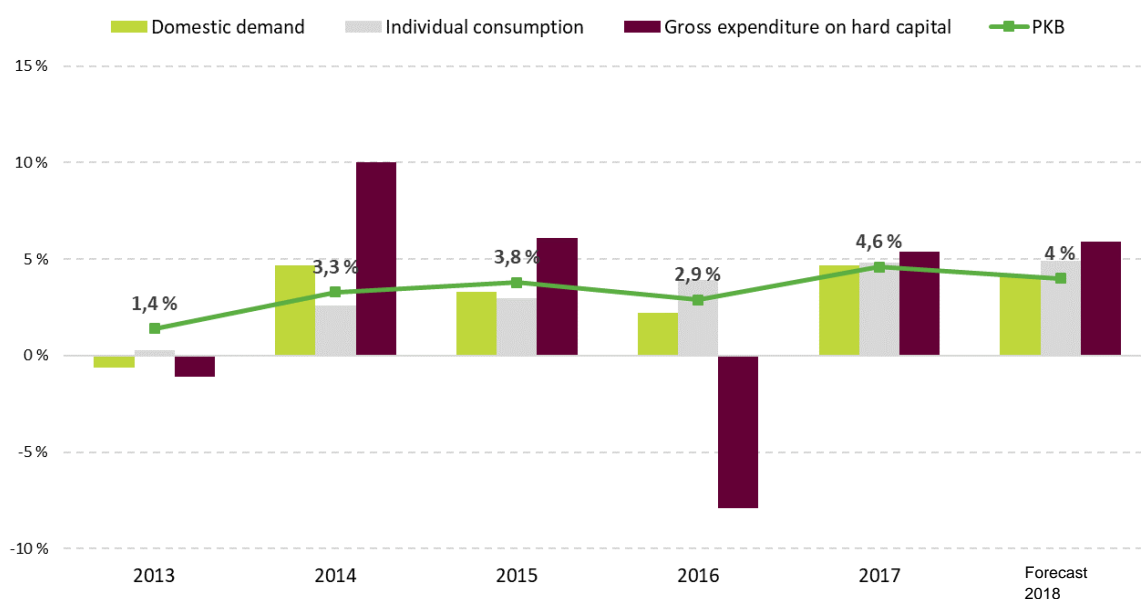
The domestic market is the main market on which the companies comprising the Energa SA Group operate. Accordingly, variations in business conditions measured by GDP change rates, inflation or unemployment rates translate to electricity, heat and gas prices and shape demand for products provided to customers.

According to the preliminary estimate of the Central Statistical Office (GUS), the gross domestic product (GDP) increased in real terms by 4.6% over the year 2017 (vs. 2.9% growth in 2016).

The growth rate of total industrial output sold in 2017 increased by 6.6% compared to the previous year. Compared to the same period in the previous year, growth was recorded in all the key sectors of the industry. For the production and supply of electricity, gas, steam and hot water, prices increased by 5.5% yoy, compared to a 3.5% decline the year before. On the other hand, decreases in production output continued in mining and quarrying, reaching 7.4% compared to 5.2% in 2016.

Positive sentiments in the industry are also confirmed by the PMI measure, which rose to 55 points in December 2017. This occurred on the back of the strongest, in nearly three years, improvement of economic conditions in the Polish industrial sector. The key contributors to this change included: faster growth of production output, employment and total number of new orders.

Figure 21: Annual changes in GDP, domestic demand, individual consumption and capital expenditures



Source: GUS data and forecasts by Bank Zachodni WBK (January 2018)

Domestic demand remains the driving force of the Polish economy, especially individual consumption, which increased by 4.8% over the year. Growing household income, record low unemployment rate, improving consumer sentiment and low interest rates contributed to an increase in the consumer spendings. Contrary to the previous year, the economy was also supported by investment demand and net exports. Gross expenditures on fixed assets increased by 5.4% yoy (compared to a 7.9% drop in 2016). The increase in investments was caused mainly by the higher growth of construction invest-

ments. In foreign trade, the exchange of goods increased with all groups of countries. The largest growth was recorded in trade with Central and Eastern Europe, mainly Russia and Ukraine.

The good economic conditions globally provide strong support for Polish exports and improve its outlook.

Dynamic economic growth driven by an increasing domestic and international demand also affected the labor market situation. The average headcount in the enterprise sector in 2017 increased by 4.5% compared to last year. The average monthly (gross) remuneration grew by 5.9% yoy to the level of PLN 4,530.47. As at the end of December 2017, the registered unemployment rate was 6.6%, or 1.6 percentage points less than last year.

Shortage of qualified workers is increasingly identified as a barrier for the growth of businesses. This does affect the expected salary levels. The increase in salaries is however suppressed by the inflow of workers, among others from the Ukraine.

The price index of industrial output sold increased by 2.9% in 2017 compared to the same period of the previous year. Prices in all the sections were higher than the year before, including the highest growth observed in mining and extraction (by 19.4%). In the sector of generation and supply of electricity, gas, steam and hot water, prices grew at a level of 0.2%.

The overall average annual consumer price index in 2017 was 2.0% vs. 2016, when 0.6% deflation was recorded. According to analysts, the inflation drivers included the increasing prices of energy and energy fuels. The fuel prices also contributed to the variation in inflation rates (especially in the first half of the year). The Monetary Policy Council believes that the coming quarters will see the continuation of the good business conditions and inflation will approximate the inflation target (2.5% with a symmetrical deviation range of ± 1 percentage point); accordingly at its most recent meeting, the Council chose not to change the interest rates, keeping the reference rate at 1.5%.

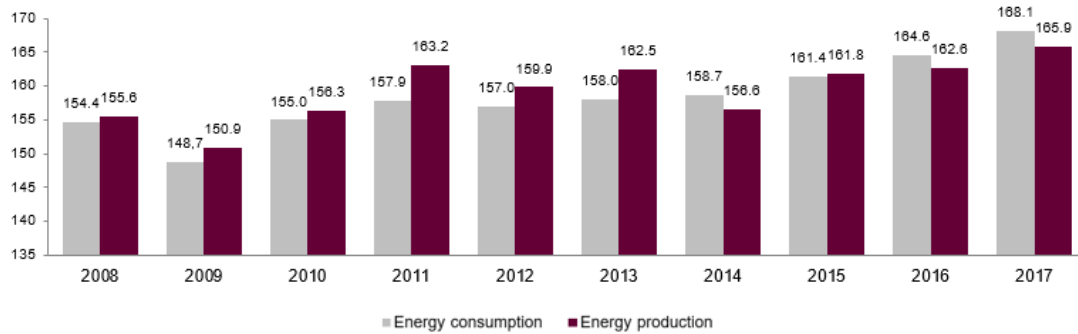
4.2. Electricity market in Poland

The situation in the market environment is vitally important for the Group's market performance. With this respect, one should mention the prices of electricity, property rights, CO₂ emission allowances and hard coal (which is the basic fuel for production). Additionally, the Group's results were affected by regulatory drivers, such as the operating reserve, and non-regulatory drivers, e.g. weather conditions, especially hydrometeorological conditions and windiness.

