



Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

Gdańsk, 27 May 2020

Contents

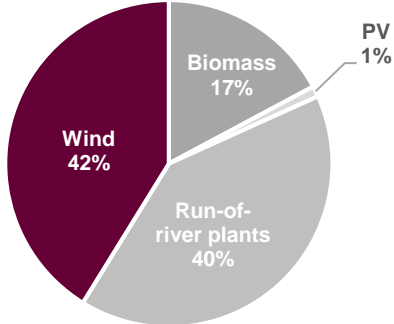
1. SUMMARY	4
2. KEY INFORMATION ABOUT THE GROUP	7
2.1. Activities of the Energa Group	7
2.2. Group's structure and governance model	9
2.3. Key events in 2019 and after the balance sheet date	12
2.4. Innovation activities	23
2.5. Capital expenditures	24
2.6. The Energa Group Strategy and Directions of Development for 2016–2025	26
2.7. Awards and distinctions	31
2.8. Corporate Social Responsibility at the Energa Group	33
3. REGULATORY AND BUSINESS ENVIRONMENT	37
3.1. Macroeconomic situation	37
3.2. Electricity market in Poland	39
3.3. Regulatory environment	47
3.4. Description of the Group's position in relation to other energy groups	50
3.5. Factors affecting the Energa Group's performance	52
4. FINANCIAL AND ASSETS SITUATION OF THE GROUP	54
4.1. Rules of preparing the annual consolidated financial statements	54
4.2. Explanation of the economic and financial data disclosed in the annual consolidated financial statements	54
4.3. Structure of assets and liabilities in the consolidated statement of financial position	62
4.4. Description of significant off-balance sheet items	63
4.5. Projected financial results	63
5. ACTIVITIES OF BUSINESS LINES	65
5.1. Distribution Business Line	65
5.1.1. Business and operating activities	65
5.1.2. Financial performance	68
5.2. Generation Business Line	70
5.2.1. Business and operating activities	70
5.2.2. Financial results	73
5.3. Sales Business Line	78
5.3.1. Business and operating activities	78
5.3.2. Financial performance	83
6. FINANCIAL AND ASSETS SITUATION OF ENERGA SA	87
6.1. Rules of preparing the annual standalone financial statements	87
6.2. Explanation of the economic and financial data disclosed in the annual standalone financial statements	87
6.3. Structure of assets and liabilities in the standalone statement of financial position	90
6.4. Description of significant off-balance sheet items	91
7. RISK MANAGEMENT	93
7.1. Integrated Risk Management System of the Energa Group	93


7.2.	Description of major factors and risks.....	95
8.	SHARES AND SHAREHOLDING STRUCTURE	102
8.1.	Energa's shareholding structure	102
8.2.	Prices of the Company's shares and recommendations.....	103
8.3.	Investor relations at Energa SA	106
8.4.	Recommendations for the Company's stock	107
8.5.	Ratings	107
8.6.	Dividend.....	108
9.	OTHER INFORMATION ON THE GROUP	110
9.1.	Information on material contracts, agreements and transactions	110
9.2.	Proceedings pending before courts, arbitration or public administration bodies	114
9.3.	HR and payroll situation.....	128
9.4.	Information on the statutory audit firm	133
10.	CORPORATE GOVERNANCE STATEMENT	135
10.1.	Application of corporate governance principles	135
10.2.	Significant shareholders	135
10.3.	Holders of stock with special control rights and a description of special control rights	135
10.4.	Restrictions on voting rights.....	136
10.5.	Restrictions on transfer of ownership of securities	136
10.6.	Amendments to the Articles of Association.....	136
10.7.	Corporate bodies	137
10.8.	Salaries of executive and supervisory staff.....	153
10.9.	Diversity policy.....	155
10.10.	Main features of internal control and risk management systems in relation to the financial reporting process.....	155
11.	MANAGEMENT BOARD REPRESENTATION AND INFORMATION.....	159
	List of tables.....	160
	List of figures.....	161
	Glossary of terms and abbreviations.....	162

1. SUMMARY

ENERGA GROUP IN 2019	
	<p>One of the leading energy groups and a reliable supplier of electricity and services for nearly ¼ of Poland, with a 38% share of RES in own production.</p>




Financial data		
Revenues	EBITDA	EBITDA margin
PLN 12,172 m	PLN 2,039 m	16.8%

Renewable energy sources		
Installed capacity	RES production	
508 MWe	1,365 GWh	

Operating data		
Volume of electricity supplied	Gross electricity production	Retail sales
 22.2 TWh	 3.6 TWh	 19.7 TWh

Basic facts for investors			
Capitalization*	Share price*	Member of indices, including:	Fitch rating of Energa
PLN 2.9 bn	PLN 7.08	  	BBB

*at the end of 2019

Key resources		
Length of distribution network	Installed capacity	Employees
190 k km 	1.35 GWe <i>Of which 38% are RES</i> 	10.0 k 



-  Heating plant
-  Coal
-  Pumped-storage power plant
-  System power plant
-  Small hydro power plant
-  Big hydro power plant
-  CHP
-  Wind farm
-  Photovoltaic farm
-  Biomass-fired installation
-  Headquartered ENERGA SA
-  Electricity distribution area
-  Electricity sales area

Key Business Lines		
Distribution	Generation	Sales
		
EBITDA: PLN 1,648 m	EBITDA: PLN 262 m	EBITDA: PLN 182 m

Investments			
PLN 1,574 m	New customers	Upgrade of high-, medium- and low-voltage lines	New RES
<i>Of which Distribution: PLN 1,334 m</i>	62 thousand	4,273 km	218 MW



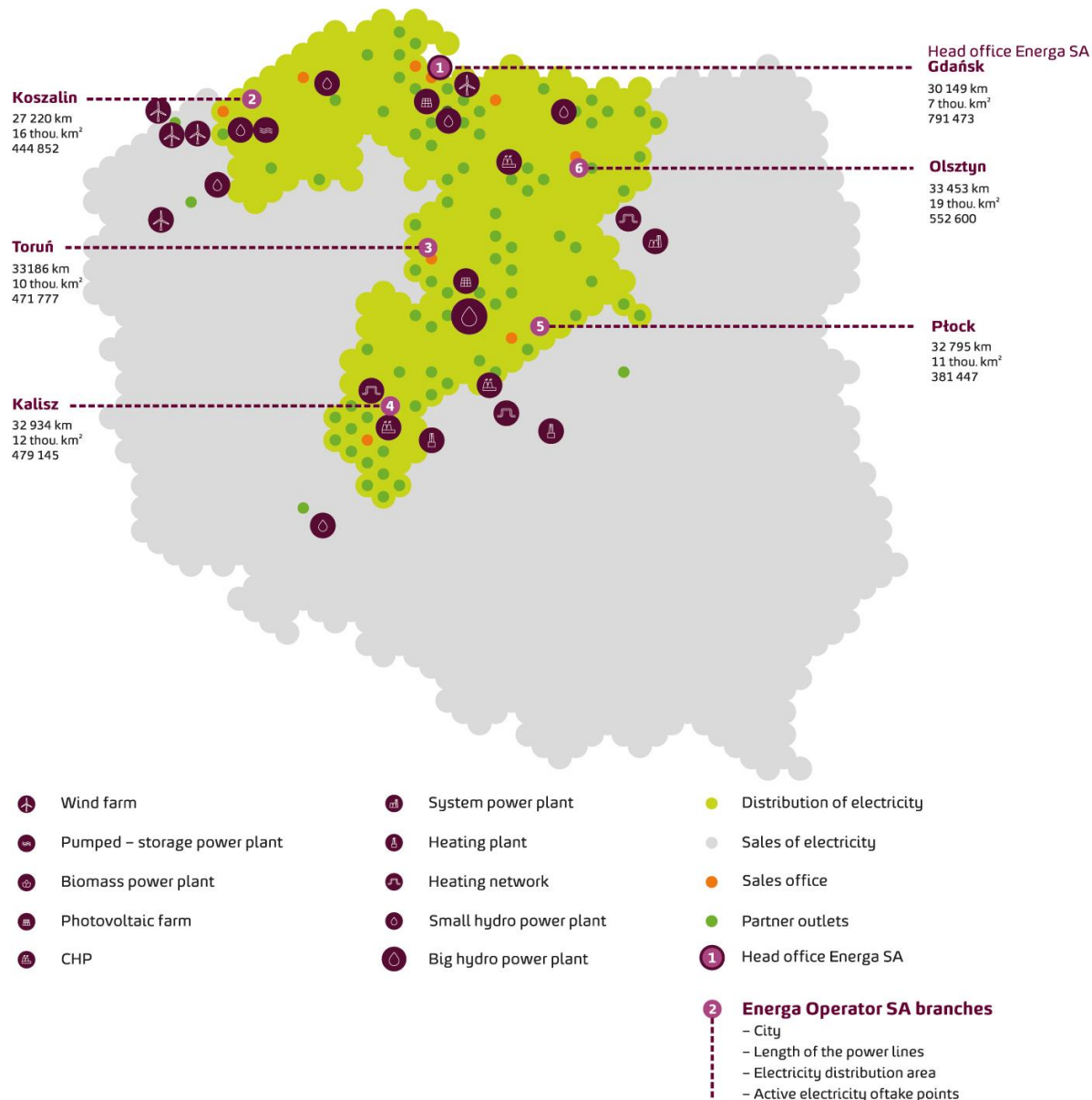
Hydro plant in Żelkowo

Key information about the Group

2. KEY INFORMATION ABOUT THE GROUP

2.1. Activities of the Energa Group

Figure 1: Business locations and main assets of the Group



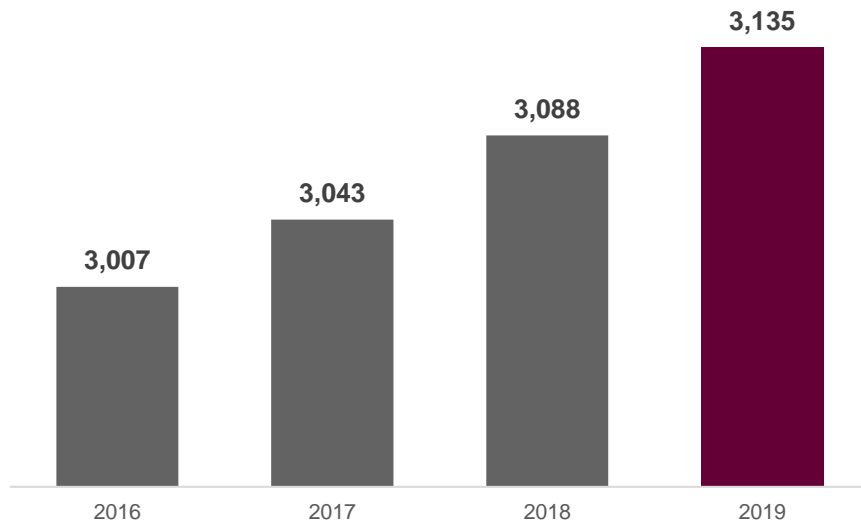
The core business of the Energa Group involves the distribution, generation and trading in electricity and heat and concentrates on the following business lines¹:

Distribution Business Line. This is the business line of key importance to the Group's operating profitability, consisting in the distribution of electricity (which is a regulated activity in Poland) and based on tariffs approved by the President of the Energy Regulatory Office (URE). Energa Operator SA is the leader in this Line. The Energa Group has a natural monopoly position in the northern and central part of Poland which hosts the Group's distribution assets through which the Group supplies electricity to more than 3.1 m customers, approx. 2.9 m of whom are customers with universal agreements and 186,000 are TPA (Third Party Access) customers. As at 31 December 2019, the total length of the

¹ The Group's Segments were renamed to Business Lines in connection with the Cooperation Agreement signed in December 2017, as described in Section 2.2. Energa Group Management Model herein.

power lines was over 190 thousand km and covered almost 75 thousand km², i.e. about 24% of the country's landmass.

Figure 2: Number of customers of Energa Operator SA as at 31 December 2016-2019 (in thousands)



Generation Business Line. The operation of this Business Line is based on four Generation Areas: the Ostrołęka Power Plant, Hydro, Wind and Other (including cogeneration – CHP). At the end of 2019, the total installed generation capacity in the Group's power plants was about 1.3 GW. The Leading Entity in this Business Line is Energa OZE SA

The Group generated 3.6 TWh of electricity (in gross terms) throughout the year, relying on a mix of sources such as coal, water, wind, biomass, and solar energy. In 2019, 60% of the Group's gross electricity production originated from coal, 21% from hydro and 12% from wind and 6% from biomass.

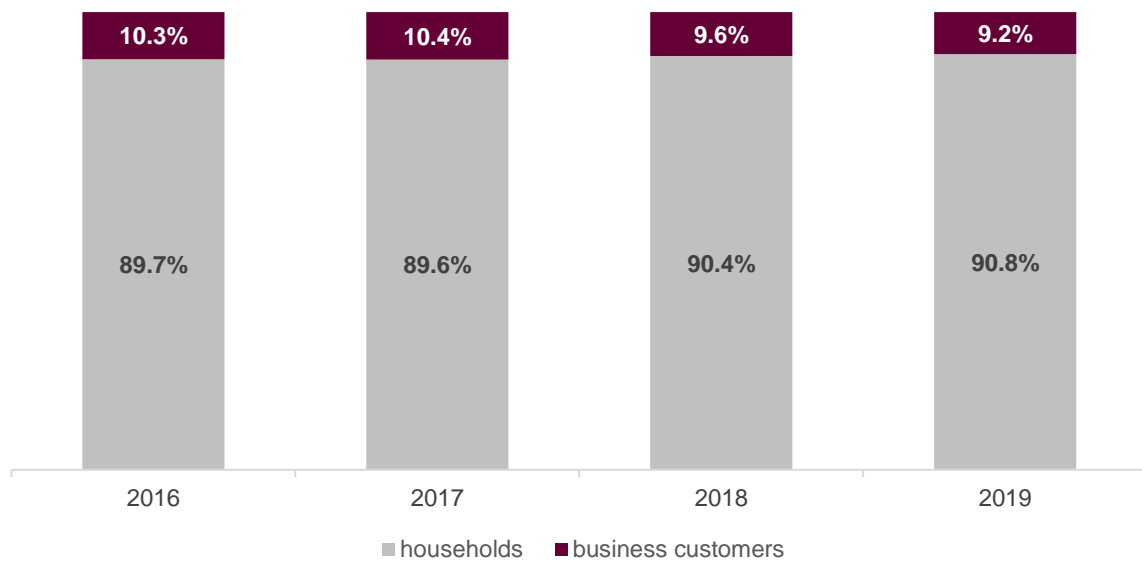
The Energa Group owes its leading position in terms of the percentage of renewable electricity in the total energy mix primarily to the generation of energy in hydro- and wind power plants. Green energy is produced by 46 hydro power plants, 5 wind farms and biomass-fired installations (in Energa Kogeneracja) as well as 2 photovoltaic installations.

As at the end of 2019, the Group had 0.5 GW of renewable capacity, with a gross production of electricity totaling 1.4 GWh throughout 2019.

Coal is the main fuel used by the Energa Group to produce electricity and heat. The Group's generating units used 1,059 thousand tonnes of coal and 148 thousand tonnes of biomass in 2019 (vs. 1,297 thousand tonnes and 13 thousand tonnes, respectively, the year before). Coal supplies were delivered to the Group by three main Polish suppliers: Polska Grupa Górnicza, Lubelski Węgiel "Bogdanka", and Jastrzębska Spółka Węglowa.

Sales Business Line. The Business Line with Energa Obrót SA as the Leading Entity sells electricity, gas and additional services offered to clients both as separate products and in packages. Products and services are sold to all customer segments, from industry through large, medium and small enterprises, to households. As at the end of 2019, the Energa Group had ca. 3.1 m customers, including almost 2.8 m classified as G tariff customers, with the remainder being customers from tariff groups: C, B and A, in a decreasing order.

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



2.2. Group's structure and governance model

As at 31 December 2019, the Energa Group consisted of 22 companies, including its parent company, Energa SA.

Figure 4: Simplified organizational chart of the Energa Group as at 31 December 2019



Additionally, as at 31 December 2019 the Group held shares in joint ventures: Polska Grupa Górnicza SA ("PGG"), Elektrownia Ostrołęka Sp. z o.o. (formerly Elektrownia Ostrołęka SA) and in associates Polimex-Mostostal S.A. ("Polimex") and ElectroMobility Poland SA.

Key changes in the Group's structure and organisation

Energa OZE SA (formerly Energa Wytwarzanie SA)

On 26 March 2019, a plan was agreed and signed for division of Energa Wytwarzanie pursuant to Article 529 § 1 point 4 of the Commercial Companies Code, i.e. through the transfer of the divided company Energa Wytwarzanie Spółka Akcyjna's assets which represent organised parts of the enterprise within the meaning of Article 4a point 4 of the CIT Act of 15 February 1992 (consolidated version, JoL 2018, item 1036) and Article 2 point 27e of the VAT Act of 11 March 2004 (consolidated version, JoL 2018, item 2174), into two acquiring companies:

- a) ENSA PGK8 Spółka z o.o. and
- b) EOB PGK1 Spółka z o.o.

in exchange for shares which ENSA PGK8 Spółka z o.o. and EOB PGK1 Spółka z o.o. issued to the sole shareholder of the divided company, i.e. Energa SA. The share capital of Energa Wytwarzanie was reduced by PLN 62,141,000, i.e. down to PLN 1,109,241,000, through redemption of 6,214,100 AA series shares with a face value of PLN 10 each, with a total face value of PLN 62,141,000, held by Energa SA.

In parallel, the share capital of the acquiring companies increased as a result of the division as follows:

- 1) the share capital of ENSA PGK8 Spółka z o.o. was increased by PLN 21,522,000, i.e. up to PLN 21,582,000, through the creation of 43,044 new shares with a face value of PLN 500 each, having a total face value of PLN 21,522,000, which were subscribed for by Energa SA.
- 2) the share capital of ENSA PGK1 Spółka z o.o. was increased by PLN 40,619,000, i.e. from PLN 10,000 up to PLN 40,629,000, through the creation of 81,238 new shares with a face value of PLN 500 each, having a total face value of PLN 40,619,000, which were subscribed for by Energa SA.

On 1 August 2019, the increased share capitals of both companies and the change of their names were registered. ENSA PGK8 operates under the business name of CCGT Gdańsk Spółka z ograniczoną odpowiedzialnością, whereas EOB PGK1 operates under the business name of CCGT Grudziądz Spółka z ograniczoną odpowiedzialnością.

Energa Wytwarzanie was renamed Energa OZE on 3 September 2019. That change was attributable to the decision taken in July 2019 by the General Meeting of Shareholders of Energa Wytwarzanie. The name of Energa OZE duly reflects the nature of its business, namely management of production facilities generating energy from renewable sources (except for ESP Żydowo) and aims to highlight the direction of growth taken by Energa Group in the area of energy production.



Energa Obrót SA

On 24 July 2019, a resolution was passed by the Extraordinary General Meeting on the increase of the company's share capital through in-kind contribution of the e-Mobility Project by Energa SA. On 8 August 2019, an agreement on acquisition of shares and transfer of ownership of the in-kind contribution was signed and an increase of the company's share capital by PLN 1,181,800 in connection with the in-kind contribution of the e-Mobility Project assets was registered on 16 September 2019.

Elektrownia Ostrołęka Sp. z o.o.

On 1 March 2019, an increase of share capital of Elektrownia Ostrołęka Sp. z o.o. by PLN 361,382,100 was registered with the National Court Register. Pursuant to a resolution of the Shareholders Meeting

of 4 January 2019 Energa SA and Enea SA each subscribed for 50% of new shares, i.e. PLN 180,691,050, in exchange for cash contributions.

On 30 April 2019, Energa SA and Enea SA signed a Memorandum of Understanding on the financing of the construction of the Ostrołęka C Power Plant further detailing the declarations of financial commitment made by Energa SA and Enea SA in the Memorandum of Understanding of 28 December 2018. (detailed information on the Memorandum of Understanding is available in section 2.3. *Key events in 2019 and after the balance sheet date*).

In connection with the above, Energa SA and Elektrownia Ostrołęka Sp. z o.o. entered into a loan agreement on 17 July 2019 whereby Energa SA granted Elektrownia Ostrołęka Sp. z o.o. a loan of up to PLN 76 m to be repaid by 31 December 2019. The loan was disbursed in two tranches totaling PLN 58m by 30 September 2019. On 30 September 2019, Energa SA assigned 50% of its claims under the granted loan to Enea SA. The amount of the claims being the object of the assignment was paid by Enea SA as at the date of these interim financial statements.

On 13 February 2020, Energa concluded an agreement with Enea on the suspension by both companies of financing of the project of construction of the new coal-fired unit of the planned Ostrołęka C power plant in Ostrołęka (for more information, see 2.3. *Key events in 2019 and after the balance sheet date*).

Until the abovementioned suspension of project financing the total value of shares in Elektrownia Ostrołęka Sp. z o.o. owned by Energa SA amounted to PLN 453 m, while from the date of entry into force of the Investment Agreement to 31 December 2019, the total value of the recapitalization of Elektrownia Ostrołęka Sp. z o.o. by Energa (the total price of taking up shares by the Company) was PLN 351 m.

Energa Ciepło Ostrołęka

On 24 March 2020, Energa Elektrownie Ostrołęka signed a purchase agreement for shares of Energa Ciepło Ostrołęka from Energa Kogeneracja Spółka z o.o. The value of the transaction was approx. PLN 37 m.

Energa Serwis

On 28 April 2020, Energa Elektrownie Ostrołęka signed a purchase agreement for 4,000 shares of Energa Serwis from Energa SA. The total nominal value of shares amounted to PLN 2 m and they constituted 14.08% of the company's share capital.

The Group Governance Model

Energa Group Cooperation Agreement, signed on 20 December 2017 by 31 Energa Group companies (as at the date of these statements, 20 companies remain parties to the Agreement as a result of corporate restructuring within the Energa Group) is the basic document of Energa Group defining the general principles of its governance.

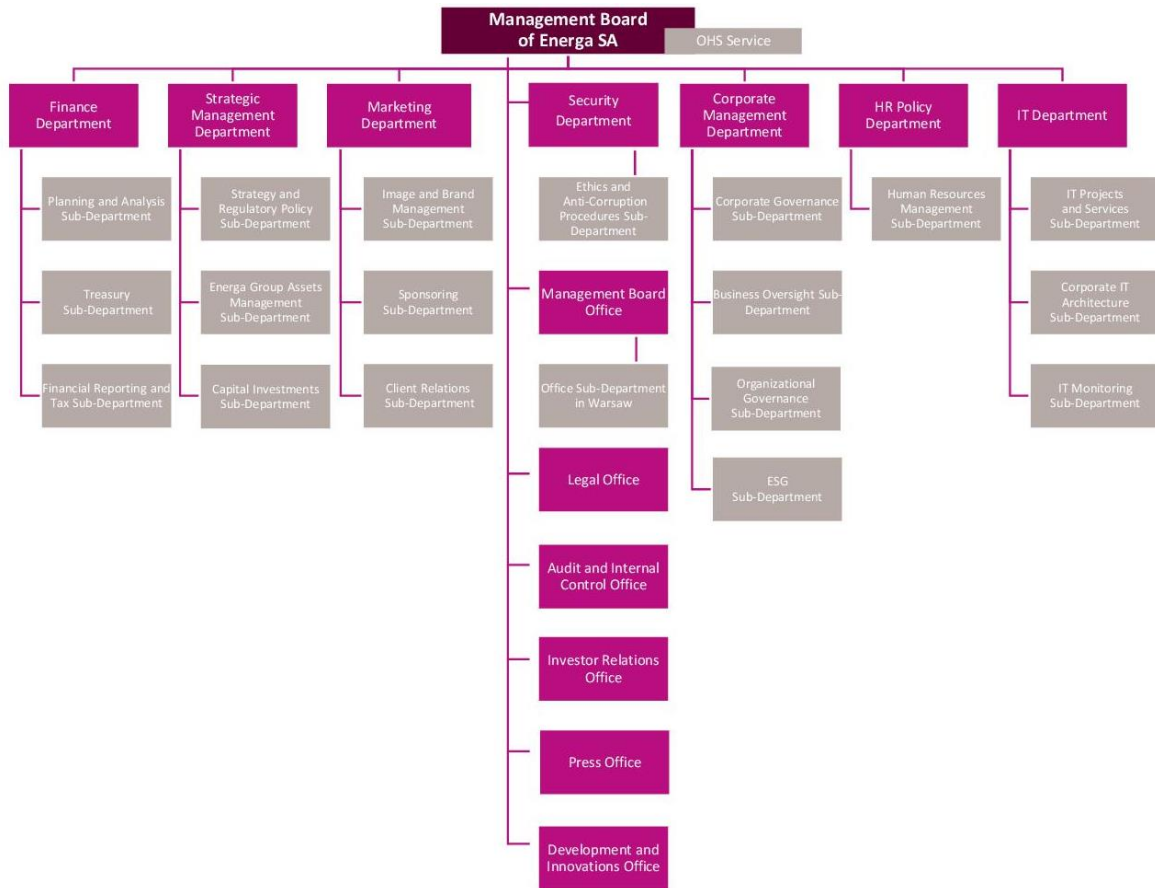
The Energa Group Cooperation Agreement is a civil-law instrument which:

- ensures cooperation between the Energa Group companies and guarantees effective performance of the Group,
- reflects the need to ensure, to the extent required by law, the independence of the distribution system operator within the Energa Group,
- forms the basis for the development of long-term cooperation across all Energa Group companies,
- reflects the necessity to have a uniform and consistent operating policy for all Energa Group companies in place.

The Energa Group Cooperation Agreement took into consideration the need to define the rights and obligations of Energa SA as the Energa Group's Parent Company with respect to setting of objectives, business strategies, as well as control and oversight of Subsidiaries, which became the foundation for the provisions of the Agreement. As at the date of signing, the Agreement had 32 appendices, which were Regulations (procedures) setting forth the operating principles of the Group in every area. As at the end of 2019, the Agreement included 35 Regulations in force.

The Organisational Regulations of Energa SA together with the company's organisational chart approved in October 2019 define the principles of operation of Energa SA. The document regulates such areas as the Company's governance, organisational structure as well as obligations and responsibilities of individual units. The chart below illustrates the structure of Energa SA up to the level of organisational units reporting directly to the members of the Management Board, as at 31 December 2019.