Domestic generation and consumption of electricity

According to data published by PSE, in 2017 demand for electricity in Poland increased by 3.5 TWh compared to 2016, reaching a record high in the last 10 years of 168.1 TWh. The increase in demand was not satisfied by production in 2017, even though it was higher than last year, increasing by +3.3 TWh up to 165.9 TWh. Therefore, the significant increase in demand was not matched by production growth, as a result of which energy imports increased.

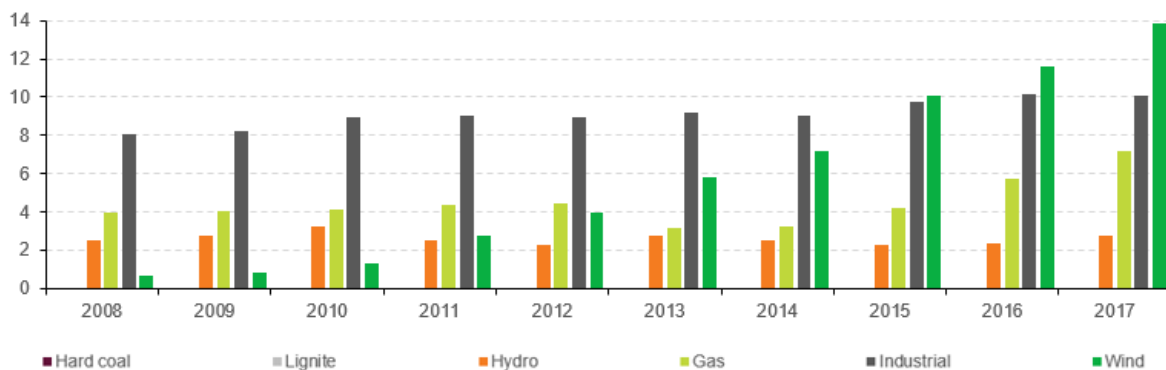
Figure 22: Production and consumption of electricity in Poland in 2008-2017 (TWh)



Source: PSE

2017 was another consecutive year of growth in wind energy generation. The share of wind sources in the production structure was approx. 8.4%, and the generation of electricity by these utilities increased by approx. 19% as compared to 2016. Higher windiness was the key contributor to higher production output of wind power plants; overall, the year 2017 was the windiest of the recent years. A significant number of wind farms operate in the operating area of Energa-Operator SA which translated in 2017 into a higher risk for the Energa SA Group in connection with the discharge of the function of the “offtaker of last resort” by Energa Obrót S.A.

Figure 23: Structure of production of electricity in Poland in 2008-2017 (TWh)



Source: PSE

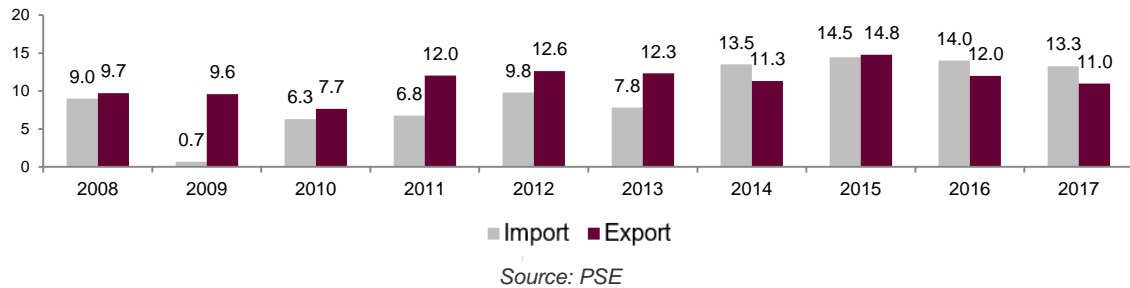
In the past year, the greatest share in the electricity production structure was held by hard coal-fired public-grid power plants. Their share in total production was 48.2% and the share of lignite-fired commercial power plants was 31.4%. In 2017, the increase in wind farm production output was surpassed by gas-fired commercial power plants, which boosted their electricity production output by 24%, up to 7.2 TWh.

Poland’s inter-system exchange

In 2017, imports declined compared to the previous year by 0.7 TWh. Also exports were lower by 1.0 TWh compared to 2016, which may be explained by the rapidly increasing demand for electricity, which in 2017 reached its highest level in the last 10 years at 168.1 TWh. The opening of the new interconnection LitPol Link in December 2015 between Poland and Lithuania and the Nordbalt interconnection between Lithuania and Sweden facilitated the flow of electricity not only between Poland and Lithuania but also increased the volume of electricity exchange with Sweden, treating Lithuania as

a transit country. The volumes of energy flow from Ukraine also increased, which contributed to imports being just slightly lower than in 2016.

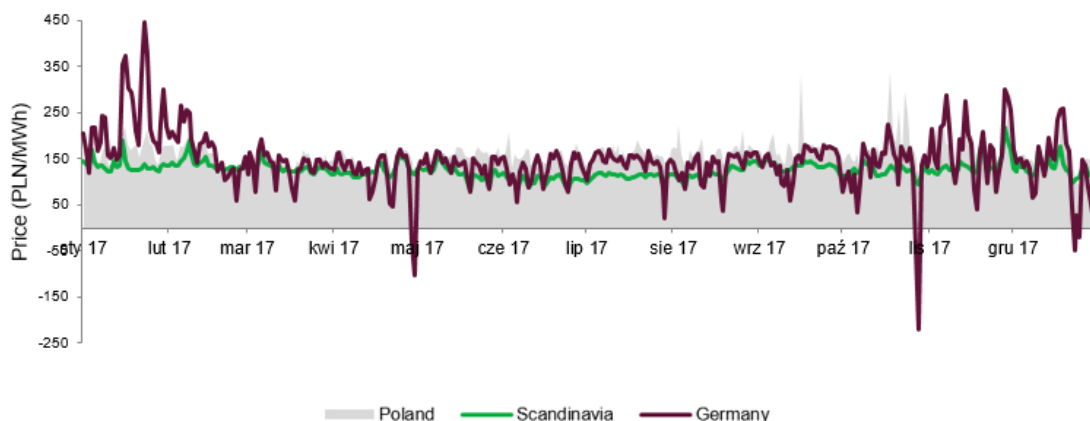
Figure 24: Annual volumes of inter-system exchange in Poland in 2008-2017 (TWh)



Energy prices in neighboring countries

In order to compare energy prices in Poland to those in the neighboring countries, spot market prices were used as reference levels. The price level in Poland, as compared with previous years, was significantly higher than in the neighboring countries. The highest price differences existed in relation to the Scandinavian market (+26.2%, or 32.78 PLN/MWh) and smaller differences in relation to the prices in the German market (+8.8%, i.e. 12.81 PLN/MWh). In January of the previous year and in the second half of the 4th quarter in particular, strong price hikes occurred in peak hours on the Polish market and in the neighboring countries. The second half of the 4th quarter is particularly noteworthy, as significant price drops and hikes could be observed along with higher price volatility related to the high level of wind farm energy production and the shutdowns in conventional, including nuclear, power generation in Germany and France.

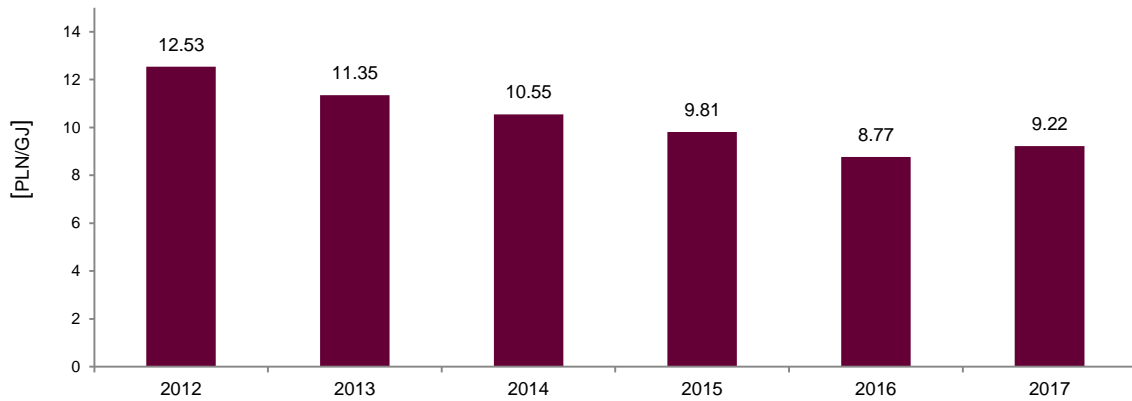
Figure 25: Electricity prices on the spot market in Poland and in neighboring countries in 2017 (PLN/MWh)



Prices of hard coal in Poland

In recent years, the prices of hard coal have been systematically decreasing driven by global factors, that is the global reduction of prices of this raw material and its oversupply in Poland. The downward trend on global market was reversed in 2016 and very high prices of this commodity were maintained in main transshipment ports (ARA, Newcastle, Richards Bay) in 2017. The sales prices of coal for the commercial and industrial power sector on the Polish market increased only slightly as compared to the global trends. Accordingly, the negative effect of this factor on Energa SA Group's performance was limited.

Figure 26: Prices of hard coal inclusive of costs of transportation to hard coal-fired power plants in 2012-2017 (PLN/GJ)

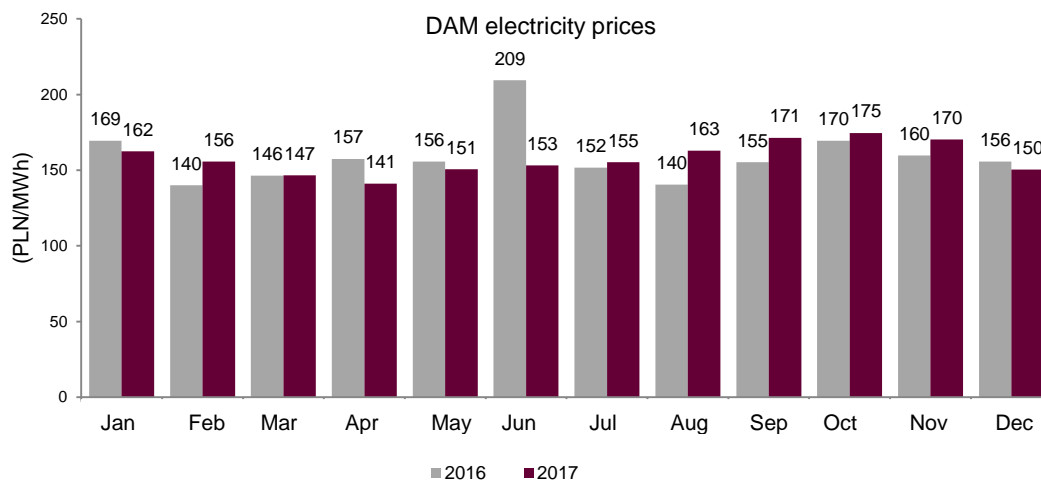


Source: Polski Rynek Węgla

Electricity Day-Ahead Market (DAM) in Poland

The average price of electricity in the DAM in 2017 was slightly lower than the average price in 2016 (- 1.35 PLN/MWh). There is no doubt that the slight yoy decrease in energy prices in 2017 was caused by higher domestic production and the lack of extremely high temperatures in the summer.

Figure 27: Energy prices in the Day-Ahead Market in 2016-2017 (PLN/MWh)



Source: TGE

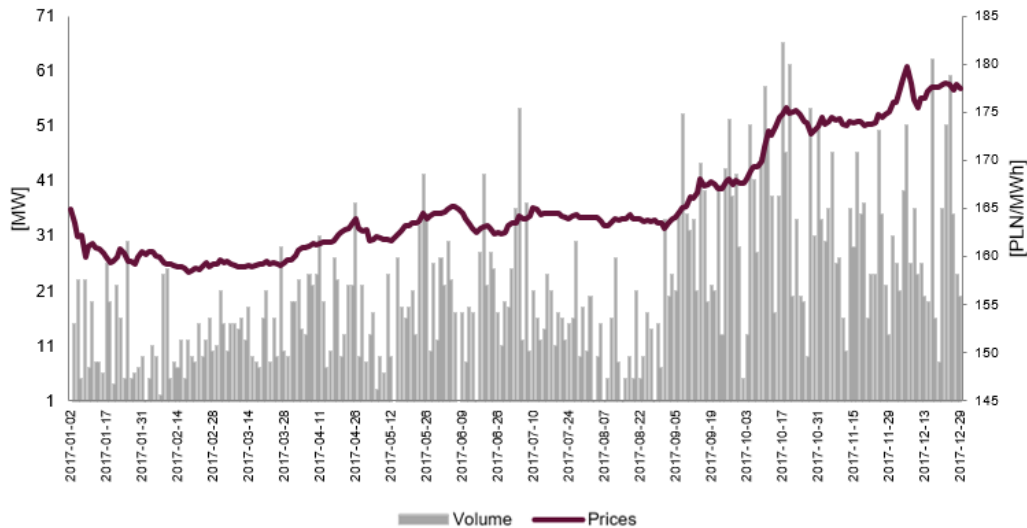
The highest average monthly price of electricity on the commodities market was recorded in October last year, where the average IRDN index reached PLN 174.52/MWh. We must note the yoy price difference in June where the significant increase in energy prices for that month in 2016 was driven by the increasing demand for energy in a period of very high temperatures. The minimum level of 141.09 PLN/MWh was reached in April 2017.