Figure 5: Organisational chart of Energa as at 31 December 2019



2.3. Key events in 2019 and after the balance sheet date

2.3.1. Material events in the reporting period

Agreement on the financing of construction of the Ostrołęka C power plant

On 30 April 2019, Energa and Enea signed a memorandum of understanding on the financing of construction of Ostrołęka C power plant with a gross capacity of approx. 1,000 MW. The purpose of the Memorandum of Agreement was to further detail the rules for the financing of the project in order to enable its continued implementation without delays.

According to the memorandum of understanding, without prejudice to previous arrangements between the parties, the Company has undertaken to Enea and Elektrownia Ostrołęka Sp. z o.o. to provide financial resources of no less than PLN 819 m to Elektrownia Ostrołęka for implementation of the investment project in accordance with its time schedule, and Enea has undertaken to provide financial resources of PLN 819 m for implementation of the investment project in accordance with its time schedule.

These amounts correspond to the financial commitment declared in the memorandum of understanding of 28 December 2018, i.e. not less than PLN 1 bn from Energa SA, including approx. PLN 181 m already provided to the Company for payment of the advances to the unit's general contractor.

Energa will carry out its obligations starting from the date of the memorandum of understanding, in the years 2019 and 2020 and in subsequent years, whereas Enea will carry out its obligations starting from January 2021.

At the same time, both companies have undertaken to negotiate in good faith the target rules for cooperation in the shareholders' agreement / investment agreement which is to define comprehensively the structure and form of project financing. In the event that these are not agreed upon by 31 December 2020, Enea will be required to refund Energa one half of the financial outlays, with the proviso that the total amount which Enea may be required to refund will not exceed PLN 819 m.

Distribution of profit for 2018

On 15 April 2019, the Management Board of Energa decided not to recommend to the General Meeting the payment of dividends for the financial year ended 31 December 2018. The decision was approved by the Supervisory Board.

On 25 June 2019, the General Meeting decided to allocate the entire net profit for 2018 in the amount of PLN 495,002,271.26 to supplementary capital.

The decision was dictated by the implementation of the "Strategy of the Energa Group for 2016-2025" whereby the dividend payment policy is adjusted to reflect the financial needs of the investment process.

Fitch Ratings upholds Energa's rating

On 3 June 2019, the Fitch Ratings agency affirmed the Company's long-term foreign and local currency issuer ratings at 'BBB' with a stable outlook, a 'BBB' rating for the bonds issued by the Company's subsidiary Energa Finance AB (publ), and a 'BB+' rating for hybrid bonds issued by Energa SA.

On 10 December 2019, following a call to subscribe for 100% of the Company's shares announced by PKN ORLEN, the Fitch Ratings agency announced in the communication that the Company had been placed on the Rating Watch Negative ("RWN") list. For more information, see section 8.5. *Ratings*.

Signing of revolving ESG-linked credit facility agreement

On 17 September 2019, the Company signed a revolving ESG-linked credit facility agreement with a consortium of banks composed of: Santander Bank Polska SA (Credit Coordinator, Agent, ESG Agent), Bank Gospodarstwa Krajowego, Powszechna Kasa Oszczędności Bank Polski SA, Caixabank SA (Spółka Akcyjna) Oddział w Polsce and MUFG Bank (Europe) N.V. with its registered office in Amsterdam.

The subject-matter of the agreement was to grant the Company a revolving ESG-linked credit facility of PLN 2 bn. The monies available under the facility may be spent, among other things, on growth of RES capacity and further modernisation of power lines, and may also be partially allocated towards repayment of related prior indebtedness. The facility is granted on the condition that the provided funds are not spent on coal-based power generation. The facility has been granted for a term of 5 years from the date of signing the agreement and may be extended by one-year periods twice. The credit facility's interest was set on the arm's length principle based on the WIBOR rate plus margin. The company undertook to secure an Environmental, Social, Governance (ESG) rating, the level of which may impact the margin. The credit facility is unsecured.

The agreement contains standard conditions precedent for that type of financing, which, when fulfilled, enable the disbursement of the credit facility. The remaining terms of the agreement do not depart from the terms commonly applied in that type of agreements.

Decisions to settle out of court all disputes regarding the invalidity of the agreement for the sale of property rights under certificates of origin between Energa Obrót and three of the sued wind farms

In 2019, Energa Obrót, a subsidiary, and 3 of the 22 wind farms sued by Energa Obrót (about which the Company informed in the current report no. 37/2017) settled amicably all their disputes regarding the agreement for the sale of property rights under certificates of origin (CPA agreement):

- On 12 June 2019. The parties continue to co-operate in selling property rights under a new agreement. The terms of the settlement are satisfactory to the parties and have a neutral effect on the financial result of Energa Obrót.
- On 22 July 2019. The terms of the settlement do not affect significantly the company's financial result.
- On 20 November 2019. The parties to the settlement considered their relationship based on the agreement challenged by Energa Obrót to be definitely terminated, with the terms of the settlement having a neutral impact on Energa Obrót's financial result.

As at the end of 2019, Energa Obrót concluded 6 settlements with the sued wind farms (of which 3 settlements in 2019). The total capacity of the facilities affected by the settlements accounted for approx. 44% of the total installed capacity of all sued wind farms.

Creation of a provision by a subsidiary

The company decided to create an accounting provision of PLN 31 m in connection with the final judgment of the Court of Appeal in Gdańsk dismissing the action of Energa Obrót in one of the cases referred to in current report no. 37/2017.

The provision was created in order to secure financial resources for possible future payment of contractual penalties resulting from framework agreements for the sale of property rights under certificates of origin.

Energa Obrót is engaged in court disputes and negotiations with other entities, which may result in further settlements, i.e. ultimately out-of-court conclusion of the disputes.

Information on the write-down of assets held in Ostrołęka B Power Plant

On 22 May 2019, the Council of the European Union, as the last body on the EU legislative path, adopted the missing provisions defining the framework of the EU energy policy encompassing a total of eight legal acts under the common name of "Clean energy for all Europeans". The directive and three regulations entered into force 20 days after their publication in the EU Official Journal.

The provisions stipulate, among other things, limitation of support in the form of a capacity market for electricity generating units. If the EPS 550 emission requirement is not met (i.e. emissions below 550 g CO₂ for each kWh of electricity or below 350 kg CO₂ per year per kW of installed capacity), the generating unit will not be eligible to benefit from the support offered in the capacity market as of July 2025. At the same time, the rights acquired under contracts concluded by the end of 2019 as a result of auctions carried out on the Polish capacity market will be valid until their expiration.

As a result, a prerequisite was recognised for an impairment loss on the production assets of Ostrołęka B Power Plant, of which the Management Board informed on 26 July 2019.

As a result of the impairment test carried out in the first half of 2019, a decrease in the recoverable amount of assets in Ostrołęka B Power Plant was stated. On 26 July 2019, a decision was made to recognise a write-down of assets by a total of PLN 270 m.

Additionally, based on the results of the test carried out in Q4 2019, it was found necessary to create a write-down of assets on Ostrołęka B Power Plant in the amount of PLN 167 m.

The above mentioned events are of a non-cash nature. They adversely affected the operating result of the Energa Group by PLN 437 m, without affecting its EBITDA.

Creation of a provision by a subsidiary

On 28 October 2019, a final judgment was pronounced by the Court of Appeal in Gdańsk, unfavourable to Energa Obrót. The Court of Appeal dismissed the complaint by Energa Obrót in the case for payment of damages to one of the wind farms on account of Energa Obrót's failure to perform part of the agreement on the purchase of property rights under certificates of origin for renewable electricity. The Group charged the principal amount due, along with interest and costs of proceedings, totaling PLN 21 m to its costs in the month of September 2019 and paid the awarded amount on 31 October 2019.

The case is not linked to the pending disputes arising from the company's decision from September 2017 (referred to in current report no. 37/2017) declaring invalid long-term agreements on purchase of RES property rights.

Termination of discussions regarding potential cooperation on the Ostrołęka C Power Plant construction project

On 7 January 2019, the Management Board of Energa announced that Energa and Enea had commenced talks with PGE Polska Grupa Energetyczna SA likely to result in PGE's involvement in the Ostrołęka C Power Plant construction project, which is currently being pursued by Energa and Enea (through Elektrownia Ostrołęka Sp. z o.o.).

On 19 November 2019, the Management Board of PGE Polska Grupa Energetyczna SA announced that the discussions potentially leading to PGE's involvement in the project of construction of a 1,000 MW capacity unit in Ostrołęka had been terminated, justifying PGE's termination decision by the need to pursue its own investment projects and strategic programmes (PGE's current report no. 31/2019).

Announcement by PKN PRLEN S.A. of the tender offer to subscribe for sale of all shares issued by Energa SA

On 5 December 2019, PKN ORLEN announced a tender offer for all shares issued by Energa SA, entitling to the total of 100% votes in the General Meeting ("Tender Offer").

The call was announced in accordance with Article 74.1 of the Act of 29 July 2005 on Public Offering and on the Terms of Introducing Financial Instruments into Organized Trading and on Public Companies (consolidated text: Journal of Laws of 2019, item 623, as amended) and the Regulation of the Minister of Development and Finance of 14 September 2017 on Specimen Calls for Subscribing for the Sale or Exchange of Shares in a Public Company, the Specific Manner of Announcing them and Conditions for Acquiring Shares as a Result of these Calls (Journal of Laws of 2017, item 1748).

PKN ORLEN was the only entity to acquire the shares under the call. The price of the shares was set in the call at PLN 7 per one share.

The Tender Offer has been announced under the following conditions:

- a) PKN ORLEN obtains an unconditional decision of the European Commission (or another competent anti-monopoly authority) approving the merger involving the takeover of control of the Energa,
- b) the GM has adopted a resolution amending the Articles of Association of Energa to waive the voting restrictions referred to in § 27(1)-(7) of the Articles of Association,
- c) the Supervisory Board of Energa has adopted a resolution adopting a consolidated text of the Articles of Association pursuant to § 17(1)(15) of the Articles of Association (inclusive of the amendments referred to above),
- d) the number of shares subscribed for sale under the Tender Offer corresponds at least to 66% of the aggregate number of votes at the GM,
- e) the Company and Energa have entered into an agreement concerning a due diligence audit of Energa.

Detailed information on the course and the results of the Tender Offer has been presented in the section 2.3.2. *Key events after the balance sheet date.*

Results of the capacity market auction for 2024 published by Polskie Sieci Elektroenergetyczne SA

On 10 December 2019, Polskie Sieci Elektroenergetyczne SA published the preliminary results of the main capacity market auction for 2024, including the closing price of the capacity auction at PLN 259.87 /kW/year.

Energa Group companies entered into one-year capacity contracts (i.e. for 2024) with a capacity obligation of 529 MW which may generate a total revenue of PLN 137.4 m.

The final outcome of the capacity auction was announced by the President of the Energy Regulatory Office in the Public Information Bulletin on ERO's website on 31 December 2019.

Decision to launch the procedure leading to the sale of selected combined heat and power assets managed by Energa Kogeneracja sp. z o.o. and Energa Ciepło Kaliskie Sp. z o.o.

On 13 December 2019, the Management Board of Energa adopted a resolution on launching a procedure leading to the sale of selected combined heat and power assets managed by Energa Kogeneracja sp. z o.o. The procedure is designed to identify an investor for combined heat and power assets that would continue to support the companies' growth in local markets.

The core business of Energa Kogeneracja sp. z o.o. is combined production of electricity and heat at CHP plants in Elbląg, Żychlin and Kalisz and at district heating plants in Wyszogród and Kalisz. Energa Kogeneracja also transmits and distributes heat in Żychlin. Energa Ciepło Kaliskie's business consists in transmitting and distributing heat in Kalisz.

EC Elbląg is the main supplier in the Elbląg heat market, accounting for 80% of supplies. EC Piwonice and Kalisz district heating plant are the exclusive suppliers of heat to municipal DH network and EC Żychlin is the exclusive supplier of heat to municipal DH network in Żychlin.

Conclusion of the Loan Agreement among Energa, Enea and Elektrownia Ostrołęka spółka z o.o. and planned conversion of receivables of Energa and Enea under an earlier loan to Elektrownia Ostrołęka into the shares of the latter company

On 23 December 2019, a loan agreement was made between Energa, Elektrownia Ostrołęka spółka z o.o. (the "Borrower") and Enea.

Granting of the loan under the Loan Agreement constitutes partial performance of Energa's obligations under the Memorandum of Understanding of 30 April 2019 made between Energa and Enea on the financing of the construction of Ostrołęka C Power Plant.

The amount of the loan incurred by the Borrower is up to PLN 340 m and will be paid out in tranches upon reasonable request of the Borrower in connection with the Project's implementation. As at the date of this report, the entire loan was paid out in three loan tranches under the contract: the first tranche in the amount of PLN 160 m was disbursed on 23 December 2019, the second tranche in the amount of PLN 17 m on 13 January 2020 and the third one in the amount of PLN 163 m on 22 April 2020.

Interest on the loan will be calculated based on the interest rate that reflects the cost of capital in the power generation sector and is to be updated as at the end of the I, II and III quarters of 2020.

The loan repayment is secured with an unprotested blank promissory note and the Borrower's statement on submission to enforcement proceedings pursuant to Article 777 of the Civil Procedure Code and the loan is to be repaid in a single transaction together with interest by 26 February 2021.

Based on the Loan Agreement, Energa performed a conditional sale of half of the amount from the first tranche of the loan under the Agreement from the Borrower to Enea. The receivables sold will be transferred to Enea upon fulfilment of the conditions precedent set out in the Memorandum of Understanding of 30 April 2019 on the later of: (i) 31 January 2021 or (ii) the date the full price is paid by Enea to Energa.

After 31 January 2021, the receivables under the Loan Agreement may be converted by Energa and Enea into the Borrower's share capital.

At the same time, on 23 December 23 2019, an annex to the loan agreement of July 17, 2019 was concluded between Energa, Elektrownia Ostrołęka and Enea, which was concluded between Energa and the Borrower up to PLN 76 m as the performance of the abovementioned agreement of 30 April 201 for the period ending on 31 December 2019. Until the date of this report, Energa had disbursed two loan tranches totaling PLN 58 m.

To perform the obligation under the Memorandum of Understanding of 30 April 2019, Energa and Enea made a dispositive assignment agreement on 30 September 2019, whereby Energa transferred half of its receivables under Loan Agreement 1 onto Enea, i.e. the rights on account of a part of the loan granted to the Borrower in the amount of PLN 29 m with all the rights related thereto, particularly the interest fixed as at 30 September 2019. Energa and Enea intend to convert their receivables under the loan agreement into shares in the Borrower's share capital. The Annex was made to extend the loan repayment term until 31 January 2020 in order to enable the interested parties to fulfil corporate requirements as necessary for completion of the conversion before the maturity of the receivables under the loan agreement, particularly in order for Energa and Enea to obtain permission of their respective Supervisory Boards to convert their respective receivables under loan agreement into the Borrower's shares. On 31 January 30 March 2020, two further annexes to this loan agreement were concluded, according to which the loan repayment period was extended to 31 March and 30 June 2020 respectively.

Decision to create a provision in the Sales Business Line in connection with the approval by the President of the Energy Regulatory Office of the tariff for electricity for customers of the G tariff groups for 2020

On 31 December 2019, the Management Board was advised about the creation of a provision for the electricity sale agreements for the G tariff groups for 2020 in the Sales Business Line.

On 30 December 2019, the President of the Energy Regulatory Office approved the electricity sales price for consumers in the G tariff groups for 2020 for Energa Obrót at an average level of PLN 289.37 per MWh.

Due to the fact that the aforementioned approved price does not fully cover the reasonable costs of electricity sold in the G tariff groups, a provision for onerous contracts in the amount of PLN 125 m has been established in the Sales Business Line in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets).

Composition and changes to the composition of the corporate bodies of Energa SA

For details of changes to the corporate bodies of the Company, see Section 10.7. *Corporate bodies, hereof.*

The CVs of all members of the Company's bodies can be found online at <https://grupa.energa.pl/en/energa-group/company-management>.

Other information

Additional information is provided in the Consolidated financial statements in Note 38 *Other information significantly affecting the assessment of assets, financial position and the financial result of the Group.*

2.3.2. Material events after the balance sheet date

Results of the Tender Offer to subscribe for the sale of the Company's shares, announced on 5 December 2019 by PKN ORLEN S.A.

On 28 January 2020, the Management Board of Energa adopted, pursuant to Article 80 of the Act of 29 July 2005 on Public Offering and the Terms of Introduction of Financial Instruments to an Organized Trading System and on Listed Companies, a position regarding the Tender Offer, in which the Management Board stated that the price of shares proposed in the Tender Offer is within the estimated fair value of the Company's shares.

The Company's Management Board adopted its position based on the company's opinion of Deloitte Advisory sp.z o.o. limited partnership and information from the Call.

The start of the subscription for shares in the Tender Offer took place on 31 January 2020, and the end of the subscription for shares, originally scheduled for 9 April 2020, was extended to 22 April 2020.

On 31 March 2020, the European Commission issued an unconditional decision on consent to concentration consisting in taking control over Energa.

On 15 April 2020 the Management Board of PKN ORLEN decided to increase the price in a tender offer to subscribe for the sale of all shares of Energa from the level of PLN 7 to the level of PLN 8,35 per one share. The price in the Tender Offer that has been increased will be paid for all shares of Energa subscribed for sale in the whole period of the Tender Offer, i.e. from 31 January 2020 to 22 April 2020.

On 22 April 2020, the EGM has adopted a resolution amending the Articles of Association of Energa to waive the voting restrictions referred to in § 27(1)-(7) of the Articles of Association.

On 29 April 2020 the Management Board of Energa received a notification from PKN ORLEN S.A. concerning a change by PKN ORLEN of its share in the Company's share capital and in the total number of votes in the Company, according to which on 24 April 2020 PKN ORLEN, as a result of settlement of the purchase of shares covered by subscriptions made during the first 70 days of accepting subscriptions (i.e. until 9 April 2020 inclusive) as part of the tender offer, it increased its share in the Company's share capital and in the total number of votes in the Company to ca. 8.1% and ca. 6.0%, respectively.

On 30 April 2020 the Management Board of Energa received another notification from PKN ORLEN S.A. concerning a change by PKN ORLEN of its share in the Company's share capital and in the total number of votes in the Company, according to which on 30 April 2020 PKN ORLEN, as a result of settlement of the purchase of shares covered by subscriptions made from 10 April 2020 until 22 April 2020 inclusive as part of the tender offer, it increased its share in the Company's share capital and in the total number of votes in the Company to ca. 80.1% and ca. 85.2%, respectively.

At the same time, the Company received from PKN ORLEN a notification about establishment of parent – subsidiary relationship between PKN ORLEN and the Company, which is the result of settlement of all transactions of purchase of shares covered by subscriptions made under the Tender Offer.

Signing of a memorandum of understanding concerning the Ostrołęka C Power Plant project

On 13 February 2020, Energa concluded a memorandum of understanding with Enea (the "Sponsors") on the suspension by both companies of financing of the project of construction of a new coal-fired unit at the planned Ostrołęka C power plant in Ostrołęka with a capacity of approx. 1,000 MW.

The financing is suspended in particular in connection with the need for, and for the duration of, the analyses to be carried out by both companies regarding further actions under the Project, including its continued financing.

The Sponsors are parties to the Memorandum of Understanding of 28 December 2018 concluded with Elektrownia Ostrołęka Sp. z o.o., a company which carries out the project, defining, among other things, the limits of financial involvement of Energa and Enea in the project. The project's additional financing issues were agreed in the Memorandum of Understanding on financing of the construction of the Ostrołęka C Power Plant, concluded in Warsaw on 30 April 2019 between the Sponsors

themselves. Energa informed about both of these Memoranda of Understanding in its current report no. 55/2018 of 28 December 2018 and no. 7/2019 of 30 April 2019.

Regardless of the declarations on Project financial involvement as expressed in the said Memoranda of Understanding, the Sponsors are also involved in seeking external financing, however the existing efforts to acquire an investor for the Project have not brought the expected results.

Recently, a number of additional circumstances has arisen which, in the Sponsors' opinion, are likely to impact the Project. As a result, further actions related to the Project and its continued financing need to be analysed comprehensively. These include, among other things:

- (i) planned changes of the European Union's policy on the electricity sector
- (ii) the new Energy Lending Policy of the European Investment Bank along with the related initiative of the European Commission of 11 December 2019 on the Green Deal, i.e. an action plan aiming to achieve climate neutrality in the European Union by 2050, and
- (iii) the call by Polski Koncern Naftowy ORLEN S.A. of 5 December 2019 to sell 100% of Energa shares.

In both companies' opinion, these constitute an extraordinary change of circumstances not expected by the Sponsors when making the decision on the subject and method of the Project's financing. These circumstances justify suspension of the Project's financing for the duration of analyses planned in accordance with the Memorandum of Understanding.

The Sponsors assumed that suspension of the Project's financing will require the Company to suspend the Contract for the construction of Ostrołęka C Power Plant of 12 July 2018 and the Agreement on reconstruction of the railway infrastructure for Ostrołęka C Power Plant of 4 October 2019. The Memorandum of Understanding does not affect the validity of the existing memoranda of understanding between the Sponsors and between the Sponsors and the Company, in particular it does not affect the existing arrangements with regard to the Project's financing and the formula of settlements between the Sponsors, adopted on the basis of the previously listed Memoranda of Understanding.

On 14 February 2020, the Management Board of Energa was informed that Elektrownia Ostrołęka sp. z o.o. had instructed the general contractor under the Contract for construction of Ostrołęka C Power Plant of a capacity of approx. 1,000 MW of 12 July 2018 and the contractor under the Agreement on reconstruction of the railway infrastructure for Ostrołęka C Power Plant of 4 October 2019 to suspend performance of all works under the contracts, effective as of 14 February 2020.

Suspension of the works is caused by suspension of the Project's financing by the Sponsors.

On 21 February 2020, Energa and Enea signed an Arrangement on analyses during the period of suspension of works on the Ostrołęka C Project.

The Arrangement defines the detailed scope and time schedule of analyses of technical, process, economic, organisational, legal and financial aspects of the Project. According to the assumptions of both companies, the multi-stage analysis process was to be completed by 7 May 2020, however, Energa and Enea decided to extend the period of analysis regarding further activities in the construction project of Ostrołęka C Power Plant. Both parties assume that the analysis work will last about a month.

Information on the impact of the revaluation write-off of non-current assets of Polska Grupa Górnicza SA on the results of the Energa Group

On 14 February 2020, the Management Board of Energa SA (the "Company") learned that Polska Grupa Górnicza SA ("PGG") had recognised a revaluation write-off on its fixed assets. As a result, PGG posted a loss in 2019.

PGG is presented in the consolidated financial statements of the Energa Group using the equity method. Therefore, the Group's share in the above net loss will amount to PLN -65 m. The above event was of a non-cash nature. It worsened the net result of the Energa Group for 2019 without affecting its EBITDA result.

In February 2020, as a result of an agreement between the Management Board of PGG and trade union organizations, the average salary increase of 6% was agreed starting from January 2020. Such a significant increase in staff costs resulted in the need for the auditor of PGG to re-verify the assumptions adopted for the valuation of fixed assets as at the end of 2019, thus causing lack of approval of the annual report of PGG. Energa Kogeneracja exercising joint control over PGG, based on a valuation carried out by an external consultant, identified the need to create an impairment losses on the value of 15,32% of PGG shares to PLN 199 m.

Additional information is presented in Note 17 to the annual consolidated financial statements of the Energa Group for the year ended 31 December 2019.

Decision to launch a review process of available strategic options concerning combined cycle gas turbine projects (CCGT) located in Gdańsk and Grudziądz

On 27 February 2020, the Management Board of Energa passed a resolution concerning the launch of the procedure leading to a review of available strategic options, including conduct of in-depth market reconnaissance and making enquiries with external entities to determine their interest in a potential strategic partnership or purchase of the Company's special-purpose vehicles (SPVs) carrying out the projects consisting in construction of combined cycle gas turbines (CCGT) located in Gdańsk and Grudziądz, namely CCGT Gdańsk Sp. z o.o. and CCGT Grudziądz Sp. z o.o.

Decisions to settle out of court all disputes regarding the invalidity of the agreement for the sale of property rights under certificates of origin between Energa Obrót and three of the sued wind farms

In 2020, Energa Obrót, a subsidiary, and 2 of the 22 wind farms sued by Energa Obrót (about which the Company informed in the current report no. 37/2017) settled amicably all their disputes regarding the agreement for the sale of property rights under certificates of origin (CPA agreement):

- On 27 February 2020. The parties to the settlement agreed not to continue their cooperation in purchasing property rights under the agreements challenged by Energa Obrót SA and the terms of the settlement have a neutral effect on the financial result of Energa Obrót SA..
- On 8 May 2020. The parties to the settlement considered their relationship based on the agreement challenged by Energa Obrót to be definitely terminated, with the terms of the settlement having a neutral impact on Energa Obrót's financial result.

As at the end of 2020, Energa Obrót concluded 8 settlements with the sued wind farms (of which 3 settlements in 2019 and 2 settlements in 2020). The total capacity of the facilities affected by the settlements accounted for approx. 59% of the total installed capacity of all sued wind farms.

Declaration of PKN ORLEN S.A. regarding the investment realised by Elektrownia Ostrołęka sp. z o.o.

On 19 May 2020, the Management Board of Energa SA received from PKN ORLEN S.A., the Issuer's major shareholder, the declaration of preliminary readiness for direct financial involvement into power unit construction realised by Elektrownia Ostrołęka sp. z o.o. ("Elektrownia Ostrołęka") The declaration is a response to the Company's inquiry addressed to PKN ORLEN and was submitted only if technological assumptions for the Investment were changed to gas-based technology, being one of the considered scenarios of conducted analysis which were a subject of current reports No. 8/2020 of 13 February 2020, No. 11/2020 of 23 February 2020 and No. 38/2020 of 7 May 2020 provided by Energa.

In addition, PKN ORLEN declared its readiness for discussions with the shareholders of Elektrownia Ostrołęka sp. z o.o., i.e. Energa and Enea, as to the form, scope and matter of above mentioned involvement.

Information on impairment losses created by Elektrownia Ostrołęka Sp. z o.o.

On 19 May 2020, the Management Board of Energa obtained information from Elektrownia Ostrołęka Sp. z o.o. ("Elektrownia Ostrołęka"), responsible for development of 1000 MW coal power plant Ostrołęka C located in Ostrołęka ("Project"), about impairment losses creation on the company's non-current assets in amount of PLN 1,027 m.

Elektrownia Ostrołęka informed that the impairment losses mentioned above are a consequence of evaluated impairment test of non-current assets, according to revised business assumptions of the coal-based Project.