Electricity forward market in Poland

To assess the forward market in Poland, the annual forward contract for delivery of base energy in the whole 2018 was used as a reference product (BASE 2018). In 2017, the contract's price was highly volatile, reaching its minimum in February just below 160 PLN/MWh. From that moment, there is a

clear upward trend on the BASE 2018 market, which pushed the December price up to slightly below 180 PLN/MWh. The trend on the forward market is particularly important from the perspective of the Group contracting process for the next year.

Figure 28: Forward contract price – base with delivery in 2018



Source: TGE

Emission allowance market

In the beginning of 2017, there was a crash on the market for CO₂ emission allowances, which led to a decline in prices from more than 6 EUR/ton to 4.36 EUR/ton in mid-May. From that time onward, the market made an effective attempt to increase the prices, ending the quotation of the DEC 2017 contract at 7.39 EUR/t. The upward trend, which started in May, may be explained by the acceleration of work on the reform of EU ETS (on 22 November, the EU Council supported the agreement) and an upward movement of prices of energy products (oil, coal, gas).

Figure 29: Prices of emission allowances (EUA DEC 2017) in 2017



Source: Bloomberg

Market for property rights

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

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

Index (type of certificate)	Index value		% Obligation (%)	Substitution fee (PLN)
	2016 (PLN/MWh) with 2016 index	2017 (PLN/MWh) with 2017 index		
OZEX_A (green)	73.63	36.47	15.4*	300.03*
KGMX (yellow)	120.37	119.69	7.0*	120.00*
KECX (red)	10.72	10.17	23.2*	10.00*

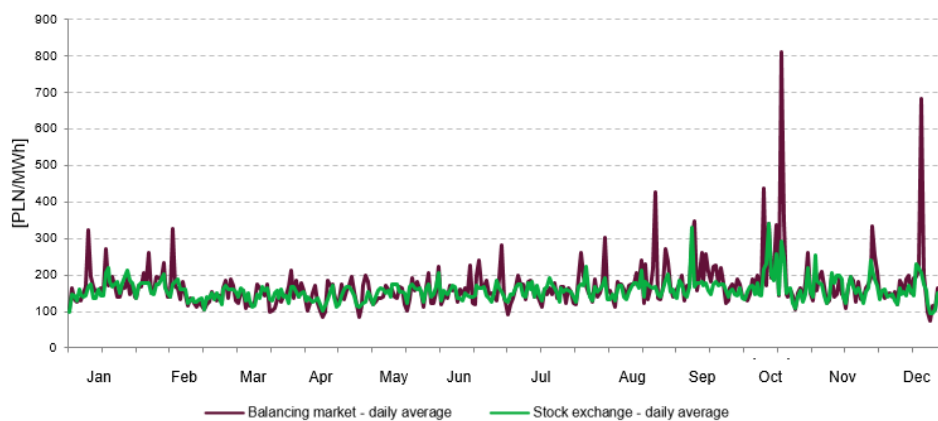
* value of the substitution fee and redemption obligation in 2017

From the standpoint of the Group's generation structure (high RES production) the quotations of so-called green property rights were the most important. In the first half of 2017 a systematic decrease of prices for this index was observed, which recorded the minimum level at the end of June at 22.46 PLN/MWh. This can be attributable to, among other factors, a surplus of certificates in the market. From that moment onward, the prices of RES property rights in session transactions continued to increase and ended the year at the level of 45.29 PLN/MWh.

Balancing and spot markets

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

Figure 30: Comparison of prices on the balancing market and spot markets (Exchange) in 2017 (PLN/MWh)



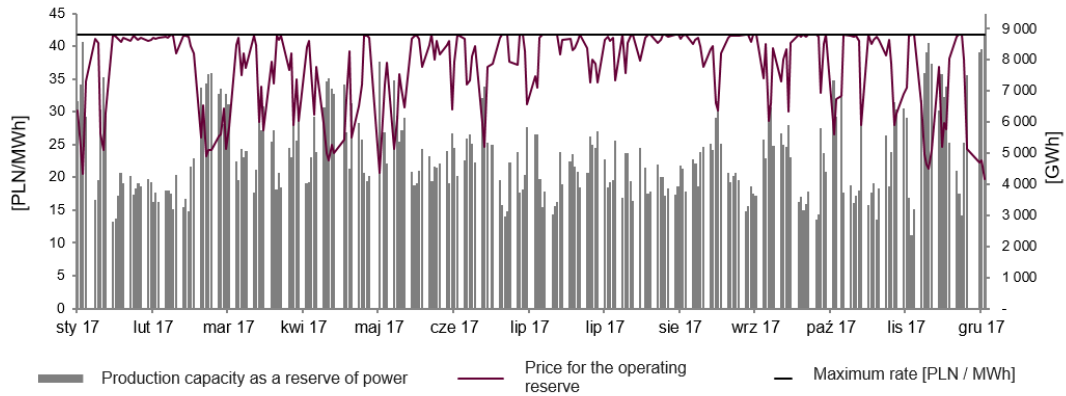
Source: PSE

The first 7 months of 2017 were peaceful on the balancing market and in terms of prices of instruments listed on the spot market; it was distorted mainly by severe fluctuations in wind power production, increasing demand for capacity and shutdowns in Poland and in the Western Europe. The average price level in 2017 on the balancing market was 167.27 PLN/MWh, compared to 164.16 PLN/MWh in 2016.

Operating reserve

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

Figure 31: Prices and generating capacity constituting operating reserve in 2017



Source: PSE

In 2017, the operating reserve service was continued, while its level changed slightly compared to the previous year. The reference price was raised to 41.79 PLN/MWh and the budget rose by 11% compared to 2016.

4.3. Regulatory environment

Regulatory issues pending and completed in 2017

Table 30: List of legal acts affecting the Group

Legal act	Purpose of changes	Opportunities	Threats
The Water Law Act of 20 July 2017	Implementation of the Water Framework Directive requirements in respect to the principles of water management.	<ol style="list-style-type: none"> Strive to (i) keep the current exemptions from new energy installation charges, or (ii) their significant reduction based on fair pricing arrangements during consultations and meetings; (iii) lack of fees or the rates should be statutory rather than based on a governmental regulation. Rationalization and stimulation of investments in the area of water management in Poland. <p>implementation of the Framework Water Directive to the Polish legal system</p>	<ol style="list-style-type: none"> Possible technical and organizational difficulties with implementing the act (measurement devices, developing contacts with the new water administration authority, i.e. Polish Water).
Capacity Market Act of 8	Ensuring support for imple-	<ol style="list-style-type: none"> Ensures long-term 	<ol style="list-style-type: none"> Risk that the Act may be notified for the second time to the EC following

December 2017*	mentation of investment projects that increase the stability and security of the National Power System.	<p>energy security of Poland</p> <p>(2) Effect of incentives to build new and modernize existing generation installations. Modernization and construction of new electricity sources to stabilize the National Power System and utilize Polish resources of energy fuels.</p> <p>(3) Ensuring the possibility of executing the construction of the new Ostrołęka C power plant on market terms.</p>	<p>the entry into force of the so-called Winter Package and the need to implement new requirements of EU law in this act.</p> <p>(2) No guarantee that the beneficiaries of the capacity auctions for 2018-2019 will retain acquired rights.</p>
Electromobility and Alternative Fuels Act of 11 January 2018*	Creation of the legal framework for the implementation of the government electromobility and alternative fuel infrastructure development programs	(1) Opportunity for dynamic growth of the electromobility business (cars, municipal transport, access in infrastructure) in which the Energa SA Group has considerable experience	(1) Competition with entities that have well-developed technological and capital resources. The pace of implementation of the legal changes is slow.

* Asterisk marks the acts where the legislative process was formally completed in early 2018 (signed by the President and published in the Journal of Laws) but the content of these Acts did not change.

Regulatory issues in progress in 2017 and continuing in 2018

Table 31: List of legal acts affecting the Group

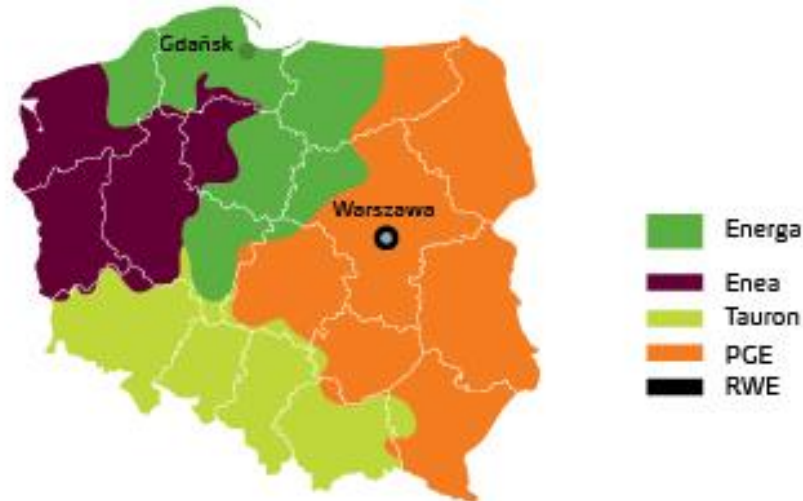
Legal act	Purpose of changes	Opportunities	Threats
Clean Energy for All Europeans legislative proposals, so-called Winter Package. COM/2016/0860 final	Maintenance of EU's competitiveness in the period of transformation of energy markets towards clean energy, the so-called Winter Package. Plans to reduce coal subsidies, to increase the energy efficiency target to 30% and to reduce CO ₂ emissions by 40% before 2030. The new regulations require approval by the EU Council and the European Parliament. The Winter Package also contains solutions that support the development of decentralized electricity production and its storage to develop "civic energy". The important change for the energy markets in the EU is the abolishment of the "priority dispatch", i.e. priority of access to the grid for RES before conventional sources. The amendment will come into effect after 2020.	<p>(1) Implementation of consistent regulations to improve EU's energy security</p> <p>(2) Establishment of a Modernization Fund will enable financing of renewable energy production projects (such as the Lower Vistula Cascade)</p>	<p>(1) Risk that the Act may be notified for the second time to the EC following the entry into force of the so-called Winter Package and the need to implement new requirements of EU law in this act.</p> <p>(2) No guarantee that the beneficiaries of the capacity auctions for 2018-2019 will retain acquired rights.</p>

<p>Work on amendments to the Energy Law Act</p>	<p>Change of the rules of financing street lighting in Poland.</p>	<p>(1) Implementation of consistent principles of financing street lighting. Definition of the rules on the development of lighting assets.</p>	<p>(1) Absence of changes will result in the continuation of different rules of cooperation in different parts of Poland. Risk that lighting assets may be communalized by local government units.</p>
<p>Government's bill to amend the RES Act and Certain Other Acts</p>	<p>Ensuring good regulatory and business environment for: property tax payable on Wind Power Plants and the possibility of developing RES with the assumption of higher profitability.</p>	<p>(1) Clarification of ambiguous provisions (inconsistent jurisprudence of Voivodship Courts of Administration) regarding the taxation of wind power plants. Development of RES with the possibility of the investments being based on financing mechanisms that ensure profitability of the projects.</p>	<p>(1) Protruded proceedings on this legislation. Possible collision with EU legislation, among others the Winter Package.</p>
<p>Government's bill to amend the Financial Instruments Trading Act and Certain Other Acts</p>	<p>The bill concerns the changes that need to be introduced to the national legal system in connection with the entry into force of European capital market regulations and will enable the application of EU regulations concerning markets in financial instruments (MiFID2 Directive and MiFIR Regulation). The new solutions are designed to increase the competitiveness and efficiency of financial markets in Poland and the European Union and to increase safety of their participants.</p>	<p>(1) Possibility of developing sales of new products. (2) Achievement of competitive advantage through rapid implementation of EU legislation.</p>	<p>(1) Protruded proceedings on this legislation.</p>

4.4. Energa vs. the industry

The Energa SA Group is one of the four largest vertically integrated energy groups operating in Poland. The companies are separated geographically, in terms of the areas on which they conduct their electricity distribution activity. Energa's distribution area covers northern and central Poland.