The share in the Company's loss, within the equity method, included in the consolidated financial statements of Energa Group reduced the value of the investment in the company to PLN zero. At the same time, it was a premise to create the total impairment loss of the value of Company's stakes in the Issuer's non-consolidated financial statements.

The estimated impact of the events mentioned above on the consolidated net result of Energa Group for 2019 was PLN -443 m, and on the standalone net result of Energa SA for 2019 PLN -453 m. In both cases this is the event of a non-cash nature, which decreases the net result without affecting EBITDA.

Composition and changes to the composition of the corporate bodies of Energa SA

For details of changes to the corporate bodies of the Company, see Section 10.7. *Corporate bodies, hereof.*

The CVs of all members of the Company's bodies can be found online at <https://grupa.energa.pl/en/energa-group/company-management>.

Information on the results of impairment tests of assets in the Generation Business Line and impairment tests on stakes in subsidiaries owned by Energa SA

On 31 March 2020, the Management Board of Energa received the information about the results of the impairment tests of assets in the Generation Business Line, which were conducted for the second half of 2019 due to the changes in market environment and the related update of forecasted price paths in the Energa Group.

As a result of the abovementioned impairment tests, it was found necessary to create the impairment losses on conventional and CHP generation assets (PLN 180 m in total), which were partially offset by the reversal of impairment losses on RES assets (PLN 18 m in total). The above events are of a non-cash nature. They will decrease the operating results of Energa Group without affecting the EBITDA result.

Global coronavirus pandemic and its potential impact on the Group's activity

On 11 March 2020, the World Health Organization (WHO) declared the SARS-CoV-2 coronavirus pandemic. On 14 March 2020, the state of epidemiological threat was declared in the territory of the Republic of Poland. On 20 March 2020, the state of epidemic was announced in the territory of the entire country.

The pandemic of SARS-CoV-2 coronavirus causing COVID-19 illness is a phenomenon that will undoubtedly have a huge impact on the global economy and on the situation in Poland (for more information, see chapter 3.1 of these Statements).

In the current market conditions, the Group identifies the following potential market risks:

- declining demand for electricity, especially from end customers from A, B and C tariff groups;
- decreasing, as a result of lower domestic demand, production of electricity from conventional sources, including specifically Ostrołęka B power plant operating in the forced mode imposed by the Transmission System Operator;
- shrinking proceeds from current receivables for electricity due to the extraordinary measures implemented in Poland, which may result in a deterioration in liquidity of trading companies selling electricity to end users;
- deteriorating payment discipline of customers due to their deteriorating financial situation;

- eroding work performance, likely to arise from sick leaves, compulsory quarantine and implemented work reorganization designed to prevent the spread of the virus, also through the use of remote work;
- increased costs in the short term due to the need to purchase personal protection equipment for personnel;
- the need for Energa Obrót to submit new collaterals securing its purchase transactions to the Commodity Clearing House (Izba Rozliczeniowa Giełd Towarowych SA or IRGiT) within the framework of topping up security deposits as a direct result of the currently observed decline in electricity prices. It should be stressed, however, that a broader range of tools enabling submission of non-cash collaterals to IRGiT has been implemented currently within the scope of introduction of shielding measures by the Polish Government in connection with the pandemic meant, among other things, to hedge against liquidity risk in the companies trading on the Polish Power Exchange (Act of 14 May 2020 amending some acts in the field of protective measures due to the spread of the SARS-CoV-2 virus).
- Buyers of electricity may experience temporary problems with the timely settlement of amounts due in connection with potential limitation of economic activity, which would adversely impact the revenue generated by the Group in 2020.

Nonetheless, the financial effects of the epidemic on the Group's financial results in 2020 can hardly be estimated today and will depend on further developments in Poland.

Meanwhile, the Group has not stated the epidemic's direct impact on its 2019 results.

Relying on scenario-based analyses, the Group has failed to identify a risk of default on its obligations or terms of financing agreements in the area of finance activity. The Group has also taken measures to secure its liquidity in connection with the changes in the market environment and the expiry of credit commitments in 2020. The related intensive discussions are being held with financial institutions and the risk of their failure has not been identified.

Consequently, there is no evidence of any threat to the Company continuing as a going concern.

Information on impairment losses created by the subsidiary

On 8 May 2020, the Management Board of Energa SA received the information from the subsidiary Energa Kogeneracja Sp. z o.o. about creation of:

- a) impairment loss on the value of shares held in Polska Grupa Górnicza S.A. in the amount of PLN 405 m,
- b) impairment loss on the value of property, plant and equipment of CGU Elbląg in the amount of PLN 78 m,
- c) impairment loss on the value of stakes in Energa Ciepło Ostrołęka Sp. z o.o. in the amount of PLN 19 m.

The above impairment losses are the result of valuations of stakes and impairment tests of non-current assets as of 31 December 2019 and are of a non-cash nature. They will decrease the operating results of Energa Group and Energa SA without affecting the EBITDA result.

Creation of a provision for deferred income tax

While drafting its consolidated financial statements for 2019, acting in accordance with IFRIC 23 Uncertainty over Income Tax Treatments, it identified the need to create a provision for deferred income tax in the amount of PLN 102 m. This provision relates to possible future tax liabilities of Energa Finance AB (publ), a subsidiary of the Issuer established to issue Eurobonds, which may arise in connection with exchange rate differences occurring at the time of repayment of loans granted by Energa Finance to the Issuer.

The estimated impact of the above event on the consolidated net result of Energa Group for 2019 is PLN -102 m. This is the event of a non-cash nature decreasing the net result without affecting the EBITDA.

2.4. Innovation activities

In 2019, the Energa Group continued its research, development and innovation projects commenced in previous years and pursued new initiatives. In this context, it spent more than PLN 13 m on innovation activities² and nearly PLN 1 m on research and development activities.

The Energa Group companies concentrated on the initiatives and projects identified in the Strategic Research Agenda (SRA) for the years 2019-2028, i.e. a roadmap document which defines precisely the development, research and innovation (R&D&I) focus for Energa Group.

The M. Faraday Research and Development Centre (CBRF) has been operational within the Group's structures since 2017. The Centre was established for the purpose of implementation of Energa's Innovation Strategy for 2017-2020, with a perspective beyond 2025. The main tasks of the CBRF are to initiate new projects and to acquire third party financing for R&D activities.

In 2019, the CBRF executed, as commissioned by Energa Group companies, projects in the area of renewable energy sources (Vertical Axis Wind Turbines), distribution (Smart Metering, Examination of impact of medium voltage network on peak power), waste management and hydrogen (Modular Reversible Solid Oxide Cell Installation envisaged for integration with a producer type power plant for the purpose of improvement of flexibility of its operation and increased usage of renewable energy sources in the power sector).

The project titled Modular Reversible Solid Oxide Cell Installation envisaged for integration with a producer type power plant for the purpose of improvement of flexibility of its operation and increased usage of renewable energy sources in the power sector was assessed positively by the National Centre for Research and Development (NCBR) and was one of the projects selected for co-financing. The deliverable of the project shall be a reversible solid oxide cell installation producing hydrogen and electricity from steam, integrated with a producer type power plant.

For the purpose of completion of the aforesaid tasks, the company engages scientists from leading scientific and research centres in Poland, inter alia from the Gdańsk University of Technology, the Institute of Fluid Flow Machinery of the Polish Academy of Sciences, the Institute of Power Engineering and the Gdynia Maritime University. Implementation of projects is also supported by experienced personnel of the Group's companies.

Key innovation projects of the Energa Group

NEDO

In 2019, an Energa Group company continued the NEDO Project whose objective is to gain knowledge and experience with respect to the possibility of using energy storage technologies to improve flexibility of the National Electricity System. The final project deliverable will be an energy storage facility at the Bystra Wind Farm. The energy storage facility is being built as part of the Smart Grid Demonstration Project in Poland implemented by NEDO, a Japanese governmental organisation. The company is responsible for construction of the necessary infrastructure for the foundations of the components of the facility, integration of the facility with the National Electricity System and operation of the facility during the demonstration period.

SORAL

Energa Operator continued implementation of SORAL project co-financed by the National Centre for Research and Development. The objective of the project is to deliver knowledge and tools to improve the efficiency of management of the MV cable network. The system developed under the project will provide insights for preventive measures to minimise failures and support modernisation of the cable network.

² The Energa Group defines innovation activities and works carried out as part of research and development activities as defined in art. 2 points 3 and 4 of the Act of 30 April 2010 on the principles of financing science.

Energy clusters

In 2018, the Management Board of Energa passed a resolution on management of cluster initiatives within the Energa Group and Energa's role of a co-ordinator. Thereafter, a team preparing the model of management of initiatives associated with energy clusters within the Group was appointed. The purpose of the team was to develop an operation model associated with energy clusters within the Energa Group. The team identified Energa Obrót as the natural leader and co-ordinator of processes associated with energy clusters within the Energa Group. Consequently, the processes of management of cluster initiatives have been carried out in that company since 2019.

Pylon

Energa Invest brought the Pylon project to its end in 2019. Its objective was to improve the efficiency of and standardise the process of designing and building power lines. Catalogue of support structures for 110 kV power lines designed based on PN-EN 50341-1:2013-03 standard and PN-EN 50431-2-22:2016 country attachment. The catalogue is the most recent tool prepared by Energa Invest for the purpose of standardisation of the process of design and construction of overhead power lines. It was created in cooperation with Energa Operator in response to the market's needs in the area of implementation of most up-to-date technologies and standardisation of power infrastructure.

Thirty-six different types of support structures, namely 6 series of poles for 110 kV power lines, 3 series of, respectively, single- and double-circuit poles for combinations of S1W1, S2W1, S2W2 wind and icing zones were designed for the catalogue.

Support structures for 110 kV power lines obtained strength test certificates. Poles were also granted a Community design registration certificate from European Union Intellectual Property Office (EUIPO). Pylon project – a catalogue of lattice poles for 110 kV power lines was awarded the Cup of the President of the Polish Power Transmission and Distribution Association (PTPiREE) during the 32nd edition of ENERGETAB® 2019 International Fairs.

Acta Energetica

In 2019, the Energa Group continued to publish *Acta Energetica*, a science and engineering quarterly. The quarterly is being published in cooperation with the Gdańsk University of Technology since 2009. This is a modern science periodical presenting research findings and results of implementation of practical solutions in the power industry. It is addressed to professionals: engineers and technicians, managers, university staff and students of power engineering-related studies. Its topics focus on R&D&I in the power industry and power engineering, and on related subjects.

In 2019, *Acta Energetica* extended its media sponsorship to the following events:

- *Advances in Power Engineering* Scientific Conference APE 2019, 12-14 June, Jastrzębia Góra;
- HYDROFORUM 2019, 9-10 October, Polańczyk nad Zalewem Solińskim;
- Polish Nationwide Young Electrician Days, 7-10 November, Poznań;
- 4th National Energy Symposium, 29 November, Lublin.

In July 2019, a mailing system was launched dedicated to distribution of the electronic version of *Acta Energetica* quarterly.

In December 2019, the *Acta Energetica* publishing house was placed on the list of publishers of reviewed scientific monographs, published by the Ministry of Science and Higher Education at level I (80 points).

2.5. Capital expenditures

In 2019, capital expenditures of the Energa Group totaled PLN 1,574 m, of which the most capital intensive investments were made in the Distribution Business Line, totaling PLN 1,3348 m.

The investments of the Distribution Business Line included grid expansion aimed at connecting new customers and producers as well as upgrades to improve the reliability of electricity supply. Additionally, expenditure was incurred on innovative technologies and grid solutions, such as the smart grid conversion project.

In the Generation Business Line, efforts made to align with sustainability requirements and upgrading investments at Ostrołęka Power Plant B had a significant share in the spending.

In addition, capital expenditures were directed to new investments in renewable energy sources and modernization of hydropower plants.

In the Sales Business Line, on the other hand, the most financial resources were allocated to works related to lighting assets.

Table 1: Status of the investment programme as at 31 December 2019

Project description	Capital expenditure in 2019 (PLN m)
Distribution Business Line	1,334
Modernisation of the distribution net-work to improve the reliability of supply	515
Grid development related to connection of new customers	559
Smart metering and other elements of the smart grid concept, including AMI	10
Grid development related to flows in the high-voltage grid and connection of EE sources	89
Other capital expenditures, collisions and adjustments	161
Generation Business Line	175
Ostrołęka B Power Plant (Construction of IOS II, installation of an NOx control system)	102
Przykona Wind Farm	18
Upgrading hydro power plants	16
Modernization of sources and networks for cogeneration sources	8
NEDO - energy storage facility in Bystra	7
Other capital expenditures	24
Sales Business Line	44
Capital expenditures for lighting assets	29
Sales Support System	3
Other capital expenditures	12
Other companies, projects and adjustments	21
Total	1,574

2.6. The Energa Group Strategy and Directions of Development for 2016–2025

2.6.1. Objectives of the Group strategy

On 15 November 2016, the Company's Supervisory Board passed a resolution approving the documents: "Energa Group Strategy for 2016–2025" (the "Strategy") and "Multi-Annual Plan of Strategic Investments of the Energa Group for 2016–2025".

Objectives and strategic programmes

In order to reinforce the position of the Energa Group as an innovative, customer-centric energy group, while providing for a stable business foundation based on predictable regulations, two business development and value creation areas were defined in the Strategy: the Infrastructure and the Customer, within which the Group's objectives and strategic programmes were defined, that are now being implemented:

Objective 1. To develop a modern electricity infrastructure, in a manner permitting to have a stable revenue base, relying mostly on the quality of service and not on market factors. The infrastructure will anticipate the future requirements of the Polish electricity system, balancing the interests of all Energa Group stakeholders.

Strategic Programme 1 – Development of a smart and reliable electricity distribution grid, offering the capacity for storage and local energy management. In response to the evolving market conditions, the objectives of the Programme, including, but not limited to, development of the Smart Grid, modernisation of the grid assets, improvement of qualitative ratios and installation of AMI meters, were updated in 2017.

Strategic Programme 2 – Development of the broadband infrastructure for online access. The short-term objective consisting in developing the business model was accomplished by the end of 2017.

Strategic Programme 3 – Using revenue decoupling regulations for the Capacity Market and heat tariffs. The generating companies of the Energa Group previously participated successfully in capacity market auctions and received support on that account.

Strategic Programme 4 – Maintaining a strong position in RES through the implementation of (I) a project for the construction of hydro power plant at the second barrage on the Vistula River and (II) other RES projects. The Energa Group currently holds the largest share in generation of green energy (over 30%) among the largest Polish power companies in its manufacturing mix and will strive to strengthen its leadership in that respect. The construction of the 31 MWe Przykona wind farm is currently underway and the wind farm is scheduled for commissioning in Q2 2020 (for more information see section 5.2. *Generation Business Line* of this report).

Objective 2. A customer-centric business model, supporting effective customer value management based on a consistent product and service offering.

Strategic Programme 5 – Implementing a new customer-centric business model and development of new business areas. That programme focuses on the customer and satisfying customer needs by enhancing customer satisfaction from taking advantage of the Energa Group's offering, providing the customer with the right products. The annual objective under that Programme, namely delivery of the right level of EBITDA profit, has been attained.

Figure 6: Diagram of objectives and programmes of the revised Energa Group Strategy



2.6.2. Implementation of the Group's Strategy in 2019 and prospects for development in 2020³

The overarching objective of the Company is to grow the value of the company, guaranteeing a return on capital employed for shareholders. Furthermore, the Company performs functions associated with assurance of energy security of Poland. Because of the high proportion of regulated activities in its business structure, the Group maintains the status of a company with a balanced risk profile. In response to the evolving regulatory and business environment, in 2016, the Management Board of Energa SA adopted the *Energa Group Strategy for 2016–2025*.

Distribution Business Line

The Energa Group's Distribution Business Line is consistently seeking to become a leading distribution system operator (DSO) by improving its grid performance and reliability, and providing top quality customer service. In 2020, the planned investment budget of the Distribution Business Line is similar to that of 2019.

The capital expenditures of Energa Operator SA account for 99.9% of total investment expenditures of the Distribution Business Line.

The company's key investment areas in 2020 include:

- connecting new customers and new sources and the associated construction of new grids,
- expanding and rebuilding the grid to ensure the possibility to handle the increased demand for capacity, in particular within the HV grid,
- rebuilding/modernising the distribution grid, at all voltage levels, to improve continuity of customer supply (SAIDI/SAIFI) and comply with the required quality parameters for electricity supply and to reduce grid losses. Within that group of investment projects, initiatives substantially contributing to improving SAIDI/SAIFI grid operation continuity ratios are of particular importance. Those include:

³ The development prospects of the Energa Group for 2020 were prepared before the outbreak of the COVID-19 pandemic and before changes in the ownership structure of the Energa Group.

- replacement of overhead MV naked power lines running through forest and wooded land with cable lines and/or insulated overhead cables,
- MV grid automation,
- replacement of non-cross-linked MV cables,
- replacement of LV cables with insulated cables with terminals,
- construction of new MV power line connections,
- replacement of HV/MV transformers,
- connection and construction of generally accessible electric vehicle charging stations and points,
- purchase and assembly of smart metering infrastructure prompted by the planned amendments to the Energy Law,
- adjusting Energa Operator SA grids to the requirements defined in Commission Regulation (EU) 2017/2196 of 24 November 2017 which established the Grid Code relating to the network code on electricity emergency and restoration, the so-called NC ER code (the purpose of that investment is to achieve operating capabilities for the designated facilities over a period of 24 hours in the event of loss of the primary source of power supply and to assure the required functionality defined in the National Power System Restoration Plan).

In addition to the listed investment projects, Energa Operator SA is planning to pursue further development of the ICT networks and systems supporting the implementation of key business processes within the company and to continue expansion and modernisation of the corporate car fleet, in particular as regards heavy technical equipment for carrying out work on the grid.

In 2019, implementation of the TETRA network as part of Energa Operator SA strategic project was completed. All of the planned 140 base stations became operational. The TETRA network covers approx. 90% of Energa Operator SA operations and currently constitutes the primary method of communication of emergency crews with control rooms. It is also the primary channel of communication for over 4,000 radio-controlled MV load switches and switching stations. This figure is steadily growing due to ongoing investments, which include both ongoing maintenance and the SmartGrid project. Development work is scheduled for 2020 that will improve the coverage of the TETRA network in the areas designated as most problematic by users. Over 20 new base stations will be built to cover the “white spots” in terms of coverage and assure the possibility to use hand-held radiotelephones.

In 2020, the Distribution Business Line of the Energa Group will support and pursue the strategy adopted by the European Union consisting in decarbonising power generation and transmission and reducing emissions in the transport sector, especially in municipal areas. The primary step in that direction is construction by Energa Operator SA of 280 stations for charging electric vehicles in 8 cities: Gdańsk, Gdynia, Koszalin, Elbląg, Olsztyn, Płock, Toruń and Włocławek by the end of 2020. Development of electromobility will not only contribute to improved air quality and creation of a new market for selling electricity but will also bring new opportunities and challenges for the Energa Group. The optimum utilisation of electromobility in the future and its proper management will lead to optimisation of the daily curve of capacity demand within the distribution grid. In 2020, Energa Operator SA will be also developing a fleet of zero-carbon vehicles and will commence construction of the charging stations for its e-car fleet on its premises.

The year 2019 saw a distinct and dynamic rise in the number of micro-installations (mainly photovoltaic ones) connected on registration. In 2019 alone, nearly 18,000 such installations with a total capacity of over 122 MW were registered. The current volume of micro-installations connected to Energa Operator SA grid exceeds 28,000 with a total capacity of more than 195 MW. The trend is expected to be sustained throughout 2020.

In connection with the auctions carried out by URE at the end of 2018 and 2019, a clear recovery is currently observed in the area of construction of large RES sources planned for connection to HV and MV grids. Among the projects seeking connection to Energa Operator SA grid, nearly 80 projects of a capacity exceeding 1,300 MW won the auction (predominantly those involving connection of wind

farms to the grid). Connecting RES sources to the grid will be one of the challenges faced by Energa Operator SA in 2020.

A new mode of qualitative regulation for the years 2018–2025 applied to the largest DSOs in Poland, including Energa Operator SA, starting from 2018. It was introduced in 2019 by the URE President and described in the document titled “Qualitative regulation in the years 2018–2025 for Distribution System Operators”, version dated 29 May 2019, the product of the work on evaluation of the previous regulation model for the years 2016–2020. In the letter dated 7 October 2019, the URE President communicated the settlement objectives for the years 2018–2025 for Energa Operator SA in terms of key performance indicators derived from the new qualitative regulations whose implementation (first of all, CTP and CP as well as CRP) will have direct impact on the company’s regulated revenue as regards return on equity.

In July 2019, the “My Current” programme was launched, whereby co-financing of prosumer power generation of PLN 1 bn over a period of two years was assured. The number of the programme’s beneficiaries in the area of operation of Energa Operator SA is estimated at approx. 50,000 prosumers. In view of the foregoing and considering the growth of micro-generation independently of the “My Current” programme, an increase in power generating capacity within the nn-0.4 kV grid in suburban and rural areas should be anticipated in 2020. Another challenge for Energa Operator SA in 2020 and subsequent years will be to preserve safe operation of the power supply grid at low voltage in spite of the rising prosumer generating capacity. Assuring, or rather maintaining, energy parameters and continuity of its supply to all entities connected to the nn-0.4 kV grid will require taking measures increasing the grid’s flexibility, including investment.

The year 2020 will see continued efforts undertaken to bring the infrastructure of Energa Operator SA, necessary for the restoration of the National Power System, in line with the requirements of Commission Regulation (EU) 2017/2196 of 24 November 2017 establishing a network code on electricity emergency and restoration. On 18 December 2018, in accordance with the provisions of the aforesaid Regulation, PSE submitted – along with other documents – a Restoration Plan to the President of the URE defining the measures that need to be taken within Energa Operator SA grid in connection with the Regulation. Energa Operator SA is obliged to complete those tasks prior to the end of 2022.

In August 2019, the document “Concept for the operation of the extra high (EHV) transmission network and 110 kV distribution network as a meshed grid in the territory of Energa Operator SA” was finalised in cooperation with PSE SA. That document covered three separate stages under which the EHV and HV networks were analysed within the 2020, 2025 and 2030 time horizon, respectively. This study allowed for planning of the optimum development of the HV power network infrastructure for the identified power demand growth scenarios and planned initial connections to the electricity grid, forming the basis for drafting the Development Plan for the years 2020–2025.

Under the provisions of the Energy Law (Article 16), Energa Operator SA submitted an update of the Development Plan as regards satisfaction of the present and future demand for electricity in the years 2020–2025 to the President of the Energy Regulatory Office. The document was submitted on 31 March 2019.

The ambition of the Distribution Business Line is to lead the implementation of innovative technical, organisational and process solutions. The Energa Group implements innovative solutions in such areas as smart grid, smart metering, advanced network asset management and cable diagnostics systems or smart energy storage. The DSO’s activities additionally involve cooperation with another DSO on international research and development projects. The goal of the projects is to devise mechanisms for the development and integration of the future energy market and to set up the conditions for provision of new services on the market on the DSO’s side.

In the area of research and development, it is important to build relationships with universities and scientific institutes. Cooperation with local research institutions: the Gdańsk University of Technology, the Gdańsk Branch of the Institute of Power Engineering, and the Institute of Fluid-Flow Machinery at the Polish Academy of Sciences is being developed in the framework of the activities.

Generation Business Line

In the Generation Business Line, whose leader is Energa OZE SA, the capital expenditures planned in 2020 are associated with modernisation of the existing infrastructure, development activities strengthening the Group's generation potential while using innovative approaches designed to strengthen the Group's image as a modern and competitive producer and supplier of electricity and heat.

With a view to ensuring continued business growth, measures are taken to expand the Group's power generating capabilities through implementation of new projects involving generation sources. Przykona Wind Farm – the project involves increasing RES capacity by 31 MW. Commissioning works and tests of power infrastructure are carried out in Q2 2020. The project won the RES auction in December 2019 securing the electricity selling price over a period of 15 years.

Energa OZE is also in the process of securing the building permit to evacuate the power generated by a large 19.8 MW photovoltaic farm situated in the Wielkopolska province.

Furthermore, building permits were secured for a portfolio of PV projects with a capacity of up to 1 MW the implementation of which shall depend upon the winning of the RES auction.

The innovative activities undertaken by Energa OZE aim not only to develop and increase the power generating capacity to meet the current trends in the world but also allow for implementing environmentally-friendly novel technological solutions. A perfect example of that initiative is the NEDO international project, a newly-built prototype hybrid energy storage warehouse on the premises of the Bystra Wind Farm the testing of which is scheduled to commence as early as Q2 2020. The lithium-ion and acid-lead batteries installed therein will assure the warehouse's volume of 27 MWh and capacity of 6 MW. This is the largest innovative project in the Polish power sector using the state-of-the-art available techniques in energy storage (for more project information see section 5.2. *Generation Business Line*).

Another research and development project pursued by the company is a floating photovoltaic installation. Following one-year testing of the pilot installation and its successful completion, the decision was made to launch preparations for construction of a 0.5 MW farm situated on the water reservoir next to the Łapino Hydro Power Plant.

In 2020, activities related to implementation of investments in power generating infrastructure will be undertaken, dramatically minimising environmental impact while substantially improving performance of the already existing sources. The commissioning of the Flue Gas Desulphurisation Installation II is planned at Energa Elektrownie Ostrołęka in 2020. The installation guarantees compliance with the requirements of Directive of the European Parliament and the Council on industrial emissions and BAT conclusions for sulfur dioxide emissions in the evacuated flue gases.

On 13 December 2019, the decision was made to launch a procedure leading to the sale of selected combined heat and power assets managed by Energa Kogeneracja sp. z o.o. The start of the sale process is scheduled in accordance with the strategic decisions taken by Energa's Management Board. The procedure is designed to identify an investor that would continue to support growth of the assets being sold in local markets. The sale process has no impact on the ongoing operation of the assets subject to a potential sale.

Sales Business Line

Energa Obrót SA is the leader of Strategic Programme No. 5, i.e. "Implementation of a new customer-centric business model and development of new business areas." The Integrator model focused specifically on the development and selling of a new product offering, addressed mostly to individual customers.

The deliverables expected from the implementation of the Programme were classified into two main groups of objectives:

- quantitative – New Business EBITDA at an appropriate level until 2020
- qualitative – operations focused on improving organisational performance and the quality of services.

Energa Obrót SA defined its strategic and key areas of development in mid-2019. The update was meant to adjust the growth directions of Energa Obrót SA to the existing market trends within the area of trading in electricity and related products. The adopted strategic directions are consistent with the Energa Group's Strategy for the Years 2016–2025 and concur with Strategic Programme No. 5.

The strategy of the Sales Business Line envisages growth of the share in market margin by increasing the number of electricity and gas take-off points and defending its own customer base by loyalty and productization of customers. The sales network is being expanded, new selling channels are being set up and the existing ones are undergoing optimisation. New categories have been added to the product portfolio: core offering, medical services, savings zone, insurance, auto assistance and TV. Making its customers aware that, aside from selling electricity, it offered other attractive services for business customers, the company added the "Efficiency Product Suite" to its portfolio. In addition to this, the company continues to optimise its processes, in particular those relating to handling of complaints and registrations. In consequence, the number of overdue complaints is minimised, and the internal consultation delivery indicators are improving, which translates directly into timely resolution of customer complaints.

In 2018 and 2019, the unprecedented volatility of market prices coupled with consolidation of the producer markets affected the selling activities, and thus the financial performance of Energa Obrót SA. Rising prices were driven mostly by increasing prices of CO₂ emission allowances (from about EUR 5 to almost EUR 30 per ton in July 2019) and high temperatures in summer. Price growth in the preceding years also contributed to growth in prices of the contracts listed on the Polish Power Exchange in the future periods.

In 2020, Energa Obrót SA will continue to implement the adopted initiatives and focus on organic growth of the unit margin on its core product and also sale of additional products, in particular in the area of energy efficiency. The company monitors market developments in the areas of its operation on an ongoing basis and dynamically adjusts its business model to the challenges it faces.

2.7. Awards and distinctions

Sports Hopefuls Prize (Nadzieja dla Sportu)

During the Sport Champions Gala (Gala Mistrzów Sportu) at which the results of the popularity contest held by Polish sports daily (Przegląd Sportowy) were announced, Energa was awarded the Sports Hopefuls special prize. Our commitment to the development of Polish basketball was recognised.

The prize was conferred by the Jury of the 84th Popularity Contest for the Best Polish Athletes 2018, organized by Przegląd Sportowy and Polsat television station.

Prize of the Ministry of Investment and Economic Development (Nagroda Ministerstwa Inwestycji i Rozwoju)



Energa became one of the laureates of the Social Reports Competition (Konkurs Raporty Społeczne). The Company received the prize of the Ministry of Investment and Economic Development and a distinction in the Journalists' Jury Prize category.

The awards for the best non-financial reports were handed out during the 13th edition of the Social Reports Competition. The competition aims to promote the enterprises that do business while safeguarding the interests of the society and respecting the natural

environment, and are able to present in a clear, transparent and credible manner their achievements in published reports.

The competition is organised by Responsible Business Forum (Stowarzyszenie Odpowiedzialnego Biznesu) and Deloitte.

2019 Polish Compass Prize (Nagroda Polskiego Kompas 2019)

At the Polish Compass Prize Gala, Energa was distinguished for its activity in the area of corporate social responsibility and, first and foremost, for supporting the Polish sport.

Energa, as the strategic sponsor of the Polish basketball, was recognised for its “presence on the basketball court, support of the Polish sport and consistent building of a socially responsible energy company”.

The Polish Compass Competition is prepared by the editorial team of Gazeta Bankowa.

Economic Prize of the Vision for Development Forum (Nagroda gospodarcza Forum Wizji Rozwoju)

During the 2nd edition of the Vision for Development Forum in Gdynia, Energa was awarded a prize in the eco-mobility category for promotion of implementation of low-emission environmental solutions in transport.

The jury of the Vision for Development Forum, the largest economic event in northern Poland, awarded distinctions to the best companies from among nearly 200 applicant institutions. Those are given in 7 categories including corporate social responsibility, eco-mobility and e-economy.

Patron of Toruń European City of Sport (Mecenas Europejskiego Miasta Sportu Toruń)

Energa was recognised by the government of the city of Toruń for its support of local athletes: women’s basketball team, table tennis and ice hockey.

2019 Wprost Eagles (Orły Wprost 2019)

The best entrepreneurs of the Pomerania Region were awarded the title of Eagle of Wprost weekly at an official gala held on 20 March 2019. The laureates included, among others: Energa Operator (1st place) and Energa (2nd place).

The Wprost Eagle title may be used by business leaders boasting best financial results and profits as well as adequate profitability that are not listed in the databases of companies with a poor payment history in their respective regions. The list is compiled by the editorial team of Wprost weekly and Bisnode business intelligence firm. The Wprost Eagles are awarded to businesses, local governments and outstanding personalities, the region’s ambassadors.

2019 Energetab Prize

During the 32nd edition of Energetab 2019 International Fairs, Energa Invest (an Energa Group company) was offered the Cup of the President of the Polish Power Transmission and Distribution Association (PTPIREE) for the innovative design for a catalogue of lattice poles (single- and double-track poles for 110 kV power lines) under the name of Pylon. This is the first comprehensive undertaking of the type in Poland.

The design is part of the efforts to standardise and optimise investment solutions applied within the Energa Group and was created in response to the needs of the distribution network of Energa Operator. Owing to application of innovative solutions, the number of lattice pole sites could be significantly reduced, which is specifically important where those have to be erected in areas with valuable natural characteristics.

Energetab are the largest fairs of equipment, apparatus and technologies for the energy sector in Poland.

Róża Energetyki (Energy Industry Roses)

In December 2019, Maria Stępniewska, the vice-president of the management board of Energa Invest, was recognised by the Polish Chamber of Power Industry and Environment Protection (IGEOS) for its work and contribution to development of the energy sector.

2.8. Corporate Social Responsibility at the Energa Group

One way to achieve the vision, mission and goals of the Energa Group and to create its value is by conducting business in line with the applicable law, being ethical, transparent and open to dialogue, balancing the needs of all stakeholders and environmental protection. In view of the above, the Group's business objectives are supported by its sustainable development objectives set out in the Sustainable Development and Responsible Business Strategy of the Energa Group. Priorities in individual strategic areas include:

- responsible development of customer relations – building lasting relationships based on fair practices, transparency and openness, and ensuring top-quality customer service;
- reducing the environmental footprint (while maintaining legal compliance and business competitiveness) through a continuous strive to reduce pollutant emissions, use resources reasonably and improve energy efficiency;
- caring for employees and their safety – ensuring a friendly and safe workplace, aiming to reduce the number of accidents at work, enhancing employee satisfaction and commitment through various forms of dialogue and communication;
- implementing fair market practices – managing the supply chain and vendor relations responsibly;
- local community and national community – supporting communities considering their needs and building social partnerships, as well as carrying out charitable activities, building community awareness in the area of national heritage and culture, patriotism, religion, healthcare, security and education.

The Group publishes details of all pending corporate social responsibility activities in its CSR report every year. The 2019 report was prepared based on the guidelines of Global Reporting Initiative in the core option gathered under the name of GRI Standards. This year's document titled "Our responsibility 2019" is the ninth consecutive report published by Energa Group and covers the 2019 financial year, i.e. the period from 1 January until 31 December 2019 (with the proviso, by analogy to the general rules of financial reporting, that the events may be included therein that took place after 31 December 2019 and prior to publication of the report, if relevant to the image of Energa Group from the point of view of its perception in the context of non-financial performance).

The choice of key themes to be covered by the report is based on internal and external stakeholder dialogue and the requirements of the Accounting Act (Article 49b). In 2019, the dialogue formula was reviewed. The survey was replaced by dialogue workshops during which communication was more interactive. Three meetings were held from 26 to 28 August 2019. The initial two meetings were organised at Energa Gdańsk Stadium whereas the third was held at the headquarters of the Warsaw Stock Exchange.

Maintenance, upgrading and construction of new grid and production infrastructure, including that based on renewable energy sources, climate commitments, adjustment to IED (the Industrial Emissions Directive), requirements of BAT Conclusions (i.e. the European Commission's implementing decision to the IED Directive), and amended regulations on water and waste management, the idea of circular economy and diversification of supplies were the key tasks undertaken by the Energa Group companies.

Energa Group operates an integrated environment and energy management system model compliant with the requirements of ISO 14001 and ISO 50001 series standards. Energa Group has also been entered in EMAS Register. From July to September 2019, the third-party environmental verifier carried out an independent audit of supervision over the environmental and energy management system within Energa Group companies. The companies obtained certificates documenting compliance of their management systems with ISO 14001 and ISO 50001 standards. On 29 November 2019, Energa Group also obtained a certificate from the General Director of Environmental Protection extending its registration with the EU Eco-Management and Audit Scheme (EMAS). The Group once again published its Environmental Declaration that describes the activities undertaken by Energa Group in order to mitigate its environmental impact.

Obtaining and maintaining an ISO 50001 certificate within the EMAS system framework not only ensures more efficient energy management and a focus on financial performance, but also highlights compliance

with legal obligations – carrying out corporate energy audits required by the Energy Efficiency Act of 20 May 2016.

In 2019, Energa Group submitted a report on greenhouse gas emissions generated as a result of the Group's activity to Carbon Disclosure Project, an independent organisation, for the seventh time. Reporting allows for comparing the performance of various companies from the energy sector in the area of reduction of greenhouse gases. Carbon Disclosure Project is an international non-governmental organisation which seeks to demonstrate the environmental footprint of large organisations and to build a low-carbon economy.

Over a period of 5 years, Energa SA shares were part of RESPECT Index published for the last 10 years. That index was published until the end of 2019 and, starting from 1 January 2020, WIG-ESG index only is published. On 3 September 2019, the Warsaw Stock Exchange commenced publishing the new WIG-ESG index which covers the companies appearing on WIG20 and mWIG40 indices and deemed socially responsible, i.e. observing the socially responsible business rules, in particular with respect to environmental, social, economic and corporate governance issues (more information on the stock indices has been presented in chapter 8. *Shares and shareholding structure*).

Energa Group is the first in Poland to secure financing under a revolving ESG-linked credit facility formula that promotes sustainable development. The funding obtained will be spent, among other things, on development of RES capacity and further upgrading of power lines. Energa and a consortium of five banks signed a credit facility agreement on 17 September 2019 for a total amount of PLN 2 billion and a term of 5 years (with an option to extend the repayment period for another two years). This mechanism was applied in Poland for the first time (more information has been presented in the chapter 2.3. *Key events in 2019 and after the balance sheet date*).

Energa Planet is a long-running initiative whereby teachers of 1st to 3rd grade primary school classes are assisted in familiarising children with electricity, safety and environmental protection. Tomasz Rożek, PhD, a well-known science populariser among children and youth, is the programme's long-time ambassador. The ninth edition of the competition for schools ended with the ambassador's visit to three winning schools from Brusy, Tujsko and Kozięgłowy, each receiving a cheque for PLN 10,000 for educational purposes. Ten other schools also received distinctions and cheques for PLN 2,000. In 2019, Energa highlighted and recognised the hard work of the teachers themselves for the first time. In the finals of the ninth edition of the Energa Planet educational competition, 23 schools were selected whose teachers were invited to take part in the first edition of the Energa Plant Academy.

Furthermore, Energa Group opened to visitors 54 of its facilities in 2019 in response to the needs of educational institutions and other entities interested in promoting knowledge of renewable energy sources. Those included 45 hydroelectric power plants, 5 wind farms, 3 photovoltaic farms and 1 pumped-storage power station. Power plants and farms could be visited free of charge.

The "generation gap" currently impacts virtually all industries in Poland. The ageing technical staff is an issue challenging also the energy industry. In line with its strategy, Energa Group supports initiatives aimed at developing the labour market. The representatives of the vocational schooling task force worked on developing a concept of effective curricula enabling recruitment of well-trained and competent employees.

The "Strategy for Sustainable Development and Corporate Responsibility of Energa Group" constitutes the foundation of Energa Group's social involvement. It identifies the basic strategic areas of sustainable growth adopted by the Group, namely the customer, natural environment, workforce, fair market practices, local community and national community as well as corporate governance. In order to facilitate the applicants' contact with Energa Group and initiation of cooperation within the framework of the pursued activities, the process of development of an electronic support application began in 2019. As a result, the circle of potential applicants will be expanded and the process of submission of the applications will be automated.

The scope of the activities undertaken by Energa Group within the framework of the corporate social responsibility is growing steadily. In addition to the numerous initiatives undertaken in 2019, this is also reflected in CSR Department being renamed ESG Department of Energa SA and Energa SA ongoing supervision being thus expanded to include supervision over the Integrated Environmental and Energy

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

Management System throughout Energa Group as well as over the remaining implemented management systems compliant with ISO standards. In 2019, the 1st stage of mapping of key processes was carried out within Energa Group companies. During the 2nd stage, mapping of main processes within Energa SA, the Group's Leading Entity, is scheduled for the first half of 2020. Both aforesaid stage of mapping of key processes are indispensable for the launch of process management within Energa Group in the future.

In line with the requirements of Article 49b of the Accounting Act (Journal of Laws of 1994, No. 121, item 591), detailed non-financial information can be found in the CSR Report titled "Our Responsibility 2019", published on the Group's website on 28 May 2020.



Pumped storage power plant in Żydowo

Regulatory and business environment

3. REGULATORY AND BUSINESS ENVIRONMENT

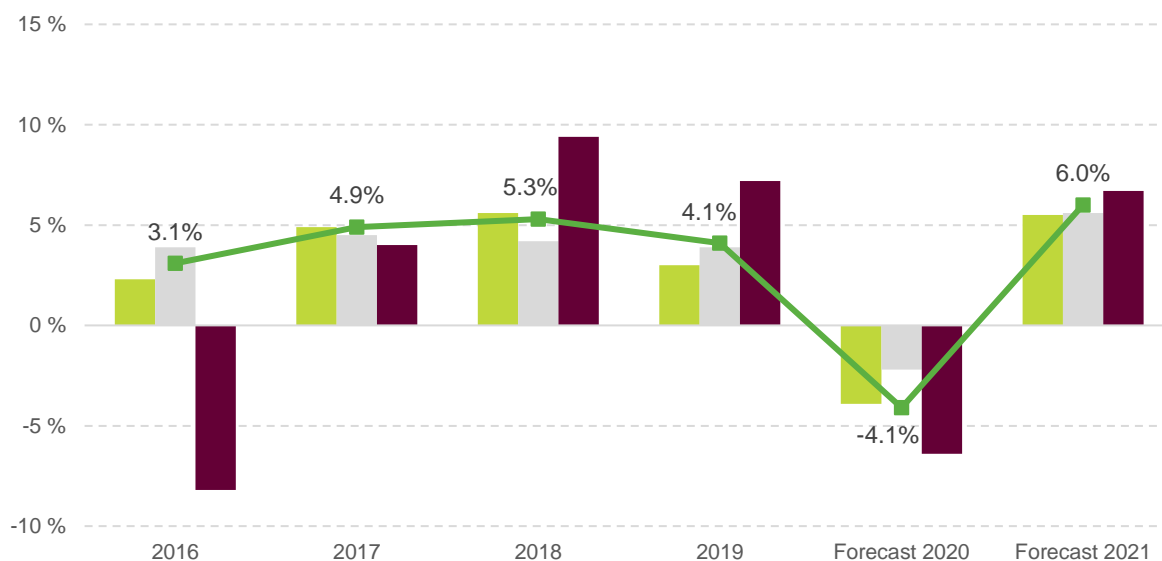
3.1. Macroeconomic situation

The key operating market for the Energa Group companies is the domestic market. Therefore, market cycles, expressed by means of the rate of GDP changes, inflation, or unemployment rate, have a bearing on the prices of electricity, heat and gas and the development of demand for products supplied to end customers. The SARS-CoV-2 (coronavirus) pandemic currently occurring in Poland and globally and the spread of COVID-19 disease is also impacting the operations of Energa Group companies, because it weakens economic activity and deteriorates the situation on the labor market, resulting in, among others, a decrease in demand for electricity.

The end of 2019 and the start of 2020 were relatively good periods in terms of domestic economic growth. According to the final estimate of the Central Statistical Office (GUS), GDP in Poland in 2019 was 4.1% higher, in real terms, in relation to 2018. A year earlier, GDP growth y/y amounted to 5.3%. The slowdown in economic growth was attributable, first of all, to the low rate of development of activity in the surroundings of the Polish economy and slower consumption growth. According to GUS data, GDP growth in Q4 2019 amounted to 3.2% y/y, compared to 5.1% in the corresponding quarter of 2018.

Due to the ongoing coronavirus pandemic and administrative introduction of business restrictions and displacement opportunities, the current macroeconomic index trends have collapsed since March 2020. The dynamics of related developments burdens the published forecasts with high risk as they become obsolete overnight, and the consequences of the outbreak have not yet been fully reflected in the available statistical data. The inflation and GDP projections developed by the Economic Analysis Department of the National Bank of Poland (NBP) at the start of March 2020 take into consideration the lowering of the forecast central GDP growth rate path for the year 2020 from 3.6% down to 3.2% in relation to the November projection. Meanwhile, according to the updated government Convergence Program of April this year, GDP growth in 2020 is expected to decrease by 3.4% in 2020 due to a decrease in private consumption, exports and a decrease in investment activity, especially outside the general government sector. However, forecasts are also published, indicating a stronger scale of GDP collapse. According to the spring economic forecast of the European Commission, Poland's GDP in 2020 will shrink by 4.3%. Similar forecasts are presented by analysts of Santander Bank, who, in the scenario assuming a gradual increase in economic activity since June this year, predict a fall in GDP by approx. 4% in 2020 and an increase by approx. 6% in 2021. The key risk factors are the duration and scope of limitation of economic activity in Poland and other countries, barriers in international trade and effectiveness of measures taken to mitigate economic losses.

Figure 7: Annual changes in the GDP, domestic demand, individual consumption and capital expenditures



Source: GUS data and Santander Bank Polska SA forecasts, (May 2020)

The driving force of the Polish economy in 2019 was domestic demand, in particular by individual consumption. However, the intensity of those positive impulses started to fade in H2 2019. That was due, among other things, to the rising inflation rate which reduces the purchasing power of households. From January to December 2019, the inflation rate reached an average of 2.3% compared to 1.6% in 2018, nonetheless remaining consistent with NBP's inflation target. The GUS's quick estimate regarding the change in prices of consumer goods and services in April this year indicates that, compared to the same period last year, an increase of 3.4% was recorded. According to the communique by the Monetary Policy Council of April this year, the expected weakening of global economic activity together with lower commodity prices (primarily oil) and weakening domestic demand will be conducive to a significant reduction in price growth. In the Convergence Policy, the government assumed that on average inflation this year will be 2.8%.

In 2019, private consumption is supported by systematic salary growth and government programmes such as expansion of 500+ child benefit scheme and changes in personal income tax (lowering of the rate for the first tax threshold and exemption for persons aged less than 26). However, payouts under subsequent social programmes generate an increasingly weaker demand stimulus. The falling dynamic of work income in real terms due to the slower employment growth and higher inflation rate also contributed to a slowdown in consumption growth rate. The restrictions introduced by the government designed to prevent rapid spread of the coronavirus in Poland in the form, for instance, of closures of restaurants and shopping malls as well as curbs on people's travel all resulted in shrinking consumption and on a decline in consumption and a change in the economic behavior of households. In April 2020, there was a significant deterioration in both current and future consumer sentiment as compared to the previous month. The forward-looking consumer confidence index, a synthetic measure of the trends in individual consumption expected in the coming months, amounted to -1.7 in Q1 2020 and was 5.1 pp lower in relation to the corresponding period of the previous year. The negative value of the index signifies a numerical superiority of pessimistically-inclined consumers. The assessment of the country's future economic outlooks was reported to have deteriorated the most. The forecast of the future unemployment rate also deteriorated considerably.

Investments, a positive surprise at year end, supported domestic demand in 2019. However, due to the ongoing pandemic, the level of investment activity over the full year is likely to weaken, especially in the private sector. NBP data show that businesses are less inclined to invest in expansion of their production potential and are increasingly interested in engaging in cost-reducing activities. Survey data also indicate that replacement investment will continue to prevail in 2020.

The slowdown in the Polish manufacturing sector is reflected in the PMI index (the forward-looking index of the Polish industry), which remained below the 50 point limit throughout 2019 pointing to the level of economic recovery. In April 2020, The PMI index amounted to 31.9 points compared to 42.4 points in March, thus reaching the lowest level in the history of the study. The April results showed a decrease in production since many companies have suspended their operations during the quarantine. Record delays in deliveries and decrease in new orders and orders from foreign customers were also noted, which resulted from social restrictions introduced in Europe and the world as part of the fight against the coronavirus pandemic. According to IHS Markit data, shrinking order books have forced the Polish entrepreneurs from the manufacturing sector to cut employment and restrict their purchasing activity. As indicated by Bank Millennium analysts, it is worth noting that the PMI index for Poland is lower than for the euro area and Germany. The calculation of the index for April, especially the procurement component, signals that the domestic industry may experience the largest decline in activity in decades. Gradual easing of preventive restrictions in economic activity will have a positive impact on economic recovery in industry, although in conditions of dramatically reduced domestic and foreign demand, full recovery may be very difficult.

The growth of marketed production in 2019 was 4% faster compared to corresponding period of the previous year. However, it amounted to 5.8% y/y in 2018. As far as manufacturing and supply in electricity, gas, steam and hot water are concerned, a slight increase in marketed production of 0.2% was reported. On the other hand, industrial output in Q1 2020 grew by 1% compared to the corresponding period of the previous year when growth of 6.1% was recorded.

The situation in the domestic labor market in 2019 remained stable. The number of persons without work shrank by over 100,000 during the year. The unemployment rate recorded towards the end of 2019

amounted to 5.2% and that index was 0.6 pp lower than the year before, assuming the lowest value in three decades. According to Eurostat data, Poland ranked third among the European Union countries with the lowest unemployment. However, the halting economic growth slightly reduced the demand for labor in the second half of 2019, which translated into a slowdown in average salary growth in the enterprise sector. During the period from January to December 2019, the average (gross) monthly salary increased by 6.5% y/y, reaching PLN 5,604.25 at the end of the year.

The forecasted further weakening of economic activity in Poland and worldwide this year, caused by a coronavirus pandemic, will translate into a deterioration in the labor market, albeit with a delay. According to the estimates of the Ministry of Family, Labor and Social Policy, the registered unemployment rate at the end of April this year stood at 5.7% and increased compared to March by 0.3 pp. Due to the announced epidemic threat in Poland, the labor market is currently experiencing a crisis, especially in industries such as trade, services and tourism.

Many employers reviewed their business priorities and converted to remote work or suspended their operations altogether. A lasting freeze of economic transactions may cause a downward adjustment of employment and salary levels as well as closure of many businesses. In order to prevent a dramatic rise in unemployment, loss of jobs, bankruptcies and plant closures as well as erosion of company revenues, the government has drafted initiatives within the framework of the so-called anti-crisis shield designed to support employers and employees. Effective implementation and effectiveness of those measures definitely constitute a risk factor for the situation in the domestic labor market this year.

The ongoing coronavirus pandemic also gives rise to aversion to risk and deterioration in investment trends. A substantial rise in exchange rates of the currencies deemed safe, such as the US dollar or Swiss franc, is being observed.

As regards the monetary policy, the Monetary Policy Council (the Council, MPC) did not make any changes to base interest rates in 2019, while in 2020, the Council has already twice decided to lower the NBP reference rate by a total of 1 pp., i.e. to the level of 0.5%. At the same time, the MPC set the following levels of other NBP interest rates: lombard rate - 1%, deposit rate - 0%, rediscount rate - 0.55% and discount rate - 0.60%. According to the assumptions, the NBP this year, in addition to basic operations, plans planning to carry out operations supplying the banking sector with liquidity through REPO, i.e. conditional bond purchase transactions. The NBP will also carry out the purchase of treasury and debt securities guaranteed by the State Treasury - on the secondary market, as part of structural open market operations, and will offer a promissory note credit intended for refinancing new credits granted to businesses by banks. Activities undertaken by the NBP are aimed at loosening financial conditions in the economy and limiting the negative economic consequences of a pandemic, thus supporting the maintenance of macroeconomic and financial stability. They will also be conducive to reviving domestic economic activity after the current disorder has resolved. As a result, these measures are intended to limit the risk of inflation falling below the NBP inflation target in the medium term.

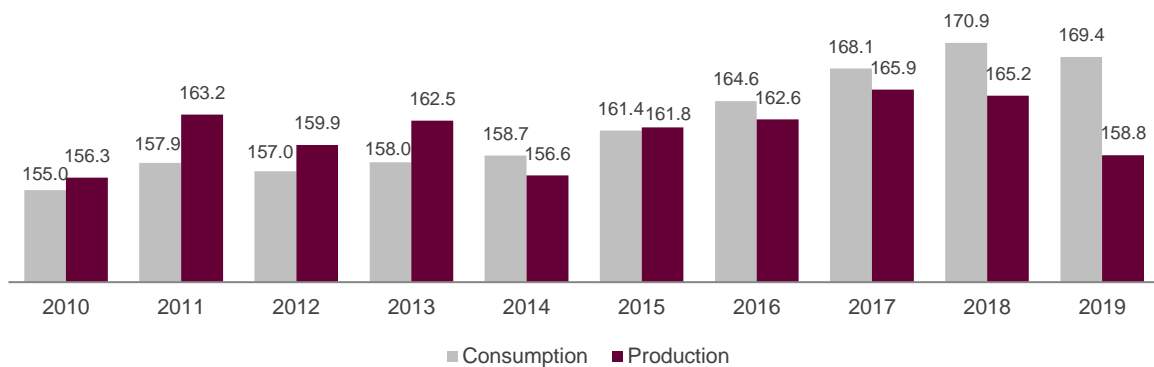
3.2. Electricity market in Poland

Developments in the market environment are of key importance for the financial performance of the Group. In this context, particular attention should be paid to price quotations for electricity, property rights, CO₂ emission allowances and coal (as a basic fuel for production in the Polish power generation system). Furthermore, the Group's results were determined by the regulatory mechanisms of the market, such as the Operating Reserve, as well as non-regulatory factors, e.g. weather conditions, in particular hydrometeorological and wind conditions.

Domestic production and consumption of electricity

According to data published by Polskie Sieci Elektroenergetyczne ("PSE"), electricity consumption in Poland in 2019 declined, compared to 2018, by 1.5 TWh (i.e. 0.9% y/y), reaching 169.4 TWh. Production corresponded partially to the declining consumption and fell by over 6.4 TWh in relation to 2018 to 158.8 TWh. Thus, the nonetheless persistently high demand was not offset by production, and energy imports increased as a result.