Figure 32: Distribution area of the main power-generating companies

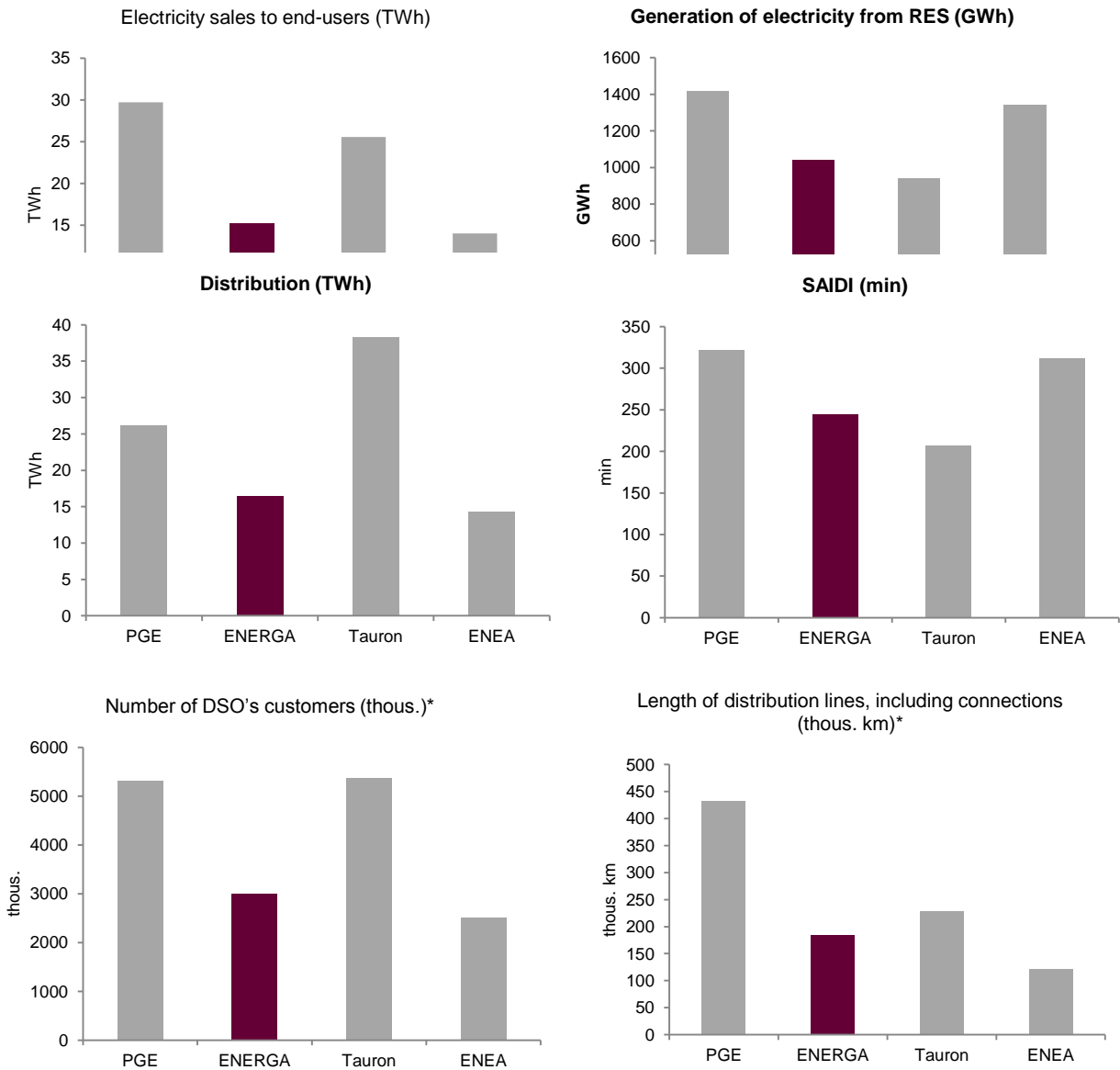


In distribution, Energa SA Group ranks third behind the PGE and Tauron Groups in terms of the regulatory asset base, the volume of electricity supplied, as well as grid length and the number of customers. Thanks to intensive modernization efforts, the quality ratios of Energa's networks are among the best in Poland. Among the largest energy companies, only Tauron achieves better SAIDI and SAIFI, which is a consequence of greater customer density in the south-western part of Poland.

Due to historical conditions, the range of the distribution grid translates into the number of customers in the sales area. In this respect Energa also ranks third. The volume of sales to end-users is more diverse than the number of customers and is dependent on the sales strategy towards the largest customers. In the first three quarters of 2017, Energa was ranked third in terms of sales volume behind PGE and Tauron, slightly ahead of Enea.

Compared with other companies, Energa has a small share in conventional energy generation. The Group has one system heat-generating unit with the maximum capacity of 681 MW (Ostrołęka B Power Plant) This is significantly less than in the case of the remaining companies, among which PGE has the highest maximum capacity. The situation is different in the renewable energy area. In terms of production from renewable energy sources, Energa is at a level similar to the other energy groups.

Figure 33: Comparison of operational data of Energa and other energy groups, Q1-Q3 2017



*PTPIREE figures at the end of 2016

Shares and shareholding structure



5. SHARES AND SHAREHOLDING STRUCTURE

5.1. Energa's shareholding structure

Table 32: Issuer's shares by series and types

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

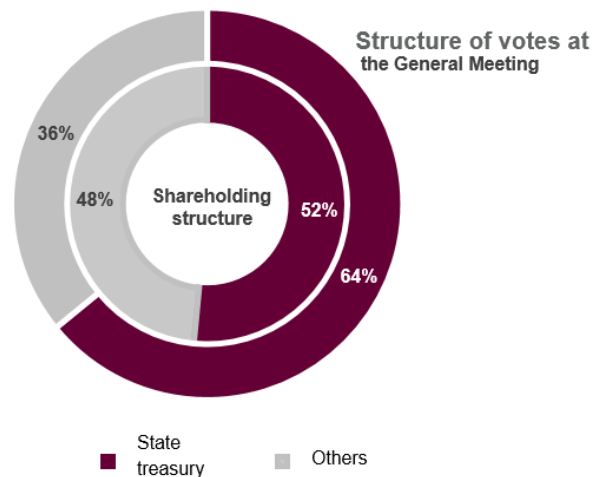
* One preferred share entitles its holder to 2 votes at the General Meeting. These shares are owned by the State Treasury.

Table 33: Shareholding structure of Energa as at 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 34: Shareholding structure of Energa and structure of votes at the General 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.