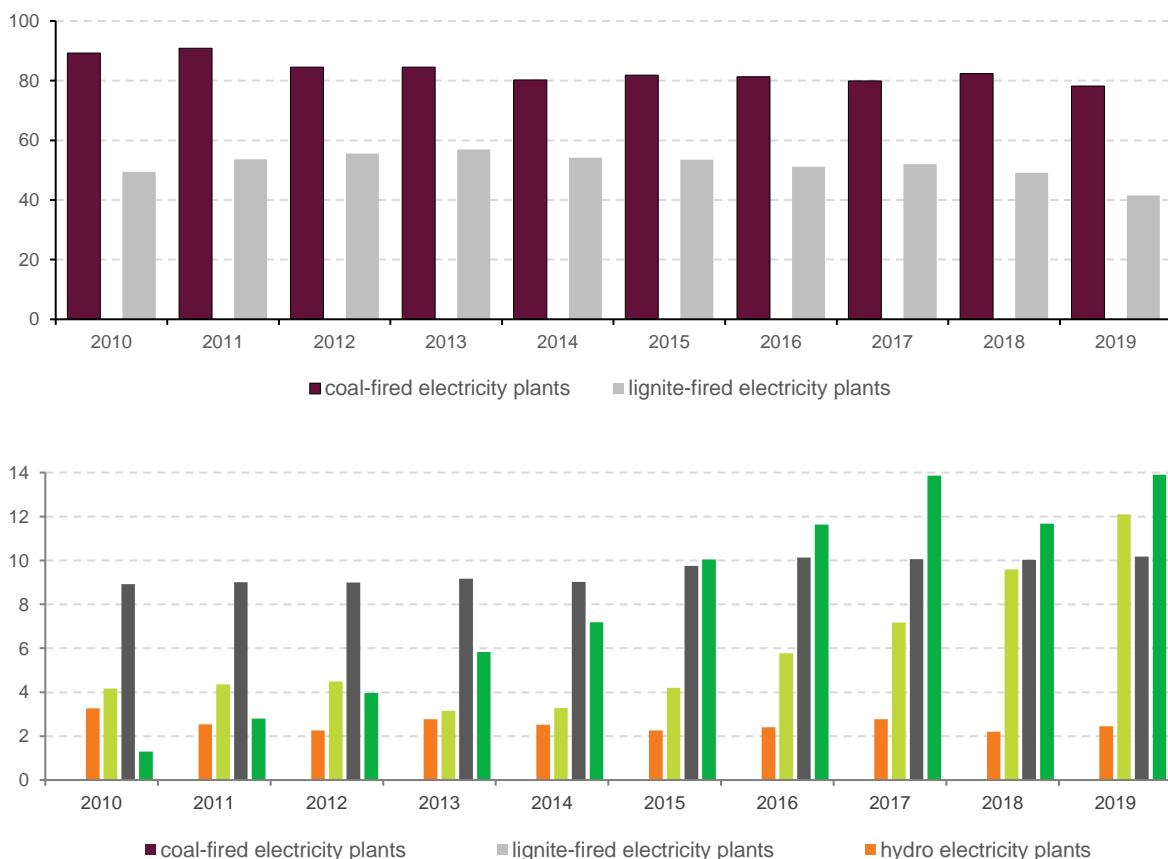
Figure 8: Production and consumption of electricity in Poland in 2010-2019 (TWh)



Source: PSE

In 2019, production of energy in wind power plants increased again after a year-long pause. The share of wind energy in the generation mix was approx. 8.8%, and production of electricity by wind farms increased by approx. 19% in relation to 2018. Increased production of wind power plants was attributable to improved wind conditions rendering the entire year 2019 overall the windiest year of the few previous.

Figure 9: Power generation mix in Poland in 2010-2019 (TWh)



Source: PSE

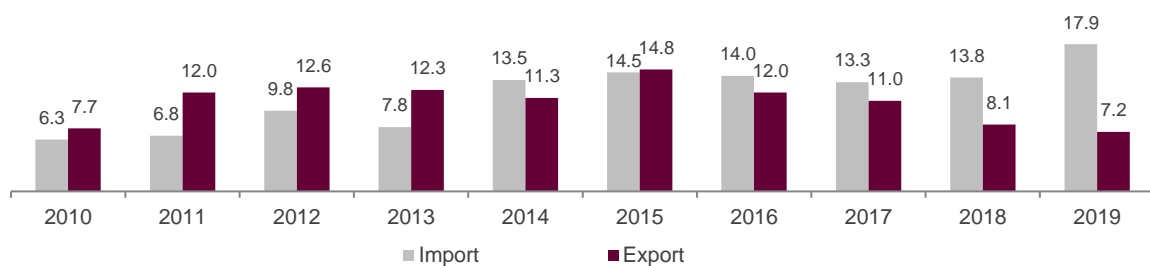
Coal-fired main activity producer electricity plants held the highest share in the power generation mix in 2019. They accounted for 49.4% of the total production, while the share of lignite-fired main activity producer electricity plants was 26.2%. The highest increase in production in percentage terms in 2019 was recorded by gas-fired main activity producer electricity plants, where generation increased by 26% y/y to 12.1 TWh. At the same time, the importance of photovoltaic sources in the national energy mix is

growing owing, among other things, to RES auctions and the launch of the “My current” government programme.

Poland’s cross-border power exchange

Electricity import increased in 2019 by nearly 4.1 TWh relative to the preceding year, while export declined by almost 0.9 TWh in relation to 2018, which can be explained by the persistently high demand for electricity accompanied by a sharp decline in production down to 158.8 TWh. The launch of the new LitPol Link interconnection in December 2015 between Poland and Lithuania and of the Nordbalt interconnection between Lithuania and Sweden facilitated power flows not only between Poland and Lithuania, but also contributed to a higher power exchange with Sweden, with Lithuania as a transit country. Additionally, high consumption of energy from Sweden was reported in 2019 in spite of renovation of an inter-connector between Poland and Sweden in August and September 2019. Import growth in relation to 2018 was driven primarily by increased power flow volumes along parallel exchange lines.

Figure 10: Annual cross-border power exchange volumes in Poland 2010-2019 (TWh)

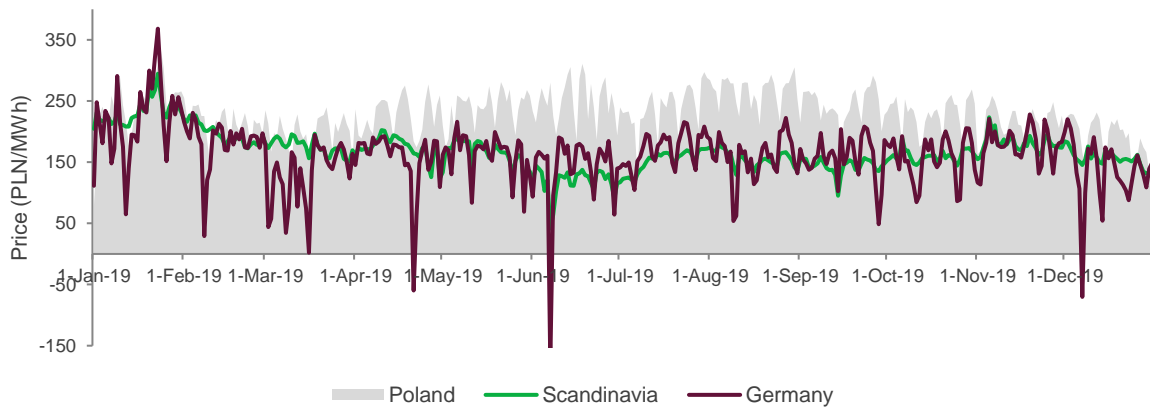


Source: PSE

Energy prices in selected countries neighbouring with Poland

In order to compare electricity prices in Poland against prices in neighbouring countries, SPOT market prices were used as a reference product. The price level in Poland was substantially higher than in the neighbouring countries compared to previous years. The highest price differences were found in comparison to the German market (+41.54% or PLN 67.42/MWh), followed by slightly less prominent differences in comparison to the Scandinavian market (+37.38% or PLN 62.51/MWh). The marginal increase in prices in the Polish market, unlike the direction of price changes on the neighboring markets, was attributable to high temperatures in the summer and persistently high prices of coal in spite of high production from wind sources and a slight decline in demand for power. In Q2 and Q3 specifically, we were dealing with the greatest price differences between the Polish market and the neighbouring countries. That was due primarily to large installed capacities in renewable energy sector in the neighbouring countries, mainly offshore and onshore wind farms and photovoltaics whose high energy generation definitely contributed to a decrease in prices in those countries.

Figure 11: Prices of energy in the SPOT market in Poland and in neighbouring countries in 2019 (PLN/MWh)

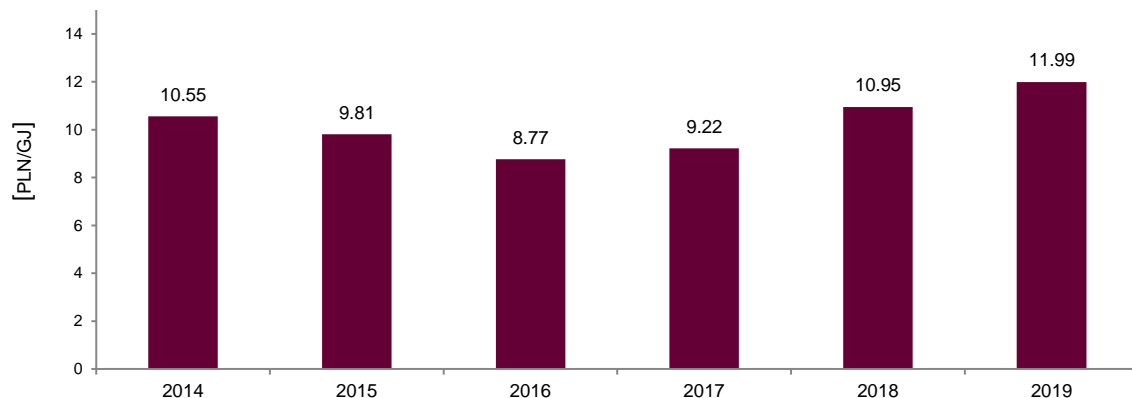


Source: Bloomberg, Reuters

Coal prices in Poland

Over the recent years, a consistent decline in coal prices could be observed in Poland, driven by a global factor – a global decline in the prices of that commodity and oversupply of coal in Poland. The downward trend reversed on the global markets in 2016, when the prices skyrocketed. In 2019, coal prices quoted at main transshipment ports (ARA, Newcastle, Richards Bay) declined substantially. In connection with promotion, especially in Europe, of low- and zero-emission power generation, demand is shrinking for coal which is displaced from the energy mix mainly by wind, photovoltaic and gas power plants. In the Polish market, selling prices of coal for main activity producer and industrial power generation have risen considerably, a trend opposite to those prevailing in international markets. The negative impact of this factor on the performance of the Energa Group was limited.

Figure 12: Prices of coal including cost of transport for coal-fired power plants at year-end in 2014-2019 (PLN/GJ)

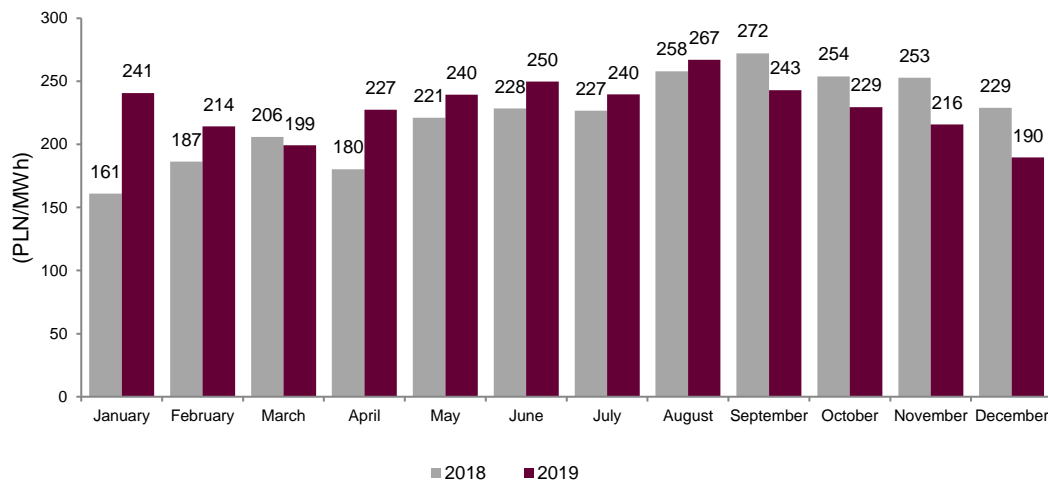


Source: Polski Rynek Węgla

Day-Ahead Market of electricity in Poland

The average electricity price level on the day-ahead market in 2019 amounted to PLN 229.74/MWh and was PLN 6.51/MWh higher than in 2018 (PLN 223.23/MWh). Persistently high levels of domestic demand for power and high coal prices accompanied by substantial wind power generation triggered a slight increase in prices in relation to 2018.

Figure 13: Energy prices on the Day-Ahead Market in 2018-2019 (PLN/MWh)



Source: TGE

The highest average monthly price for electricity on the commodity market was recorded in August 2019, when the average IRDN index stood at PLN 267.22/MWh. The halting of price growth in 2019 as compared to 2018 is noteworthy. That was due to the impact of increased generation of energy from renewable sources and falling quotations of CO₂ emission allowances in the second half of 2019. The minimum was observed in December 2019 at PLN 189.68/MWh.

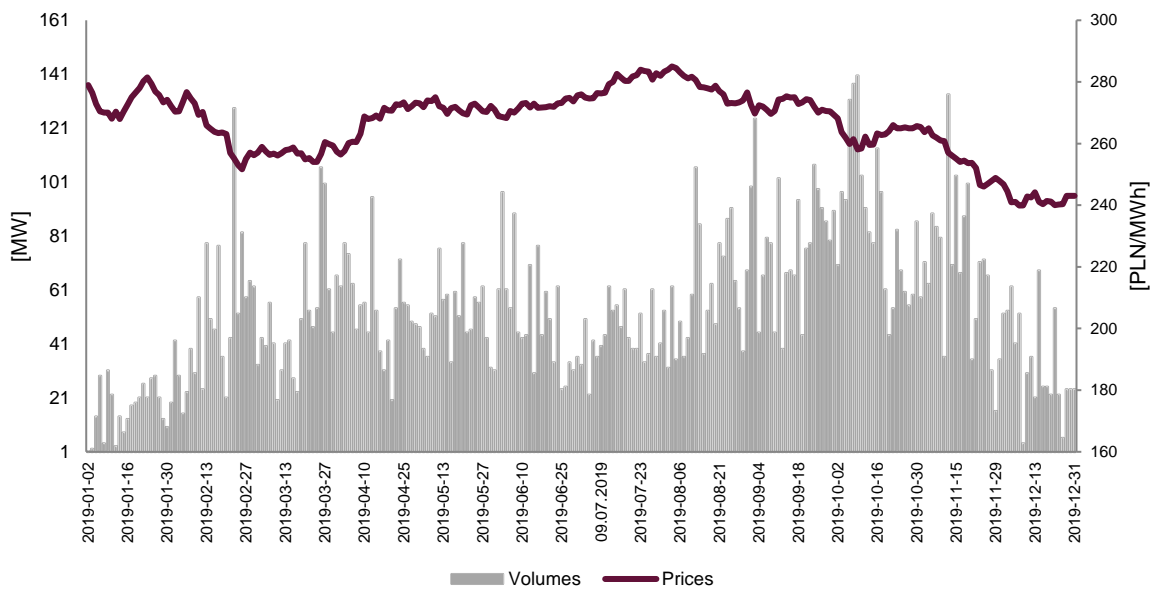
Electricity futures market in Poland

In order to assess the futures market in Poland, a one-year base-load future contract for 2020 (BASE 2020) has been selected as a reference product. In 2019, the level of prices under that contract showed significant volatility and lower levels in relation to 2018, reaching peak quotations in August at PLN 285.02/MWh. Thereafter, the price started to plummet to close the year at PLN 243.08/MWh. The trend on the futures market is particularly important from the perspective of the Group's contracting process for the next year.

The main drivers of the declining energy prices in the futures market were as follows:

- Halting of growth of prices of CO₂ emission allowances, mainly in connection with the uncertainty surrounding the United Kingdom's exit from the European Union and the country's continued presence in EU ETS system;
- a decrease in coal prices on global markets;
- significantly higher wind and hydro power generation on the local market and in neighbouring countries; and
- still high but nonetheless lower in relation to 2018 demand for electricity in the National Power System.

Figure 14: Base-load electricity futures price with delivery in 2020

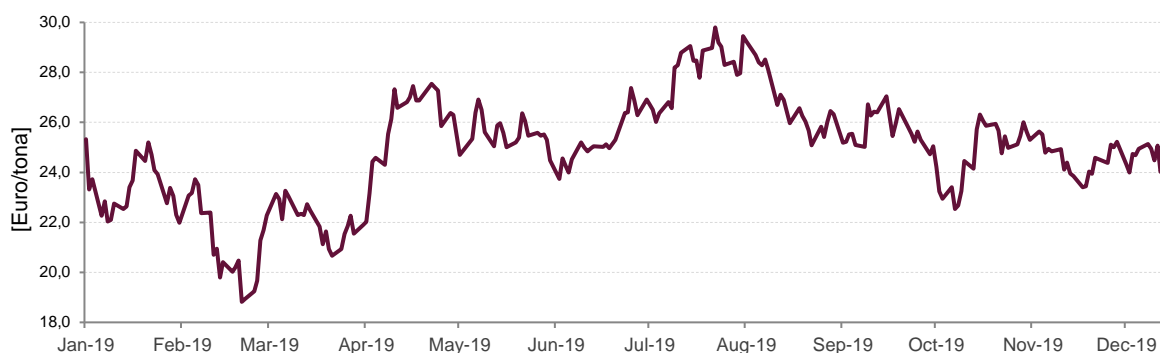


Source: TGE

Emission allowance market

On 15 May 2019, the European Commission published data on the number of allowances in circulation as at the end of 2018 (just over 1.654 billion), which is the basis for defining the Market Stability Reserve (MSR) of the EU Emissions Trading System (EU ETS), a mechanism launched in January 2019. Therefore, the volume of auctions between September 2019 and August 2020 will be reduced by slightly over 397 m allowances, which account for 24% of all allowances in circulation that will be transferred to the MSR. Over the initial 5 years of the functioning of the MSR, the number of allowances is to be reduced annually by 24% of the total number of allowances in the auction pool. On 8 May 2020, the European Commission announced that at the end of 2019 there were over 1,385 billion emission allowances in circulation. Therefore, the volume of auctions from September 2020 to August 2020 will be reduced by over 332 m allowances. Introducing such an effective system for limiting the supply of allowances on the market, i.e. MSR, suggested that, following the reform of the EU ETS, prices of emission allowances would follow a strong upward trend starting from the beginning of the year. However, as it seems, the price of EUAs in the first quarter of 2019 was mainly driven by lower demand. Increased temperatures and very high wind power generation in Europe contributed to a decrease in the consumption of fossil fuels, which translated into a lower demand for emission allowances. In the second quarter of 2019, with definitely lower windiness, the increased demand for EUAs led to significant price hikes. In the third quarter of the year, following the announcement about a possible increase of the EU target for carbon dioxide emission reduction from 40% up to 50% in 2030 and the uncertainty accompanying Brexit and the possible continued presence of the United Kingdom in the EU ETS system, the price at the end of the third quarter fell to EUR 24.73/t, which still represented a 2% increase since the end of 2018, whereas, compared with the end of the third quarter of 2018, the price increased by 17%. In the fourth quarter, EUA price determinants from the third quarter persisted supported by a drop in industrial activity in the largest economies of western Europe and the proposed increase of the EU target for CO₂ emission reduction from 40% up to 50% in 2030. That permitted for maintaining the price at the levels from the second quarter and from the end of 2018. Given that the year 2018 was characterised by significant price increases, the 2018 average price of EUR 15.64/t is considerably lower than the 2019 average price of EUR 24.87/t.

Figure 15: Prices for emission allowances (EUA DEC 2019) in 2019



Source: Bloomberg

Market for property rights

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

Table 2: Prices of property right indices listed on the Polish Power Exchange

Index (type of certificate)	Index value		Percentage of obligation (%)	Substitution fee (PLN)
	2018 (PLN/MWh) with 2018 index	2019 (PLN/MWh) with 2019 index		
OZEX_A (green)	98.60	131.56	19.35*	300.03*
KGMX (yellow)	113.76	111.06	8.0*	115.00*
KECX (red)	9.29	8.47	23.2*	8.19 *

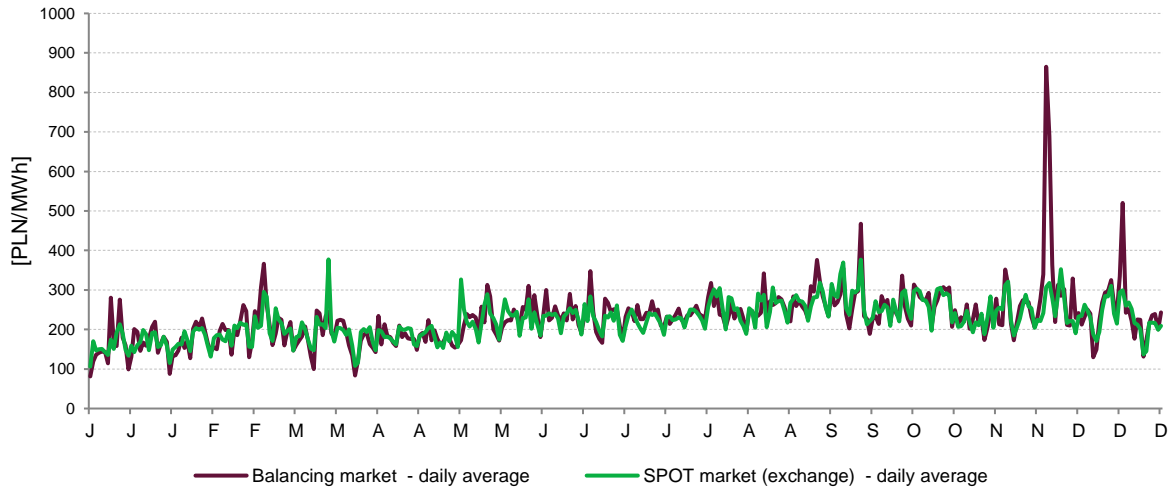
* value of the substitution fee and redemption obligation for 2019.

At the end of 2018, the support system for co-generation sources in the form of yellow and red certificates expired. Since 2019, the system has been replaced by auctions, and the related costs have been transferred to end customers in the form of a new co-generation fee added to their bills. Yellow and red certificates were listed until the end of June 2019 because until then the 2018 obligation had to be settled. The end of quotations for red and yellow certificates was the main determinant of a clear drop in prices and volumes of these instruments in June 2019. In the table above, prices of yellow and red certificates in 2019 cover the period until the end of June 2019. From the perspective of the Group's generation mix (its high share of RES), the prices of green property rights were of key importance. PM RES prices in EOB trades throughout the prevailing part of 2019 stayed above PLN 130.00/MWh with very high volatility, closing 2019 at PLN 144.91/MWh. The property rights market picked up, with a continually high volume of available property rights.

The balancing market and the SPOT market

The figure below shows the average daily prices for electricity on the balancing market and SPOT market.

Figure 16: Comparison of prices on the balancing market and SPOT market (exchange) in 2019 (PLN/MWh)



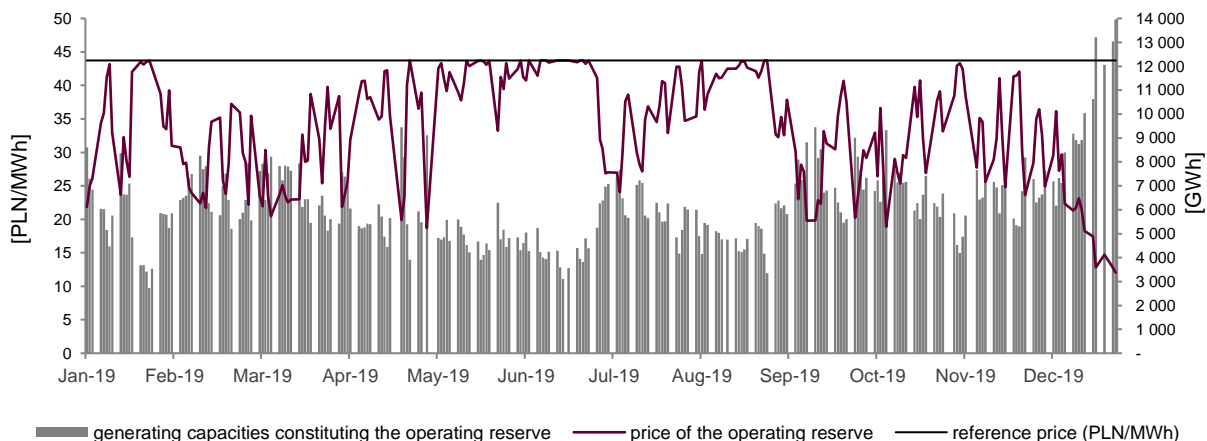
Source: PSE

Since 1 January 2019, the limits for electricity clearing prices on the balancing market changed and currently range from PLN -50,000.00/MWh to PLN +50,000.00/MWh. In 2019, differences in prices on the balancing market and prices for instruments traded on the SPOT market were mostly attributable to strong variations in the wind generation output, high domestic demand for power and decommissioning in Poland and Western Europe. The average price level in 2019 on the balancing market was PLN 234.98/MWh vs. PLN 227.94/MWh in 2018.

Operating reserve

The operating reserve was included in the catalogue of system services provided to PSE from the start of 2014. The operating reserve is composed of generating units which have spare capacities not covered by contracts for electricity.

Figure 17: Prices and generating capacities constituting the operating reserve in 2019



Source: PSE

The operating reserve (OR) service was continued in 2019, although its volume changed slightly in relation to the preceding year. The reference price was raised to PLN 43.73/MWh. The average operating reserve fee in 2019 was PLN 33.70/MWh, a decrease by PLN 4.08 compared to the corresponding period of the previous year (PLN 37.78/MWh).