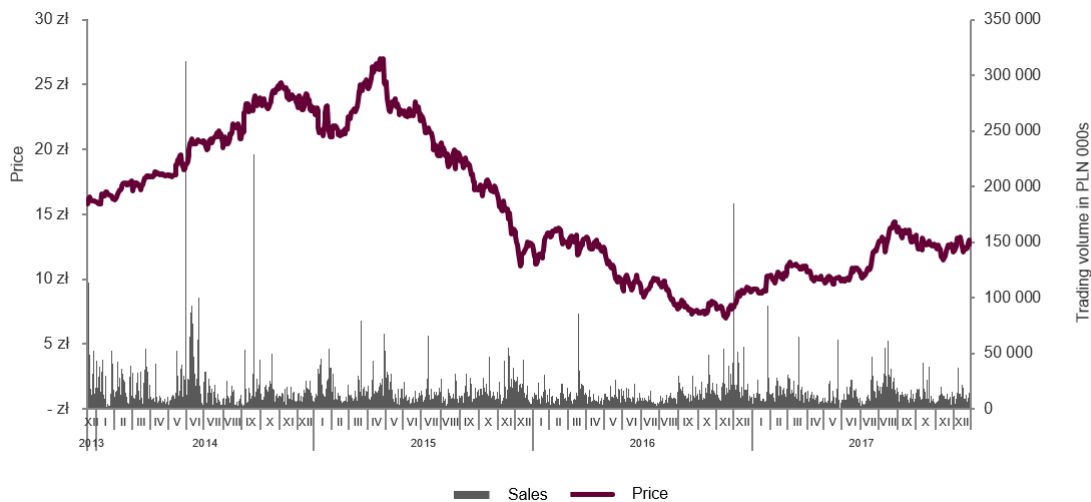
5.1. Company stock prices on the Warsaw Stock Exchange

Table 34: 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 shares
Average number of trades	2.2 thousand

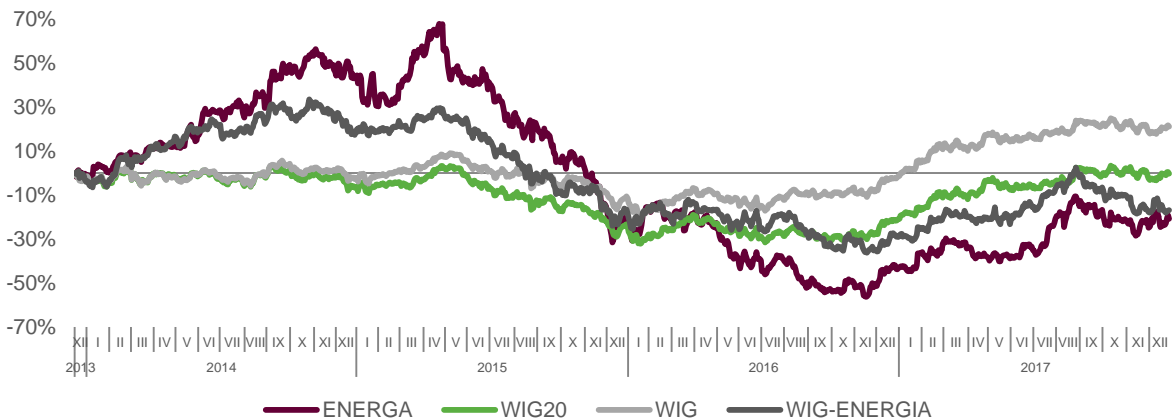
Source: Proprietary material based on data from www.infostrefa.com

Figure 35: 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 36: 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.

5.2. 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),

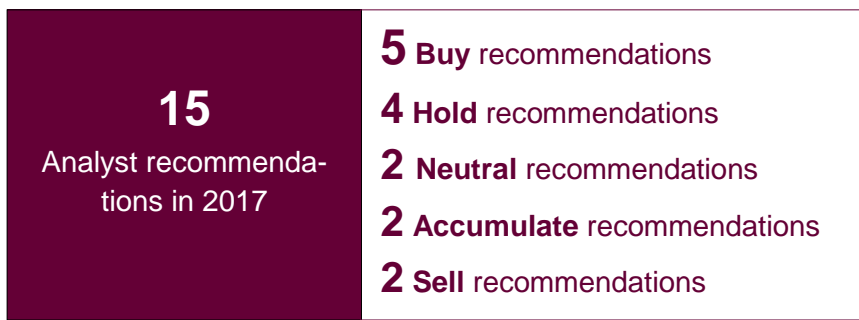
- (8) Constant communication with analysts issuing recommendations on companies to their customers.

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.

5.3. 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 on the Company's Investor Relations website.

Figure 37: Recommendations issued for Energa's shares in 2017



Representation on the application of Corporate governance principles



6. REPRESENTATION ON THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

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

6.1. Corporate governance principles not applied in the Company

On 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.

6.2. Major shareholders

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

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

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

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

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

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

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

6.4. Restrictions regarding the exercise of voting rights

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

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

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

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

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

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

6.5. Restrictions on the transfer of ownership title to securities

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

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

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

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

- 1) resolutions adopted by the General Meeting (which also require amendments to the Articles of Association) on the following subjects:
 - a) introduction of shares of various types, establishment of shares of a new type,
 - b) change of the preference of shares,
 - c) split-up of the Company, except for split-up through spinning-off,
 - d) moving of the Company's registered office,
 - e) transformation of the Company,
- 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.

6.7. Company's corporate bodies

General Meeting

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

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

Manner of convening the General Meeting

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

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

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

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

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

Course of the General Meeting

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

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

Votes shall be cast in an open ballot. Secret ballot will be ordered during elections and when voting on motions to dismiss members of the Company's authorities or liquidators to hold them liable as well as

in the case of personal matters. Furthermore, a secret ballot should be ordered at the request of at least one shareholder from among those present or represented at the General Meeting.