3.3. Regulatory environment

Regulatory issues handled and addressed in 2019

Table 3: List of key legal acts of relevance to the Group

Legal act	Purpose of legal changes	Opportunities	Threats/issues
Regulation of the Minister of Energy of 19 July 2019 concerning the method of calculation of the amount of price difference, financial compensation and method of setting benchmark prices (Journal of Laws 2019 item 1369).	Clarifying the method of calculation of the amount of price difference and financial compensation on account of freezing of electricity prices in 2019.	Introducing regulations in the area of stabilisation of electricity prices for all vendors.	None.
Act amending the Renewable Energy Sources Act and Certain Other Acts of 19 July 2019 (Journal of Laws of 2019, item 1524).	<ol style="list-style-type: none"> 1) Performing additional activities aimed at achieving the target of a 15% share of energy from renewable sources in ultimate gross energy consumption by 2020; 2) Designating, in transitional regulations, the maximum volumes and values of electricity to be offered at RES auctions in 2019; 3) Clarifying the principles of operation of the support system based on the previous experiences. 	<ol style="list-style-type: none"> 1) Revising the so-called distance act (extension of the term of validity of building permits) to enable further growth of some wind farm undertakings; 2) Guaranteeing, by way of an auction, that a fixed energy price is offered to an investor over a period of 15 years from the launch of power generation and adjusted for inflation on an annual basis; 3) Defining, directly in the act and not in the dedicated regulation, the maximum volume of electricity from renewable energy sources that may be sold at an auction in 2019. 	<ol style="list-style-type: none"> 4) Expanding the catalogue of prosumers; 5) Extending the period for accounting for unused energy within the scope of net metering by 12 more months from the existing 365 days; and 6) Defining the size of a micro-installation as 50 kW.
Regulation of the Minister of Energy concerning the parameters of the main auction for 2024 supply year and parameters of additional auctions for 2021 supply year of 2 August 2019 (Journal of Laws of 2019, item 1457).	The draft regulation constitutes fulfilment of the statutory authorisation contained in Article 34(1) of the Act of 8 December 2017 on the capacity market. The draft regulation applies to the main auction for 2024 supply year held in 2019 and to the additional auctions for 2021 supply year held in 2020.	Possible participation of the Energa Group's manufacturing assets and demand side response (DSR) in capacity market auctions.	High electricity volume declared at capacity market auctions by competitors.
Implementing regulations to the Act on Promotion of High Efficiency Cogeneration of 18 December 2018 (Journal of Laws of 2019, item 42).	Regulations are the product of the delegation contained in the provisions of the Act on Promotion of High Efficiency Cogeneration and aim to lay the ground for the technical launch and operation of the support system in 2019.	Launch of CHP support system with mechanisms enhancing profitability of undertakings.	Potential underestimation of the support system for existing CHP units.
The Act of 31 December 2018 amending the	Electricity price freeze and lowering of excise tax and	Introduction of regulations in the area of stabilisation of	The fact that the assumptions underlying the act have not

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

<p>Excise Tax Law and Certain Other Acts (as amended).</p>	<p>the so-called transitional charge in settlements with customers in 2019.</p>	<p>electricity prices for all vendors.</p>	<p>been consulted with the European Commission poses a risk to the potential beneficiaries of the compensation scheme (energy undertakings).</p>
<p>The Clean Energy for All Europeans EU legislative package (COM/2016/0860 final). (1) Directive 2019/943 of 5 June 2019 on the internal market for electricity (OJ EU L 158/54); (2) Directive 2019/942 of 5 June 2019 on the internal market for electricity (OJ EU L 158/22); (3) Regulation 2019/941 of 5 June 2019 on emergency preparedness in the electricity sector (OJ EU L 158/1); (4) Directive 2019/944 of 5 June 2019 on common rules for the internal market in electricity (OJ EU L 158/125);</p>	<p>Maintaining EU's competitiveness in the era of transformation of energy markets towards clean energy in the framework of the Winter Package. Plans to reduce coal subsidies, to increase the energy efficiency target to 32.5%, and to reduce CO₂ emissions by 40% by 2030. The Winter Package includes solutions promoting the development of decentralised electricity production and storage to develop 'civic energy'.</p>	<p>(1) Introduction of consistent regulations improving the energy security of the European Union. (2) Establishment of the Modernisation Fund will enable funding, for instance, projects from the renewable energy area (43.41% of the monies from the Fund is to be allocated to Poland in the years 2021 to 2030 or approx. PLN 14bn to PLN 18bn) and the Innovation Fund, financed from the pool of carbon dioxide emission allowances from EU ETS.</p>	<p>(1) Starting from the second half of 2025, installations emitting more than 550 g CO₂/kWh will no longer be supported with capacity market mechanisms; (2) Possible continued operation of high-emission units exclusively under EPS 350; and (3) Need to adjust national support systems.</p>
<p>The National Plan for Energy and Climate for Years 2021-2030 (the document was adopted by the Committee for European Affairs at the meeting held on 18 December 2019 and submitted to the European Commission on 30 December 2019).</p>	<p>Submission of the National Plan for Energy and Climate for Years 2021-2030 to the European Commission fulfils the obligation imposed on Poland by the provisions of Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, amending Regulations (EC) No 663/2009 and (EC) No 715/2009 of the European Parliament and of the Council, Directives 94/22/EC, 98/70/EC, 2009/31/EC, 2009/73/EC, 2010/31/EU, 2012/27/EU and 2013/30/EU of the European Parliament and of the Council, Council Directives 2009/119/EC and (EU) 2015/652 and repealing Regulation (EU) No 525/2013 of the European Parliament and of the Council.</p>	<p>Possibility of long-term planning and pursuit of business based on the assumptions adopted in the plan.</p>	<p>Failure to implement the assumptions underlying EU climate targets will lead to restrictions on financing projects from EU funds (e.g. from the modernisation fund).</p>

Regulatory issues handled in 2019 and continuing in 2020

Table 4: List of legal acts of relevance to the Group

Legal act	Purpose of legal changes	Opportunities	Threats/issues
Regulation of the Council of Ministers on the maximum volume and value of electricity from renewable energy sources that may be sold at an auction in 2020 (Journal of Laws of 2020, item 101).	The Regulation defines the volume and value of electricity from RES for the year 2020. The hitherto work on the auction support system was designed to ensure that the measures taken enable achievement of the EU-wide target of a 15% share of energy from renewable sources in the final gross energy in 2020.	Expansion of the possibilities to use mechanisms supporting generation of electricity from RES, specifically photovoltaics and hydro power.	High competition likely to lead to low values of support at auctions.
Government bill to amend the Energy Law and certain other acts. Number on the list: UC17.	Implementation of the provisions of Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management, clarification of the competences of the President of the URE with respect to supervision over electricity undertakings, clarification of the rules of providing electricity storage services and a statutory delegation introducing an implementation schedule for smart metering in Poland.	<ol style="list-style-type: none"> (1) Introduction of requirements pertaining to the functioning of the President of the URE in the light of the Winter Package regulations; (2) Clarification of the principles of availability of metering data; (3) Clarification of the rules concerning the functioning and oversight of electricity undertakings; (4) Package of regulations on electricity storage. 	<ol style="list-style-type: none"> (1) Lengthiness of the legislative process; (2) Unclear assumptions underlying restrictions on concluding remotely contracts for electricity deliveries (the so-called door-to-door sale); (3) Risk of legal obligation to change DSO's trademark.
Draft regulation of the Minister of Energy on the method of determination of contracted capacity for indoor and outdoor parking spaces associated with public utility buildings and residential multi-family housing. Number on the list: 104.1.19.	The draft regulation is designed to define the method of calculation of the minimum contracted capacity used to satisfy the needs of users of plug-in electric and hybrid vehicles. The draft regulation partially implements into the Polish legal order Directive (EU) 2018/844 of 30 May 2018 amending Directive 2010/31/EU on the energy performance of buildings and Directive 2012/27/EU on energy efficiency (OJ L 156).	Increasing the number of customers (distribution and sales) and electricity sales volume.	Assuring an adequate level of contracted capacity will constitute an additional logistic, financial and legal challenge for DSO and local governments (adaptation and conversion of infrastructure).
Draft Energy Policy of Poland until 2040.	Definition of the national long-term energy strategy that will determine the ultimate energy mix and outline the key development focus for energy sector entities.	<ol style="list-style-type: none"> (1) The update of the current energy policy of 2009 pinpoints the long-term trends in the development of the energy sector; (2) A strong emphasis on the diversification of primary energy supply for the economy; (3) The policy envisages gradual phasing out of carbon-intensive generating units. 	<ol style="list-style-type: none"> (1) Need to correlate the policy's underlying assumptions with the National Action Plan for Energy and Climate (the final version of 30 December 2020); (2) Announcement by the Minister of Climate about presentation of the new version of the Energy Policy of Poland until 2040; and (3) Absence of a comprehensive strategy for the long-term availability of coal for power generation purposes.

3.4. Description of the Group's position in relation to other energy groups

The Energa Group is one of the four largest vertically integrated energy groups operating in Poland. The groups operate in separate geographies with respect to their electricity distribution territories. The distribution territory of the Energa Group covers the northern and central part of Poland.

Figure 18: Distribution territories of top energy groups



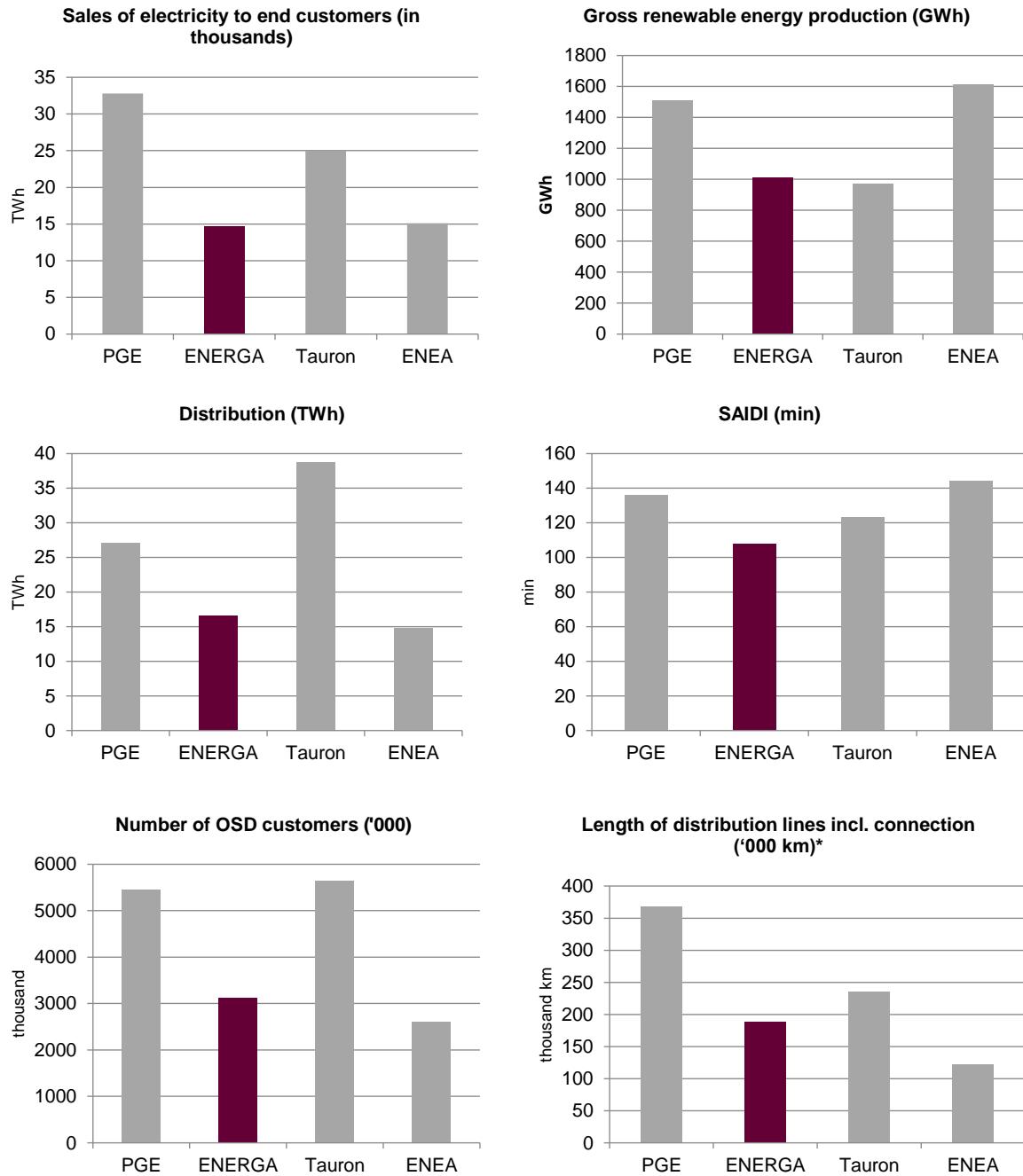
In the Distribution Segment, the Energa Group ranks third after the PGE Group and the Tauron Group in terms of the volume of electricity supplied, network length and number of customers. Owing to intensive upgrading efforts, the Energa Group's network quality indicators are among the best in Poland and are continually improving. This is visible, for instance, when comparing SAIDI qualitative indices.

For historic reasons, the coverage of the distribution networks is correlated with the number of customers in the Sales Segment. In this respect, the Energa Group ranks fourth. Sales by value to end customers is more volatile than the number of customers, depending on the commercial strategy chosen for the largest users. Over

the first three quarters of 2019, the Energa Group ranked fourth in terms of sales volume, outperformed by PGE, Tauron, and slightly by Enea.

Compared to the other groups, the Energa Group has a low share in conventional generation. The company has a single baseload unit with a generating capacity of 690 MWe (the Ostrołęka B Power Plant). This is significantly less than what the other groups have, with the PGE Group boasting the highest generating capacity. The situation in the renewable energy area is quite different. In terms of renewable energy production, the Energa Group is at the level similar to that of the remaining energy groups and its share in own energy mix is the highest among those audited and amounts to 38% in 2019.

Figure 19: Comparison of operating data for the Energa Group and the other energy groups (data from Q1 to Q3 2019)⁴



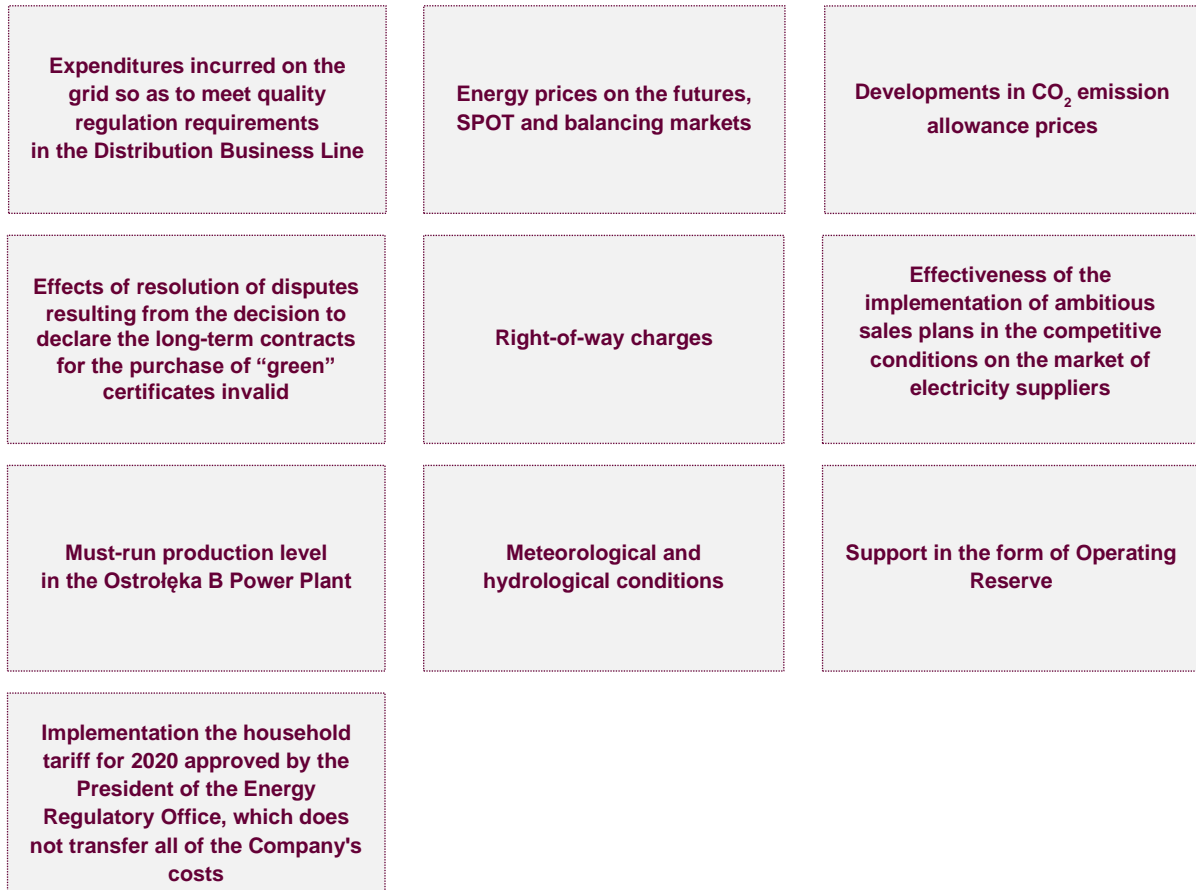
*PTPIREE data, end of 2018

⁴ The figures representing sales of electricity to end customers for ENEA include the sales of natural gas.

3.5. Factors affecting the Energa Group's performance

In the opinion of the Management Board of Energa SA, the factors described below will affect the performance and operations of the Company and the Energa Group within at least one year.

Figure 20: Factors affecting the Energa Group's performance within at least one year





Photovoltaic farm in Bystra

Financial and assets situation of the Group

4. FINANCIAL AND ASSETS SITUATION OF THE GROUP

4.1. Rules of preparing the annual consolidated financial statements

The consolidated financial statements of the Energa Group for the year ended 31 December 2019 were prepared:

- in accordance with the International Financial Reporting Standards endorsed by the European Union,
- on a historical cost basis, except for financial instruments measured at fair value through profit or loss and hedging derivatives,
- in millions of Polish zlotys ("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 that the continuation of the Energa Group's business activities as a going concern may be at risk.

The parent company's Management Board applied the standards and interpretations as well as the valuation approaches and principles for each item of the consolidated financial statements of the Energa Group to the best of their knowledge, in line with the IFRS EU for the year ended 31 December 2019. The statements and notes presented were prepared with due diligence.

The accounting principles (policy) applied to prepare the annual consolidated financial statements are presented in Note 9 to the annual consolidated financial statements of the Energa Group for the year ended 31 December 2019.

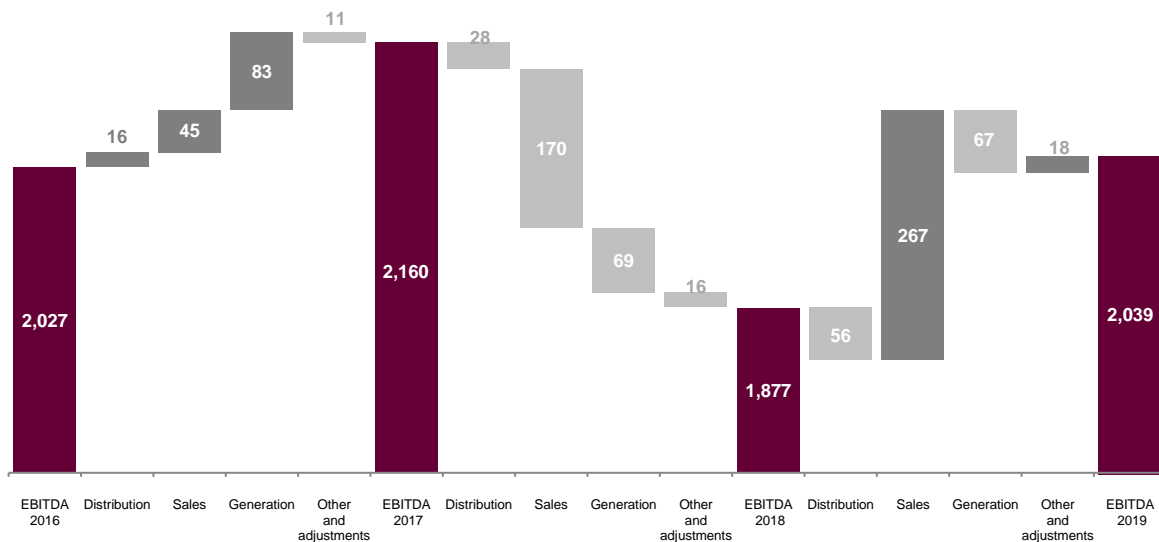
4.2. Explanation of the economic and financial data disclosed in the annual consolidated financial statements

Table 5: Consolidated statement of profit or loss (PLN m)

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
Sales revenue	10,181	10,534	10,337	11,479	1,142	11%
Revenue from Price Difference Refund Fund	-	-	-	693	693	-
Cost of sales	(8,846)	(8,615)	(8,284)	(10,930)	(2,646)	32%
Gross profit on sales	1,335	1,919	2,053	1,242	(811)	-40%
Other operating revenue	117	118	104	245	141	> 100%
Selling and distribution expenses	(338)	(341)	(354)	(380)	(26)	7%
General and administrative expenses	(318)	(326)	(355)	(364)	(9)	3%
Other operating expenses	(309)	(160)	(272)	(284)	(12)	4%
Operating profit	487	1,210	1,176	459	(717)	-61%
Financial profit or loss	(230)	(232)	(313)	(722)	(409)	> 100%
Share of profit/(loss) of entities measured using the equity method	(52)	24	90	(496)	(586)	< -100%
Gross profit or loss	205	1,002	953	(759)	(1,712)	< -100%
Income tax	(58)	(213)	(209)	(242)	(33)	16%
Net profit or loss for the period	147	789	744	(1,001)	(1,745)	< -100%
EBITDA	2,027	2,160	1,877	2,039	162	9%

	Q4 2018	Q4 2019	Change	Change (%)
Sales revenue	2,736	3,007	271	10%
Revenue from Price Difference Refund Fund	-	100	100	-
Cost of sales	(2,189)	(3,024)	(835)	38%
Gross profit on sales	547	83	(464)	-85%
Other operating revenue	21	50	29	> 100%
Selling and distribution expenses	(104)	(97)	7	-7%
General and administrative expenses	(84)	(94)	(10)	12%
Other operating expenses	(192)	(158)	34	-18%
Operating profit	188	(216)	(404)	< -100%
Financial profit or loss	(86)	(473)	(387)	> 100%
Share of profit/(loss) of entities measured using the equity method	12	(523)	(535)	< -100%
Gross profit or loss	114	(1,212)	(1,326)	< -100%
Income tax	(50)	(144)	(94)	> 100%
Net profit or loss for the period	64	(1,356)	(1,420)	< -100%
EBITDA	290	297	7	2%

Figure 21: EBITDA bridge by Business Lines (PLN m) in 2016-2019 (PLN m)



The Group's EBITDA in 2019 was PLN 2,039 m vs. PLN 1,877 m in 2018, i.e. an increase by 9% YoY. The highest EBITDA increase, by PLN 267 m to PLN 182 m, was recorded in the Sales Business Line. The Line's EBITDA in 2018 was primarily affected by a sharp increase in energy prices on the market, which negatively affected the margin at that time, as well as one-off events. These factors did not occur in 2019, which was reflected in a significant improvement in the Line's result. In turn, EBITDA of the Distribution Business Line stood at PLN 1,648 m in 2019, compared to PLN 1,704 m in 2018, and this was primarily the effect of a lower margin on electricity distribution. On the other hand, the increase in key production fuel costs and fixed costs of the Generation Business Line, only partially offset by the

increase in revenues from the sale of green property rights, resulted in a deterioration of EBITDA of this Line, which recorded a decrease of PLN 67 m to PLN 262 m.

The Distribution Business Line was the greatest contributor to the Group's EBITDA in 2019 (81%), while the contributions of the Generation Business Line and Sales Business Line were 13% and 9%, respectively.

The operating profit in 2019 amounted to PLN 459 m, compared to PLN 1,176 m in 2018 (down by 61%). Aside from the above-described factors, the change in EBIT YoY was impacted by the recognition of an impairment loss on the assets of the Ostrołęka B Power Plant for a total amount of PLN 437 m and of the CHP plant in Elbląg of PLN 78 m. The decrease of this result YoY was additionally affected by a decision to reverse impairment losses, in particular on wind and photovoltaic assets in the Generation Business Line. The impairment losses reversed in 2018 totaled PLN 272 m.

In 2019, equity in net income/loss of associates and joint ventures was recognised at PLN -496 m, while in 2018 this result stood at PLN 90 m.

The above was primarily due to an IAS 36 test for the impairment of assets conducted by Elektrownia Ostrołęka Sp. z o.o. and the recognition of an impairment charge of PLN 1,027 m. The inclusion of the share in the loss of this company in the Energa Group's consolidated financial statements resulted in a revaluation of the investment value to zero.

In view of a significant risk of impairment of PGG's future cash flows, Energa Kogeneracja Sp. z o.o., having joint control over the latter, considered a fair value assessment by an external adviser and identified the need to recognize an impairment charge on its 15.32% holding of PGG shares, down to PLN 199 m. Similarly, in the context of consolidated data, investments were also revalued to the same level, thus leading to an impairment charge of PLN 372 m.

The Group also recognized a provision regarding future tax liabilities in Sweden that may arise in connection with exchange rate differences arising as a result of repayment of intragroup loans granted by Energa Finance AB.

The Group's net result amounted to PLN -1,001 m in 2019 compared to PLN 744 m in 2018.

In 2019, the Group generated PLN 12,172 m in sales, i.e. 18% or PLN 1,835 m more than in 2018. The main factor affecting such a significant improvement in revenues YoY was revenues increase in the Sales Business Line, which in turn was the result of an increase in electricity sales prices to end users, which were a reflection of the market trend in this respect. Due to the binding in the reporting period of the Energy Prices Act in 2019⁵, this effect was partly realized in the form of revenue from the Price Difference Refund Fund.

The Group's EBITDA in Q4 2019 was PLN 297 m vs. PLN 290 m in the same period last year. The Sales Business Line had a positive impact on the Group's EBITDA, where the increase in EBITDA was mainly caused by the low base effect in the form of negative events in 2018, i.e. the creation in Q4 2018 a provision for contracts generating charges of PLN 136 m (in 2019 the level of provisions in this respect was at a lower level) and charging the result of Q4 2018 with costs arising from the results of arbitration proceedings in several disputes regarding CPAs. The EBITDA result in Q4 2019 was negatively affected by the Generation Business Line results, mainly due to the lower results of the Ostrołęka Power Plant, which was a derivative of a lower production volume, additionally at a lower selling price.

The effect of material non-recurring events (assuming a materiality threshold of PLN 25 m) burdening the EBITDA has been presented below.

⁵ The Act of 13 June 2019 amending the Act amending the Act on excise duty and certain other acts, the Act on energy efficiency and the Act on biocomponents and liquid biofuels (hereinafter: the Act on energy prices in 2019)

Table 6: EBITDA after material one-off events* (PLN m)

12 months of 2019	
EBITDA	2,039
Adjusted EBITDA	2,122
<i>including:</i>	
<i>Actuarial reserves</i>	46
<i>CPA – provision for disputes</i>	48
<i>Provision for onerous contracts</i>	(11)
12 months of 2018	
EBITDA	1,877
Adjusted EBITDA	2,058
<i>including:</i>	
<i>CPA – sanctions imposed</i>	26
<i>Provision for onerous contracts</i>	136
Q4 2019	
EBITDA	297
Adjusted EBITDA	414
<i>including:</i>	
<i>Provision for onerous contracts</i>	99
Q4 2018	
EBITDA	290
Adjusted EBITDA	465
<i>including:</i>	
<i>CPA – sanctions imposed</i>	26
<i>Provision for onerous contracts</i>	136

*The table presents one-off events determined based on the materiality criterion, for which PLN 25 m was assumed; in the case of the Reserve for contracts giving rise to encumbrances in 2019, due to the weight of individual elements constituting the presented value, the criterion of materiality was not applied.

Table 7: Consolidated statement of financial position (PLN m)

	As at 31 Decemb er 2016*	As at 31 Decemb er 2017*	As at 31 Decemb er 2018*	As at 31 Decemb er 2019	Change 2019/20 18	Change 2019/20 18 (%)
ASSETS						
Non-current assets						
Property, plant and equipment	13,117	13,434	14,396	14,262	(134)	-1%
Intangible assets	319	275	246	223	(23)	-9%
Right-of-use assets	-	-	-	847	847	-
Goodwill	26	15	15	11	(4)	-27%
Investments in associates and joint ventures measured using the equity method	390	728	1,029	336	(693)	-67%
Deferred tax assets	396	325	313	262	(51)	-16%
Other non-current financial assets	166	46	65	190	125	> 100%
Other non-current assets	101	107	118	144	26	22%
	14,515	14,930	16,182	16,275	93	1%
Current assets						
Inventories	472	352	687	756	69	10%
Income tax receivables	111	31	4	61	57	> 100%
Trade receivables	1,947	1,843	1,429	1,489	60	4%
Investments in the financial asset portfolio	2	-	-	-	-	-
Contract assets	-	-	363	313	(50)	-14%
Other current financial assets	15	83	22	203	181	> 100%
Cash and cash equivalents	1,471	3,641	2,724	1,461	(1,263)	-46%
Other current assets	198	176	188	409	221	> 100%
	4,216	6,126	5,417	4,692	(725)	-13%
TOTAL ASSETS	18,731	21,056	21,599	20,967	(632)	-3%
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)	-	-	-	-

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

Reserve capital	1,018	1,018	1,018	1,018	-	-
Supplementary capital	728	1,433	1,540	2,035	495	32%
Revaluation reserve – hedging instruments	41	2	(34)	(52)	(18)	-53%
Retained earnings	2,464	2,436	3,249	1,730	(1,519)	-47%
Equity attributable to equity holders of the Parent	8,777	9,409	10,295	9,253	(1,042)	-10%
Non-controlling interest	40	56	61	11	(50)	-82%
	8,817	9,465	10,356	9,264	(1,092)	-11%
Non-current liabilities						
Loans and borrowings	3,086	2,720	2,384	2,047	(337)	-14%
Issues of debt securities	2,639	4,520	4,484	2,326	(2,158)	-48%
Long-term provisions	578	550	642	786	144	22%
Deferred tax liability	593	596	593	738	145	24%
Deferred income and long-term grants	515	501	274	296	22	8%
Lease liabilities	4	2	16	637	621	> 100%
Other non-current financial liabilities	2	79	45	82	37	82%
	7,417	8,968	8,438	6,912	(1,526)	-18%
Current liabilities						
Trade liabilities	811	792	617	802	185	30%
Contract liabilities	-	-	129	139	10	8%
Current loans and borrowings	334	356	189	393	204	> 100%
Issues of debt securities	78	109	108	2,219	2,111	> 100%
Income tax liabilities	3	11	65	-	(65)	-100%
Deferred income and grants	170	182	187	188	1	1%
Short-term provisions	711	571	942	583	(359)	-38%
Other financial liabilities	157	280	300	235	(65)	-22%
Other current liabilities	233	322	268	232	(36)	-13%
	2,497	2,623	2,805	4,791	1,986	71%
Total liabilities	9,914	11,591	11,243	11,703	460	4%
TOTAL EQUITY AND LIABILITIES	18,731	21,056	21,599	20,967	(632)	-3%

* Data restated

As at 31 December 2019, the balance sheet total of Energa Group was PLN 20,967 m, down by PLN 632 m compared to the end of 2018.

As regards non-current assets, the greatest change affected the Investments in associated entities and joint ventures valued with the equity method, which was due to the revaluation of certain investments.

Details of the impairment are presented in Note 17 to the Consolidated Financial Statements of Energa SA Group for the year ended 31 December 2019. Furthermore, the total carrying amount of the Group's generation assets decreased following IAS 36 tests for impairment. In turn, a positive change (PLN 847 m) took place within the Right-of-use assets item, which has been presented in the statement of the financial position in connection with the application of IFRS 16 "Leases" from 1 January 2019 onwards. The change is described in more detail in Note 8 *New standards and interpretations* to the Statements. As regards non-current assets, a substantial change also affected the Other long-term financial assets, the increase in this item being primarily due to a loan granted to Elektrownia Ostrołęka Sp. z o.o.

The key change in current assets involved the balance of cash (the causes are discussed hereinafter in the cash flow section). A substantial change also affected the Other current assets item (an increase resulting primarily from a VAT receivable, compensation due from the Price Difference Payment Fund, and prepayments on services).

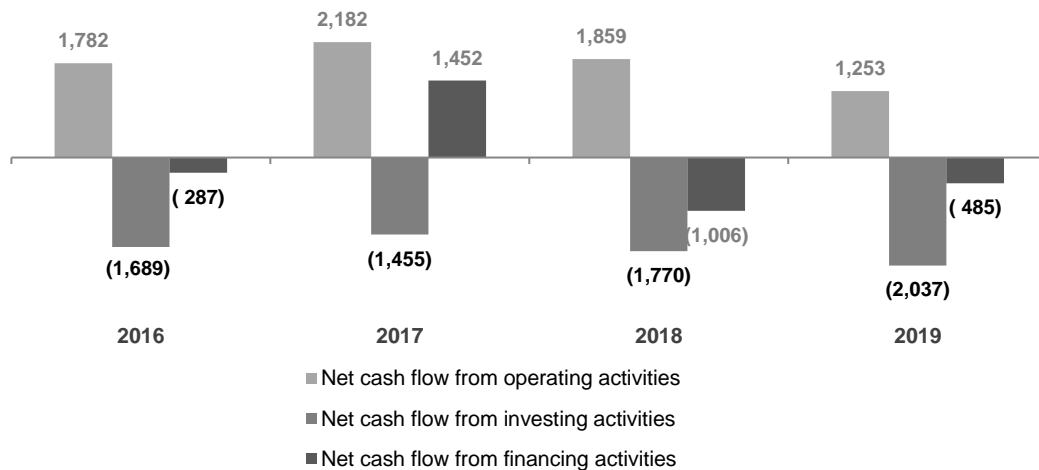
As at 31 December 2019, Energa Group's equity totaled PLN 9,264 m, and its share in the financing of the Group was 45%. In Q2 2019, Energa's profit for 2018 was distributed. The standalone net profit totaling PLN 495 m was allocated in its entirety to supplementary capital.

The greatest change in liabilities involved reclassification of a part of the issued Eurobonds matured in March 2020 from non-current to current liabilities related to issues of debt securities. Furthermore, important changes affected the Lease liabilities item (the effect of the first-time application of IFRS 16 "Leases") and short-term provisions (down by PLN 359 m, mainly due to the utilization of the provision for property rights and utilization of the provision for excise duty liabilities).

Table 8: Consolidated statement of cash flows (PLN m)

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
Net cash flows from operating activities	1,782	2,182	1,859	1,253	(606)	-33%
Net cash flows from investing activities	(1,689)	(1,455)	(1,770)	(2,037)	(267)	-15%
Net cash flows from financing activities	(287)	1,452	(1,006)	(485)	521	52%
Net increase/ (decrease) in cash	(194)	2,179	(917)	(1,269)	(352)	-38%
Cash and cash equivalents at the end of the reporting period	1,464	3,643	2,726	1,457	(1,269)	-47%

Figure 22: Cash flows of the Group in 2016-2019 (PLN m)



As at 31 December 2019, the Group's balance of cash adjusted by foreign exchange differences totaled PLN 1,457 m, down by PLN 1,269 m compared to the last year's figure.

The Group's total net cash flows from operating, investment and financing activities in 2019 were negative, at PLN 1,269 m, vs. a similarly negative figure of PLN 917 m in 2018.

The value of cash flows from operating activities decreased by PLN 606 m compared to 2018. The decline in cash flows from operating activities was driven primarily by shrinking gross profit on sales, write-downs of tangible fixed assets and shares, and movements in working capital. 2019 saw an increase in receivables, primarily with regard to trade receivables, prepayments on deliveries and taxation; there was a decrease in the provision for the obligation to present certificates for redemption, and an increase in trade liabilities.

Net cash used in investing activities increased by PLN 267 m in 2019, primarily as the result of higher expenditure on acquisitions of new tangible fixed assets and intangible assets, loans extended, and capital injections into joint ventures.

Cash flow from financing activities in 2019 was negative, at PLN 485 m, i.e. PLN 521 m less than in 2018. The decline was attributable mostly to lower on-balance cash flows from the debt incurred: PLN 852 m in receipts and PLN 990 m in outgoings in 2019, compared to PLN 37 m in receipts and PLN 560 m in outgoings in 2018. Likewise, the redemption value of debt securities decreased by PLN 165 m.

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

Figure 23: Structure of assets and liabilities

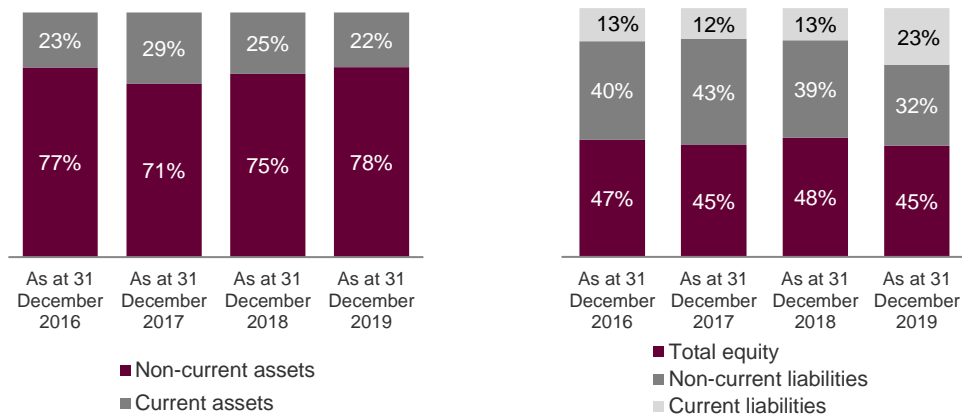


Table 9: Financial ratios of the Energa Group

Ratio	Definition	2016	2017	2018	2019
Profitability					
EBITDA margin	operating profit/loss + depreciation and amortisation + impairment losses on non-financial non-current assets / sales revenue (including revenue from the Price Difference Refund Fund)	19.9%	20.5%	18.2%	16.8%
return on equity (ROE)	net profit for the period* / equity at the end of the period	1.7%	8.3%	7.2%	-10.8%
return on sales (ROS)	net profit for the period / sales revenue (including revenue from the Price Difference Refund Fund)	1.4%	7.5%	7.2%	-8.2%
return on assets (ROA)	net profit for the period* / total assets at the end of the period	0.8%	3.7%	3.4%	-4.8%
* net profit for the last 12 months					
Ratio	Definition	As at 31 December 2016*	As at 31 December 2017*	As at 31 December 2018*	As at 31 December 2019
Liquidity					
current ratio	current assets / current liabilities	1.7	2.3	1.9	1.0
Debt					
financial liabilities (PLN m)**	the total of loans and borrowings, debt securities and lease liabilities, both non-current and current	6,149	7,710	7,183	7,661
net financial liabilities (PLN m)	financial liabilities – cash and cash equivalents	4,678	4,069	4,459	6,200
net debt*** / EBITDA* ratio	net financial liabilities / EBITDA	2.3	1.4	1.8	2.2

* EBITDA for the last 12 months;

** due to the first-time adoption of IFRS 16, lease liabilities increased significantly; therefore, starting from 1 January 2019, this line item has been included in the calculation of financial liabilities; the figures for 2016-2018 have been restated;

*** the value of net financial liabilities which is taken account in the calculation of the net debt / EBITDA ratio includes the key elements defined in the financing agreements; the figures for 2016-2018 have been restated.

Both sales revenues and EBITDA result increased in 2019 compared to the previous year. Factors affecting the change are described in the section regarding the discussion of financial results. However, due to the lower dynamics of the change in EBITDA compared to sales revenues, the EBITDA margin decreased. In turn, the unfavorable development of the net result, and hence the profitability ratios, had in particular, in addition to operational factors, the creation of write-offs in 2019 and the impact of changes in the value of investments in entities measured by the equity method, enhanced by the effect of reversal of write-offs in 2018.

The change in the classification of liabilities related to issued Eurobonds and the related increase in current liabilities resulted in a decrease in the current liquidity ratio.

In connection with the renegotiation of financial agreements held, the Energa Group received the approval of financial institutions to exclude hybrid bonds issued from the definition of financial debt for the purpose of counting financial covenants. The net debt to EBITDA ratio for the current period was presented in accordance with the updated definition and the comparable data were transformed accordingly.

The increase of the net debt / EBITDA ratio was affected in particular by a lower level of cash with a simultaneous increase in financial liabilities as at 31 December 2019 compared to 31 December 2018.

4.4. Description of significant off-balance sheet items

For details please see section 9.1. *Information on material contracts, agreements and transactions* of this Report and Note 36: *Contingent assets and liabilities* to the consolidated financial statements:

4.5. Projected financial results

The Management Board of Energa SA has not yet published projections for separate and consolidated financial results for FY 2019.



Activities of Business Lines

5. ACTIVITIES OF BUSINESS LINES

Energa Group's financial performance by Business Line was as follows:

Table 10: EBITDA of the Energa Group, by Business Line (PLN m)

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
DISTRIBUTION	1,716	1,732	1,704	1,648	(56)	-3%
GENERATION	315	398	329	262	(67)	-20%
SALES	40	85	(85)	182	267	> 100%
OTHER and consolidation eliminations and adjustments	(44)	(55)	(71)	(53)	18	25%
Total EBITDA	2,027	2,160	1,877	2,039	162	9%

	Q4 2018	Q4 2019	Change	Change (%)
DISTRIBUTION	340	345	5	1%
GENERATION	95	36	(59)	-62%
SALES	(135)	(76)	59	44%
OTHER and consolidation eliminations and adjustments	(10)	(8)	2	20%
Total EBITDA	290	297	7	2%

5.1. Distribution Business Line

5.1.1. Business and operating activities

Table 11: Electricity distribution by tariff group (GWh)

	2016*	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
Tariff group A (HV)	3,981	3,512	3,503	3,274	(229)	-7%
Tariff group B (MV)	7,981	8,436	8,905	8,818	(87)	-1%
Tariff group C (LV)	4,243	4,620	4,522	4,397	(125)	-3%
Tariff group G (LV)	5,522	5,500	5,611	5,666	54	1%
Total electricity distribution	21,727	22,068	22,542	22,155	(387)	-2%

	Q4 2018	Q4 2019	Change	Change (%)
Tariff group A (HV)	883	826	(57)	-6%
Tariff group B (MV)	2,227	2,243	16	1%
Tariff group C (LV)	1,123	1,112	(11)	-1%
Tariff group G (LV)	1,381	1,416	35	3%
Total electricity distribution	5,615	5,597	(17)	0%

*for 2016 data (applies to tariffs C and G), invoiced sales figures were reduced by the portion of the volume invoiced this year that originated in 2015 (and was not invoiced in 2015 due to the postponing associated with data migration to new billing systems).

In 2019, the volume of electricity supplied was on average 2% lower than in the previous year. The decline in volume was reported primarily in groups A due to a reduction in consumption of electricity by an auto producer and lower unit consumption in the tariff C. The decrease in the volume sold was accompanied by a slight decline in the average distribution rate by approx. 4% YoY, due to the decrease in the transitional fee rates.

In Q4 2019, in turn, the volume remained similar to what it was in the same period of the previous year.

Table 12: SAIDI and SAIFI indicators

	SAIDI			SAIFI		
	Unplanned incl. catastrophic	Planned	Total	Unplanned incl. catastrophic	Planned	Total
	Minutes per customer in the period			Disruptions per customer in the period		
Q4 2018	17.9	10.9	28.8	0.4	0.1	0.5
Q4 2019	12.9	8.1	20.9	0.2	0.0	0.3
Change QoQ	(5.1)	(2.8)	(7.9)	(0.1)	(0.0)	(0.2)
Change QoQ (%)	-28%	-26%	-27%	-37%	-32%	-36%
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
2018	107.2	43.8	151.0	1.9	0.3	2.1
2019	98.2	28.7	126.9	1.8	0.2	2.0
Change YoY	(8.9)	(15.1)	(24.0)	(0.0)	(0.1)	(0.1)
Change YoY (%)	-8%	-34%	-16%	-2%	-31%	-6%

At the end of 2019, the Energa Group's SAIDI (planned and unplanned incl. catastrophic) was 16% lower than in the previous year. Also SAIFI was lower than in the previous year, having declined by 6%.

The obtained results for the 2019 years of power reliability indicators SAIDI, SAIFI are the best results in relation to which the Group has so far reached.

The improvement of the indicators was primarily the effect of reducing planned interruptions by maintaining a high level of implementation of planned works without switching off the recipients (use of high voltage work technology in MV and LV networks, the use of power generators and the aggregation of works carried out under one switch-off). Fewer unplanned interruptions also had an impact on improving indicators.

The above factors additionally supported the year-on-year improvement of quarterly indicators.

Table 13: Number of customers of Energa Operator SA in 2016-2019 (by tariff group)

	As at 31 December				Change 2019/2018	Change 2019/2018 (%)
	2016	2017	2018	2019		
Tariff group A	90	91	94	108	14	15%
Tariff group B	7,024	7,181	7,425	8,056	631	8%
Tariff group C	291,611	288,727	288,231	290,080	1,849	1%
Tariff group G	2,708,406	2,746,711	2,792,187	2,836,927	44,740	2%
TOTAL	3,007,131	3,042,710	3,087,937	3,135,171	47,234	2%

Tariff group A – the largest customers connected to HV lines (110 kV), such as mills, melting plants, mines, shipyards and other large industrial facilities;

Tariff group B – large industrial facilities connected to MV lines (1 to 60 kV), such as manufacturing plants, hospitals, shopping centres, leisure and entertainment facilities;

Tariff group C – institutional customers connected to LV lines (up to 1 kV), such as banks, shops, clinics, retail and service outlets, street lighting;

Tariff group G – households and similar customers, regardless of connection voltage.

In 2019, Energa Operator SA recorded an increase in the number of customers by 2% compared to the previous year. The increases were reported for all tariff groups.

Implementation of Smart Grid and expansion of two 110/15kV substations

Energa Operator secured over PLN 200 m in EU funding for the projects associated with expansion and modernisation of power infrastructure under the Operational Programme Infrastructure and Environment (OPI&E) and regional operational programmes for the years 2014-2020. A substantial portion of those funds, namely PLN 166 m, will go towards implementation of the Smart Grid distribution system.

Over the coming years, 1,180 overhead load switches on medium-voltage lines, 1,148 indoor switchgears along with remote control sets and over 2,000 TETRA telecommunication modems will make up the first comprehensive MV power grid management system in Poland. Meanwhile, faster identification of failure sites and causes as well as automated grid reconfiguration will be made possible owing to implementation of innovative ICT solutions such as FDIR (Fault Detection, Isolation and Restoration) module. All this will help the company act more effectively during grid failures so that electricity supply interruptions affect the smallest number of persons.

Construction of an energy warehouse designed to stabilise the operation of the distribution system in the vicinity of one of Poland's largest photovoltaic farms with installed capacity of 4 MW in Czernikowo is also an element of the project.

Under the Operational Programme Infrastructure and Environment (OPI&E) 2014-2020, Energa Operator SA also completed 2 projects involving modernisation of key substations. They will contribute to increased reliability of electricity supplies to approx. 30,000 customers.

Under the modernisation project, both substations have been equipped with a number of modern functions enabling detailed and remote monitoring of operating parameters of devices and grid. Those include, among other things, the function controlling flow of active and passive capacity which enables better management of increasingly common distributed sources.

Modernisation of GPZ Ostrów switching station involved, but was not limited to, rebuilding of HV and MV primary and secondary circuits and the switchgear support structures. Also, the layout of the station was changed to H4 (station adapted to being supplied with two 110 kV (HV) lines from two different directions). As a result, power supply to customers remains stable even in the case of a failure of one of 110 kV line. The facility was provided with six additional MV reserve slots, which permits a rapid increase of its connecting potential. The project was co-financed in 72.8% and its value amounted to approx. PLN 12 m.

Modernisation of GPZ Kały Rybackie switching station involved primarily rebuilding of the station to H4 layout, which will enable connection of an additional planned HV line and installation of an additional 110 kV/15 kV transformer. In the case of failure of one of them, stable supply to customers could be assured even at the peak demand. The project was co-financed in 71.3% and its value amounted to approx. PLN 6.4 m.

5.1.2. Financial performance

Figure 24: Results of the Distribution Business Line of the Energa Group (PLN m)

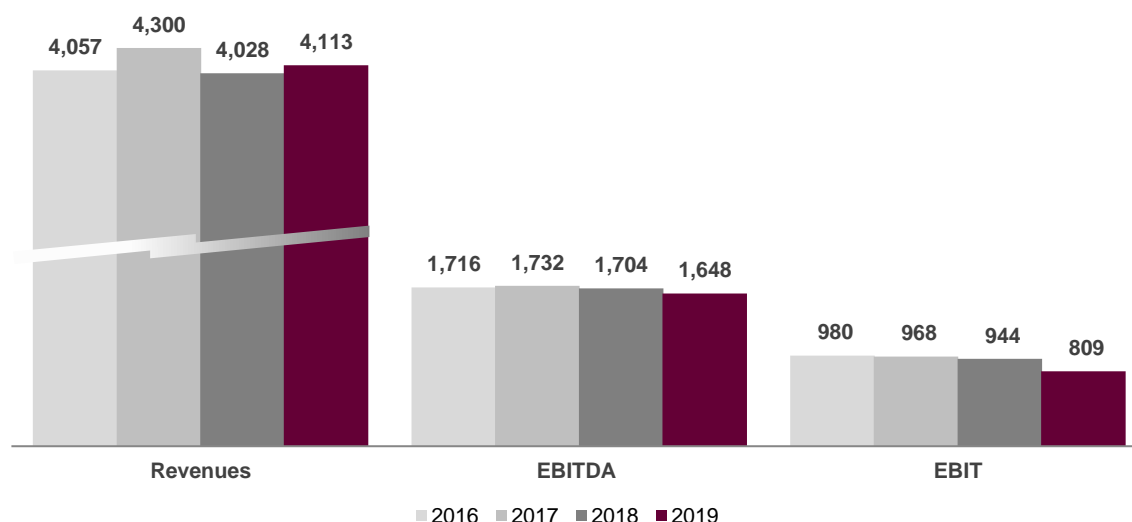
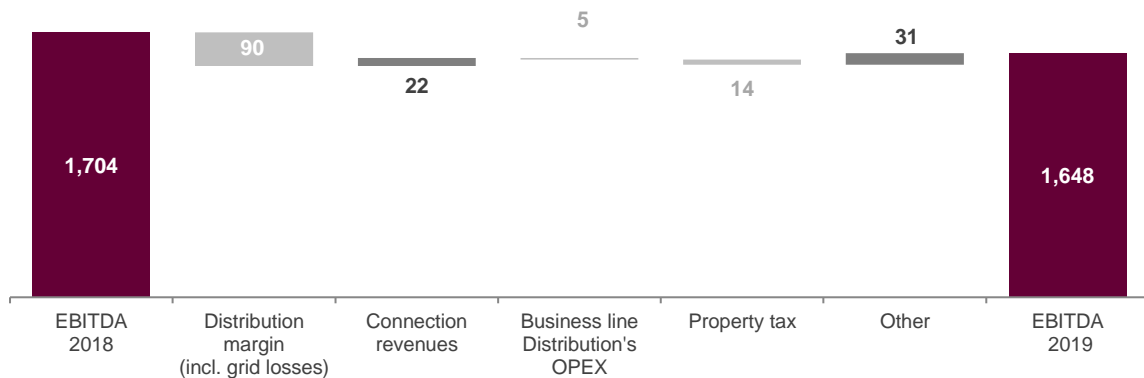


Table 14: Results of the Distribution Business Line (PLN m)

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
Revenues	4,057	4,300	4,028	4,113	85	2%
EBITDA	1,716	1,732	1,704	1,648	(56)	-3%
depreciation and amortisation	736	764	760	839	79	10%
impairment losses on non-financial non-current assets	-	-	-	-	-	0%
EBIT	980	968	944	809	(135)	-14%
Net profit (loss)	705	685	647	547	(100)	-15%
CAPEX	1,265	1,251	1,368	1,334	(34)	-2%

	Q4 2018	Q4 2019	Change	Change (%)
Revenues	1,008	1,056	48	5%
EBITDA	340	345	5	1%
depreciation and amortisation	195	226	31	16%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	145	119	(26)	-18%
Net profit (loss)	88	82	(6)	-7%
CAPEX	508	389	(119)	-23%

Figure 25: EBITDA bridge of the Distribution Business Line (PLN m)



Throughout 2019, the Distribution Business Line generated almost 81% of the EBITDA for the Energa Group (compared to nearly 91% in 2018).

The sales revenue of the Distribution Business Line in 2019 was PLN 4,113 m, i.e. +2% YoY. This was attributable to the increased revenue from sales of distribution and transit services as well as revenues from connections.

EBITDA amounted to PLN 1,648 m and was lower than in the previous year, having declined by ca. 3%.