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

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

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

Powers of the General Meeting

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

- 1) reviewing and approving the Management Board report on the Company's activity and the financial statements for the completed financial year;
- 2) granting a discharge to members of the Company's corporate bodies on the performance of their duties,
- 3) distributing profit or covering a loss,
- 4) changing the Company's line of business,
- 5) amending the Company's Articles of Association,
- 6) increasing or decreasing the Company's share capital,
- 7) merging, splitting up or transforming the Company,
- 8) dissolving or liquidating the Company,
- 9) issuing convertible bonds or bonds with a pre-emptive right, and on issuing subscription warrants,
- 10) selling or leasing an enterprise or an organized part thereof and establishing a limited right in rem thereon,
- 11) creating, using and liquidating the Company's capitals and funds,
- 12) appointing or dismissing Supervisory Board members and setting their compensation levels,
- 13) depriving current Company shareholders of their pre-emptive rights, in whole or in part,
- 14) allowing the Company to purchase its treasury stock and authorizing the Management Board to purchase treasury stock for retirement,
- 15) allowing the Company to enter into a credit facility, loan, surety agreement or some other similar agreement with a Management Board Member, a Supervisory Board member, a general proxy or a liquidator or in favor of any such person,
- 16) purchasing real property, perpetual usufruct or share in real property or in perpetual usufruct, worth more than PLN 20 m,
- 17) purchasing non-current assets, except for real estate or right of perpetual usufruct, and except for purchasing and subscribing for shares in other companies, worth more than PLN 20 m,
- 18) disposing of non-current assets, including real estate, right of perpetual usufruct, or share in real estate or right of perpetual usufruct, except for shares in other companies, worth more than PLN 20 m;
- 19) changing the record date, setting 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 the 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 Ziemiecka-Księżak – Supervisory Board Chairwoman,
 - b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
 - c) Agnieszka Terlikowska-Kulesza – Supervisory Board Secretary,
 - d) Andrzej Powałowski – Supervisory Board Member,
 - e) Marek Szczepaniec – Supervisory Board Member,
 - f) Maciej Żółtkiewicz – Supervisory Board Member,
 - g) Jacek Kościelniak – Supervisory Board Member,
- 2) in the period from 10 February 2017 to 26 June 2017:
 - a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
 - b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
 - c) Agnieszka Terlikowska-Kulesza – Supervisory Board Secretary,
 - d) Andrzej Powałowski – Supervisory Board Member,
 - e) Marek Szczepaniec – Supervisory Board Member,
 - f) Maciej Żółtkiewicz – Supervisory Board Member,
- 3) in the period from 26 June 2017 to 22 August 2017:
 - a) Paula Ziemiecka-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 Ziemiecka-Księżak – Supervisory Board Chairwoman,
 - b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
 - c) Agnieszka Terlikowska-Kulesza – Supervisory Board Secretary,
 - d) Andrzej Powałowski – Supervisory Board Member,
 - e) Marek Szczepaniec – Supervisory Board member,
 - f) Maciej Żółtkiewicz – Supervisory Board Member.

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 4rd 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 Ziemiecka-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 “Łuczniczka” Sp. z o.o. in Radom. In 2001 – 2005 he discharged the following functions: Receiver of “Putis” in Milanówek, Privatization Proxy of “Transdrog” in Warsaw, Vice-President of the Management Board of P.W. “Mediainstal” 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 Powalowski studied from 1969 to 1973 at the Faculty of Law and Administration in the Nicolaus Copernicus University in Toruń. In 1973 he started to work as an assistant in the National Economy Management Law Section at the Faculty of Law and Administration in the University of Gdańsk. In 1980 he obtained the title of doctor of legal sciences and was employed at the position of assistant professor. From 1992 he worked on the position of senior lecturer at the Public Economic Law Faculty and from 1994 at the Public Economic Law and Environmental Protection Faculty. In 2009 he obtained the title of habilitated doctor of legal sciences in the area of public economic law. In 2010 he was nominated to the position of associate professor of Gdańsk University. At the Law and Administration Faculty in the University of Gdańsk he is currently the head of the Public Economic Law Section and head of the post-graduate study programs entitled “Legal conditions for conduct of economic activity” and “Public procurement law and system”. He is also a lecturer at the Off-Site Faculty of the Gdańsk School of Higher Education in Olsztyn. He was employed as an associate professor of the Baltic College of the Humanities and the Real Estate Management College. Author of numerous publications in the form of books and articles for scientific magazines; he is a member of the governing bodies of non-governmental organizations and scientific periodicals. He worked as a legal advisor and since 2010 he has been an advocate in his own law firm in Gdańsk. He discharges the function of arbitrator at the International Court of Arbitration at the Polish Chamber of Maritime Commerce.

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

Supervisory Board’s powers

The Supervisory Board's powers include in particular:

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

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

Operation of the Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In the period from 1 January to 31 December 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 decisions in the form of a resolution to justify absences on the basis of information provided by the Supervisory Board Members on the reasons for their absences.

The most important matters handled by the Supervisory Board in the 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 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 for the purpose of submitting recommendations to the Supervisory Board;
- 4) monitoring and analyzing the compensation system for the Management Boards and management of companies in the Energa 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 Ziemecka-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 Ziemecka-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 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 fifth 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 remote means of direct communication, such as conference and video conference calls, with the reservation that there is at least one Management Board Member present at the location specified by the person convening the meeting and there is a technical possibility of ensuring a connection.

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

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

In 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 in Energa SA,
- 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".

6.8. 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 aver-

age 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 35: 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
TOTAL		3,972	212	4,184

*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 exter-

nal, 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 36: 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 Ziemiecka-Księżak	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
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 Powalowski	from 1 January to 31 December 2017	79	0	79
TOTAL*		489	0	489

*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.

6.9. 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.

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

An important element of the internal control system is the internal audit function. The Company has an internal audit unit which carries out the audit and control tasks in the Energa 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 2.6 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



7. MANAGEMENT BOARD'S REPRESENTATION

Gdańsk, 14 March 2018

The Energa SA Management Board hereby represents that:

- (1) according to the best knowledge, the annual consolidated financial statements and the comparative data were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the Energa SA Group and its financial result. The Management Board Report on the activity of the Energa SA Group contains a true presentation of developments, achievements, and situation of the Group, 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 consolidated financial statements of the Energa SA Group 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 consolidated 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 ₂	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	Euro Medium Term Note issue program.
EU	European Union
EUA	Emission allowances
EU ETS	European Union Greenhouse Gas Emission Trading Scheme The rules governing its operation are stated in ETS Directive.
EUR	Euro, currency used in countries belonging to the European Union's Eurozone
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
ENERGA SA Group, Energa 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 ⁹ 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 ⁶ W

MWe	Megawatt of electrical power
MWh	Megawatt hour
MWt	Megawatt of thermal power
NBP	National Bank of Poland, central bank in Poland
NCBiR	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 electricity, responsible for grid operation in the gaseous transmission system or in the electrical energy transmission system, the current and long-term operational safety of this system, the operation, maintenance, refurbishment and required expansion of the transmission grid, including connections with other gaseous systems or other electrical power systems.
OZEX_A	Volume-weighted average price using all transactions pertaining to the PMOZE_A contract on an exchange session
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	Document issued by the ERO President pursuant to art. 9e of the Energy Law con-

energy sources, green certificate	firming the generation of electricity in a renewable energy source (known as a green certificate)
Tariff G	Tariff group for individual customers – households
Polish Power Exchange, TGE	Polish Power Exchange S.A., a mercantile exchange on which commodities admitted to be traded on the exchange are traded, i.e. electricity, liquid and gaseous fuels, mine gas, pollution emission limits and property rights ensuing from certificates of origin whose price is directly or indirectly dependent on the price of electricity, liquid or gaseous fuels and the quantity of pollution emissions
TWh	Terawatt hour, a multiple unit of electricity in the International System of Units. 1 TWh is 10 ⁹ kWh
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