A significant impact on drop of operating EBIT by 14% YoY (to PLN 809 m) was caused by a decrease in the distribution margin by PLN 90 m (including grid losses). This was mainly the effect of higher prices of energy purchased to offset grid losses YoY, postponement of the introduction of the new tariff for 2019 which reclassified the company's own costs calculated for the current year only as from April 2019 (including higher costs of grid losses, depreciation and amortisation as well as real estate tax), in addition to a change in the method of estimating sales which were unbilled in the preceding year, which increased the margin on a one-off basis in 2018.

The remaining factors affecting the level of the operating result included a slight increase in OPEX costs and real estate tax compensated with the higher balance generated on the other operating activity, which was primarily the effect of the amendment of the Accounting Policy in 2019 and reclassification of the net value of liquidated distribution assets to depreciation and amortization.

The net profit of the Distribution Business Line in 2019 was PLN 547 m, i.e. lower by 15% YoY. The decrease was mainly attributable to the change of EBIT.

The capital expenditure of the Distribution Business Line amounted to PLN 1,334 m, and were only slightly lower (by 2%) than in 2018.

EBITDA for Q4 2019 was PLN 345 m and was reported at a level similar to that of the preceding year. The lower margin on distribution with grid losses was compensated with lower OPEX costs and the improved balance on the other activity for the reasons described above.

5.2. Generation Business Line

5.2.1. Business and operating activities

Table 15: Gross electricity production (GWh)

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
Power plants – coal-fired	2,580	2,586	2,546	2,054	(492)	-19%
Power plants – biomass co-fired	11	-	-	57	57	-
CHP plants – coal-fired	114	115	127	106	(21)	-16%
CHP plants – biomass-fired	28	45	15	150	134	> 100%
Power plants – hydro	804	1,027	785	707	(78)	-10%
Pumped storage power plant	33	31	34	54	20	59%
Power plants – wind	371	471	385	446	62	16%
Power plants – photovoltaics	5	5	6	5	(0)	-4%
Total production of electricity	3,945	4,280	3,896	3,578	(318)	-8%
<i>of which renewable</i>	<i>1,218</i>	<i>1,548</i>	<i>1,190</i>	<i>1,365</i>	<i>174</i>	<i>15%</i>

	Q4 2018	Q4 2019	Change	Change (%)
Power plants – coal-fired	731	398	(332)	-45%
Power plants – biomass co-fired	-	56	56	-
CHP plants – coal-fired	38	32	(6)	-17%
CHP plants – biomass-fired	14	47	32	> 100%
Power plants – hydro	129	129	(0)	-0%
Pumped storage power plant	9	17	8	90%
Power plants – wind	123	122	(1)	-1%
Power plants – photovoltaics	1	0	(0)	-23%
Total production of electricity	1,045	802	(244)	-23%
<i>of which renewable</i>	<i>267</i>	<i>354</i>	<i>87</i>	<i>33%</i>

The generating assets of the Energa Group produced 3.6 TWh of electricity in 2019 vs. 3.9 TWh in 2018 (i.e. -8% YoY). That trend involved mainly the Ostrołęka power plant. However, attention should be paid to the overall increase in production from renewable energy sources in the Energa Group, which amounted to 15% YoY.

The production level at the Ostrołęka power plant was determined by must-run operation for the Transmission System Operator in Poland. The generation of energy by run-of-river power plants is an effect of hydrological conditions, while the level of wind power production was caused by the prevailing weather conditions. Production of energy by the CHP plants of the Group is determined by the production of heat, which depended mostly on the demand for heat from local customers of the Group. An additional factor that contributed to the increased generation of electricity from CHP sources was the need for delivering the input production volume under the grant agreement.

Comparing Q4 on a year-on-year basis, lower hard coal production and higher RES (by 33%) are noteworthy.

Table 16: Gross heat production (TJ)

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
ENERGA Kogeneracja Sp. z o.o.	2,326	2,400	2,342	2,326	(16)	-1%
ENERGA Elektrownie Ostrołęka S.A.	1,470	1,428	1,294	1,258	(36)	-3%
Ciepło Kaliskie Sp. z o.o.	313	312	291	266	(25)	-9%
Total gross heat production	4,109	4,140	3,928	3,850	(78)	-2%

	Q4 2018	Q4 2019	Change	Change (%)
ENERGA Kogeneracja Sp. z o.o.	797	775	(22)	-3%
ENERGA Elektrownie Ostrołęka S.A.	404	368	(36)	-9%
Ciepło Kaliskie Sp. z o.o.	106	100	(6)	-6%
Total gross heat production	1,308	1,243	(65)	-5%

In 2019, the Group generated 3,850 TJ of heat, which was attributable a range of factors, including air temperatures determining the demand for heat from the Group's customers in Ostrołęka, Elbląg and Kalisz.

The same factor caused that in Q4 2019 there was a decrease in heat production by about 65 TJ YoY (i.e. by 5%).

Table 17: Volume and cost* of consumption of key fuels

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
Coal						
Quantity (thousand tons)	1,288	1,280	1,297	1,059	(238)	-18%
Cost (PLN m)	283	306	357	319	(38)	-11%
Biomass						
Quantity (thousand tons)	30	46	13	148	135	> 100%
Cost (PLN m)	11	16	7	84	77	> 100%
Total fuel consumption (PLN m)	294	322	364	402	39	11%

	Q4 2018	Q4 2019	Change	Change (%)
Coal				
Quantity (thousand tons)	372	224	(148)	-40%
Cost (PLN m)	104	70	(35)	-33%
Biomass				
Quantity (thousand tons)	12	67	54	> 100%
Cost (PLN m)	6	36	30	> 100%
Total fuel consumption (PLN m)	111	106	(5)	-4%

* including the cost of transport

The increase in the total cost of fuel consumption by the Group (by PLN 39 m YoY) occurred at the same time with a lower production volume by power plants, including as a result of starting energy production from biomass. In addition, there was an increase in the unit cost of coal consumption, but due to the lower volume, the total coal cost fell YoY.

In Q4 2019, the cost of consuming fuel for production decreased by approx. PLN 5 m (i.e. 4%) YoY. This was mostly due to the lower volume of energy production, while unit purchase prices of coal and biomass by the power plant remained higher than in the comparable period.

Construction of Przykona Wind Farm

The Przykona Wind Farm was designed based on the latest technologies available while maintaining top service security. It is being built on 250 ha of rehabilitated land of the former lignite mine in Adamów in the commune of Przykona, perfectly reflecting both the environmental and pro-social aspect of the Energa Group's current strategy. The facility will join five wind farms already managed by Energa OZE (formerly Energa Wytwarzanie). Their combined installed capacity currently stands at 211 MW. In 2019 alone, the wind farms generated 446 GWh.

The Przykona Wind Farm is made up of 9 wind power generators. Energa's wind turbines are one of the largest currently installed in Poland. Their height is 117 metres up to the turbine's hub, whereas their blades are 63 metre long. At the highest point, wind turbines reach the height of 180 metres above ground level.

In January 2020, the installation of all turbines and construction work on the medium-voltage power line were completed. Completion of the construction of Przykona Wind Farm is scheduled for Q2 2020. Its installed capacity will be 31.15 MW and its annual electricity output is estimated at approx. 83 GWh.

The new investment of Energa Group in December 2019 won the RES auction announced by URE whereby Energa contracted 1,245,000 MWh over a period of 15 years.

The Przykona Wind Farm under construction is another investment project by Energa designed to enforce the assumptions underlying the Energa Group's Multi-Year Strategic Investment Plan which foresees continued maintenance of the Group's strong position in generation of renewable energy. The installed capacity of OZE (renewable energy source) facilities within the Energa Group will increase by 6% and, in the case of wind farms, by 15% in relation to that currently held.

Photovoltaic farm – PV Gryf

The Energa Group has started preparations for the implementation of one of the largest PV projects in Poland, PV GRYF photovoltaic farm. The installation will be located in the commune of Przykona next to the wind farm currently being under construction. This is one of the series of investments in renewable energy sources executed by Energa OZE on the rehabilitated land of the former lignite mine in Adamów. The building permit has been secured for the project.

The total installed power of PV GRYF photovoltaic farm will be 19.83 MW. The farm will consist of 69,600 PV panels.

The conditions for connection to the power grid had been obtained for the project and the building permit was issued to the investor on 13 November 2019. The design work on power evacuation is currently underway. The next step, required for the farm to become operational, will consist in securing the permit for building a medium-voltage power line scheduled for Q2 2020.

After commissioning of PV Gryf, Energa OZE will manage a total of 3 photovoltaic farms. It currently owns two large photovoltaic installations. PV Czernikowo in the village of Wygoda near Toruń is one of the largest photovoltaic farms in Poland. Meanwhile, the other farm operated by Energa OZE, PV Delta, is located in the vicinity of Gdańsk.

First floating photovoltaic installation

The Energa Group is the first in Poland to implement an innovative technology optimizing green energy production based on floating photovoltaic panels. The company submitted an application to the National Fund for Environmental Protection and Water Management (NFOŚiGW) seeking funding to support its investment in 0.5 MW photovoltaic panels under the 'Support for Innovations Promoting a Resource-

Efficient and Low-Carbon Economy' programme. The panels shall be deployed on the water reservoir in Łapina where a pilot project was completed earlier.

Implementation of the developed technology on other water reservoirs is planned in the immediate future. Leveraging the potential offered by water reservoirs located on former mining land has been identified as a particularly attractive option. This would contribute significantly towards rehabilitation of such land.

In August 2018, Energa OZE launched a pilot project on a small installation with a capacity of just a few kilowatts. The pilot project aimed at examining the impact of changing weather conditions on the panel's productivity lasted 12 months and was highly successful. A test version of floating panels confirmed that application of that technology in the Polish conditions allows for increasing the volume of produced electricity in spite of the fact that atmospheric conditions in Poland differ substantially from those encountered in the countries where floating photovoltaic parks are common, e.g. China, South Korea or Japan.

27 MWh Energy Storage System in Bystra

In 2017, an agreement was signed between Energa Group (two of its companies: Energa OZE and Energa Operator), Polskie Sieci Elektroenergetyczne and Hitachi (Hitachi Ltd. and Hitachi Chemical Co., Ltd.) for the implementation of the Smart Grid Demonstration Project in Poland. It is a smart grid management system which improves the reliability of electricity supply.

In October 2018, Energa OZE secured the permit to build a 1,200sq.m. warehouse and construction work began in 2019 on Poland's largest electricity storage system with target rated power of 6 MW and energy storage capacity of 27 MWh. The project is located in the vicinity of Bystra Wind Farm near Pruszcz Gdański.

The hybrid storage warehouse consist of two units of lithium-ion and acid-lead batteries. After the necessary equipment has been installed, the efficiency of the energy storage system and the SPS will be tested for a year in order to improve the safety of operation of the electricity grid.

The ongoing implementation of the energy storage technology in Poland is a part of a strategy put in place to strengthen the country's energy security, and of activities designed to ensure conditions optimizing the electricity production from renewable energy sources (RES). As a pilot project, its role is to test solutions protecting the transmission grid and high-voltage distribution grids against overloading, and to test in practice how useful such technologies may be in balancing energy production shortages or surpluses.

5.2.2. Financial results

Figure 26: Results of the Generation Business Line of the Energa Group (PLN m)

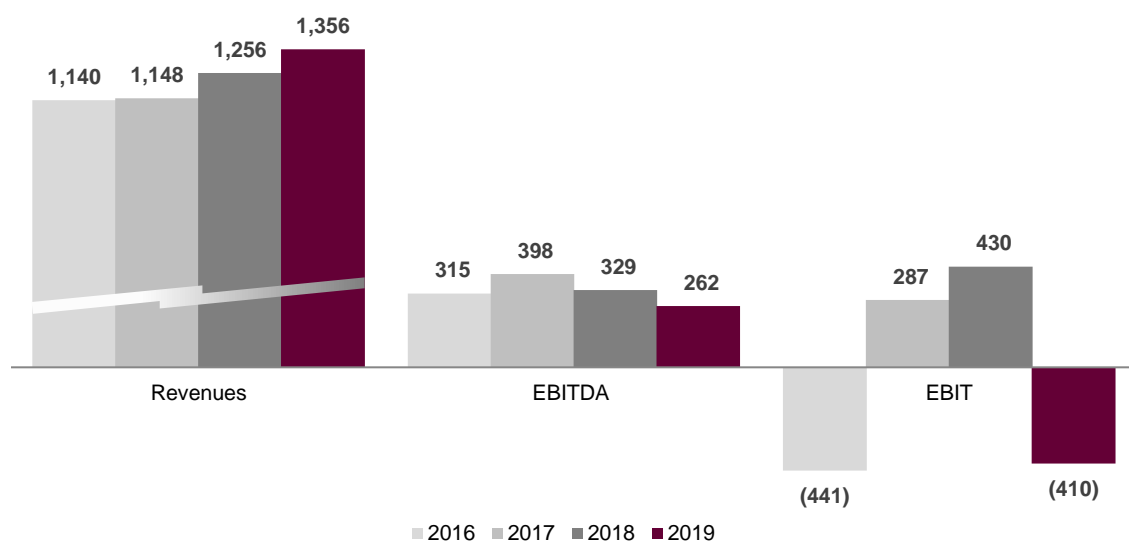
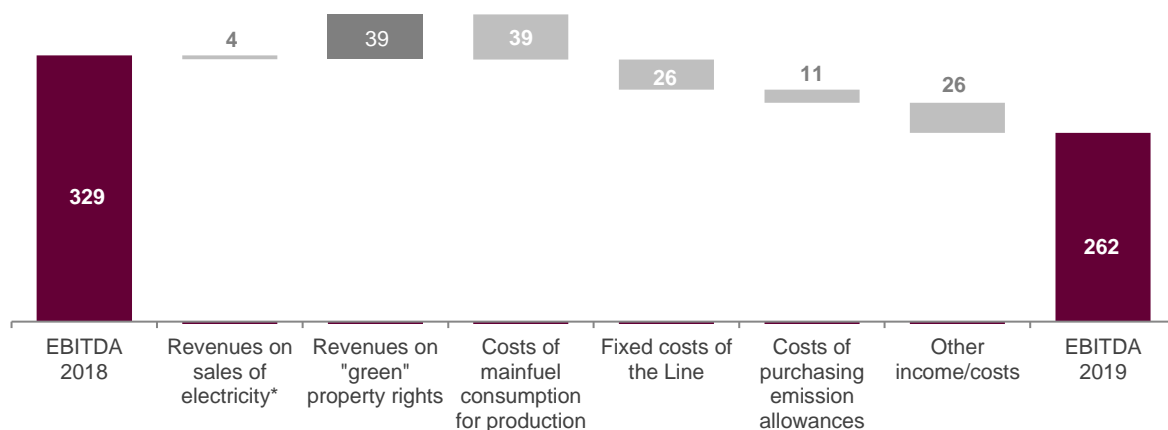


Table 18: Results of the Generation Business Line (PLN m)

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
Revenue	1,140	1,148	1,256	1,356	100	8%
EBITDA	315	398	329	262	(67)	-20%
depreciation and amortisation	183	164	166	176	10	6%
impairment losses on non-financial non-current assets	573	(53)	(267)	496	763	> 100%
EBIT	(441)	287	430	(410)	(840)	< -100%
Net profit (loss)	(303)	172	306	(477)	(783)	< -100%
CAPEX	248	87	238	175	(63)	-26%

	Q4 2018	Q4 2019	Change	Change (%)
Revenue	394	309	(85)	-22%
EBITDA	95	36	(59)	-62%
depreciation and amortisation	44	44	-	0%
impairment losses on non-financial non-current assets	(150)	226	376	> 100%
EBIT	201	(234)	(435)	< -100%
Net profit (loss)	152	(299)	(451)	< -100%
CAPEX	82	55	(27)	-33%

Figure 27: EBITDA bridge of the Generation Business Line (PLN m)



* includes net electricity trading (revenue less cost).

The following table presents a breakdown of EBITDA for the Generation Business Line by Division. It shows non-consolidated data, including the Line management cost mark-up, elimination of inter-divisional transactions and consolidation adjustments.

Table 19: EBITDA of the Generation Business Line by Division (PLN m)

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
Hydro	93	127	103	123	19	19%
Wind	26	42	88	110	22	25%
Ostrołęka Power Plant	152	189	124	39	(85)	-68%
Other and Adjustments	43	40	13	(10)	(24)	< -100%
Total Generation	315	398	329	262	(67)	-20%

	Q4 2018	Q4 2019	Change	Change (%)
Hydro	13	12	(1)	-7%
Wind	32	26	(5)	-16%
Ostrołęka Power Plant	47	(4)	(51)	< -100%
Other and Adjustments	3	2	(1)	-40%
Total Generation	95	36	(59)	-62%

The EBITDA of the Generation Business Line in 2019 amounted to PLN 262 m (lower by 20% YoY), accounting for 13% of the total Group EBITDA (respectively, 18% in 2018). The main factors, impacting the Line's EBITDA in 2019 were, among others, revenue from the sale of electricity and green property rights, cost of consumption of key fuels for production, fixed costs and costs of purchase of emission allowances.

Revenue from the sale of electricity was driven by the level of selling prices for electricity charged mainly by the Ostrołęka power plant and hydro power plants that compensated for lower volumes of production, especially at the Ostrołęka power plant. The increase in revenue from the sale of green property rights was driven by their high market prices and higher production volume.

The cost of consumption of key fuels for production was attributable mainly to the increasing unit cost of coal consumption and the launch of generation of energy from biomass, accompanied by a lower volume of energy production by the Ostrołęka power plant. An increase in the fixed costs incurred by the Line was driven primarily by two factors. Firstly, higher repair costs in connection with the average-scale repairs in unit #2 in the Ostrołęka power plant. Secondly, an increase in employee costs.

The cost of purchase of CO₂ emission allowances depended on the market prices of emission allowances and a smaller pool of free emission allowances granted for 2019 as well as a lower volume of energy generation.

In addition to the factors affecting the gross results of the Business Line as presented above, one has to note that:

- impairment charges on wind farms totaling PLN 117 m were reversed in Q2 2018. The reversal was dictated by developments in the legislative environment, i.e. the Act of 7 June 2018 amending the Renewable Energy Sources Act and certain other acts, signed into law by the President of the Republic of Poland;
- impairment charges on wind farms and photovoltaic farms totaling PLN 145 m were reversed in Q4 2018. The reversal was dictated by developments in the market environment, in particular by a change in forecast prices of electricity and related products;
- an impairment charge on the assets of Ostrołęka B Power Plant totaling PLN 270 m was recognized in Q2 2019; This impairment charge was dictated by developments in the legislative environment, i.e. by the entry into force of EU Regulation 2019/943 of 5 June 2019 on the internal market for electricity, introducing, inter alia, restrictions on the support under the capacity market mechanism

for existing fossil fuel generation units emitting more than 550 g CO₂ per kWh of electricity and more than 350 kg CO₂ on average per year per installed kW_e;

- an impairment charge on the assets of Ostrołęka B Power Plant totaling PLN 167 m was recognized in Q4 2019. The impairment charge was dictated by developments in the market environment, in particular by a change in forecast prices of electricity and related products. Hence the total amount of impairment charges on this particular asset over 2019 was PLN 437 m;
- an impairment charge on the assets of Elbląg CHP Plant (including BB20 facility) totaling PLN 78 m was recognized in Q4 2019. The impairment charge was dictated by developments in the market environment, in particular by a change in forecast prices of electricity and related products, and by an amendment to the investment plan (the construction of an exhaust-treatment facility was abandoned).
- impairment charges on wind farms and photovoltaic farms totaling PLN 18 m were reversed in Q4 2019. The reversal was dictated by developments in the market environment, in particular by a change in forecast prices of electricity and related products.

Capital expenditures of the Line in 2019 decreased by PLN 63 m mainly as a result of construction of the Flue Gas Desulphurisation Installation (IOSII) at the Ostrołęka power plant, construction of the Przykona wind farm and modernisation of the Line's assets.

In Q4 2019, lower volume of energy generation at the Ostrołęka power plant, coupled with a lower energy selling price, had an adverse impact on the company's performance. Additionally, that impact was exacerbated by lower revenue from sale of system services (the Operating Reserve). On the other hand, the increase in revenue from the sale of green property rights was driven by their higher production volume (inter alia, the launch of energy production from biomass at the Ostrołęka power plant). The decline in the cost of consumption of fuels for production was due to the lower production volume of electricity from coal, coupled with higher prices of coal and biomass purchases by the Ostrołęka power plant. The decline in the cost of purchase cost of emission allowances was attributable primarily to the lower production volume.

Table 20: Results of the Hydro Power Division (PLN m)

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
Revenue	180	215	193	226	33	17%
EBITDA	93	127	103	123	19	19%
EBIT	61	94	72	90	18	25%
CAPEX	12	13	11	16	4	39%

	Q4 2018	Q4 2019	Change	Change (%)
Revenue	38	44	6	15%
EBITDA	13	12	(1)	-7%
EBIT	6	4	(2)	-30%
CAPEX	3	4	1	17%

Table 21: Results of the Wind Power Division (PLN m)

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
Revenue	69	94	122	154	32	26%
EBITDA	26	42	88	110	22	25%
EBIT	(279)	2	305	69	(236)	-77%
CAPEX	1	0	9	21	12	> 100%

	Q4 2018	Q4 2019	Change	Change (%)
Revenue	46	43	(3)	-6%
EBITDA	32	26	(5)	-16%
EBIT	159	25	(134)	-84%
CAPEX	9	11	2	26%

Table 22: Results of the Ostrołęka Power Plant Division (PLN m)

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
Revenue	715	659	746	762	16	2%
EBITDA	152	189	124	39	(85)	-68%
EBIT	(56)	195	64	(450)	(514)	< -100%
CAPEX	182	49	168	109	(59)	-35%

	Q4 2018	Q4 2019	Change	Change (%)
Revenue	245	155	(90)	-37%
EBITDA	47	(4)	(51)	< -100%
EBIT	35	(181)	(216)	< -100%
CAPEX	61	32	(29)	-48%

Table 23: Results of Other and Adjustments (PLN m)

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
Revenue	177	180	195	214	19	10%
EBITDA	43	40	13	(10)	(24)	< -100%
EBIT	(168)	(4)	(11)	(119)	(108)	< -100%
CAPEX	54	25	50	29	(21)	-41%

	Q4 2018	Q4 2019	Change	Change (%)
Revenue	65	67	2	4%
EBITDA	3	2	(1)	-40%
EBIT	1	(82)	(83)	< -100%
CAPEX	9	8	(1)	-13%

5.3. Sales Business Line

5.3.1. Business and operating activities

Table 24: Sales of electricity (GWh)

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
Retail sales of electricity	19,628	20,615	19,777	19,681	(97)	0%
Sales of electricity in the wholesale market, including:	4,973	3,200	3,991	4,508	517	13%
<i>Sales of energy to the balancing market</i>	399	476	631	943	312	49%
<i>Sales of energy to Energa Operator to offset grid losses</i>	1,520	-	1,490	1,000	(490)	-33%
<i>Other wholesale</i>	3,054	2,724	1,871	2,565	695	37%
Total sales of energy	24,602	23,815	23,769	24,188	420	2%

	Q4 2018	Q4 2019	Change	Change (%)
Retail sales of electricity	5,027	5,013	(14)	0%
Sales of electricity in the wholesale market, including:	1,177	1,112	(66)	-6%
<i>Sales of energy to the balancing market</i>	280	236	(44)	-16%
<i>Sales of energy to Energa Operator to offset grid losses</i>	393	240	(152)	-39%
<i>Other wholesale</i>	504	635	131	26%
Total sales of energy	6,204	6,125	(79)	-1%

In 2019, the total volume of electricity sold by the Sales Business Line increased by 2% (i.e. 0.4 TWh) in relation to 2018. The sales volume on the retail market shrank slightly by 0.5% (i.e. 0.1 TWh) YoY. With respect to retail sales, there was a decline in the volume of sales to customers on the Polish market (resulting from a decline in sales to business customers and a slight increase in sales to households) and on the Slovak market (due to phasing out of the Group's operations in that country's retail market). The Sales Business Line increased the number of its customers by approx. 25,000 YoY (up to approx. 3.08 m), primarily within G tariff group (households).

The energy sales on the wholesale market rose by 13% (i.e. 0.5 TWh) compared to the preceding year. The rise was attributable to resale in the spot and balancing markets of the surplus electricity purchased in the local market, mainly from wind farms. Transactions of that type are necessary to balance out the position of Energa Obrót.

In Q4 2019, the total volume of electricity sold by the Sales Business Line declined by 1% (i.e. 0.1 TWh) compared to Q4 2018. Retail sales in Q4 2019, similarly to the year-on-year presentation, shrank slightly on a quarter-to-quarter basis. The sales in the wholesale market followed a trend unlike the YoY sales, declining by 6% QoQ. Here, the primary cause were lower sales of energy to Energa Operator to offset grid losses.

Customer service

Energa Obrót SA adjusts its product portfolio, sales channels and contact channels to the evolving customer needs. All this is expected to improve customer satisfaction and trust in the Energa Group.

Product portfolio - individual customers

In 2019, the New Product Policy for Individual Customers was implemented in order to:

- enhance attractiveness of offers (a promotional parcel for the basic offer),
- assure transparency of visualisations and communication of offers, and
- introduce more effective loyalty schemes for individual customers.

The New Product Policy for Individual Customers defines and divides the product offer into:

- 1) Basic Offer**, constituting the pillar of the new sales model, i.e. providing the customers with a guaranteed stable price of electricity combined with the added value in the form of an attractive Assistance Domowy Premium insurance policy.
- 2) Promotional Offer**, i.e. a package of benefits accompanying the Basic Offer that customers receive as typical free added value after signing a basic product agreement.

The following offers were and still are available in the product portfolio in 2019:

- **Basic Offer** - incorporating the Premium home assistance insurance package,

- **Safety Package** (*Pakiet bezpieczeństwo*) - a promotional offer combined with the basic offer incorporating additionally third party liability insurance in personal life along with medical assistance and passenger car maintenance care,
- **Eco Flat Package** (*Pakiet eko mieszkanie*) - a promotional offer combined with the basic offer whereby the customer receives additionally 5 LED bulbs,
- **Health Package (Pakiet zdrowie)** - a promotional offer combined with the basic offer incorporating additionally the Medical Package in the basic individual variation, inter alia guaranteed access to the general practitioner and to 21 specialist physicians,
- **Electricity with Extra Bonus (Prąd z extra premią)** - an offer incorporating the Premium home assistance insurance package and PLN 100 overpayment for the settlement account towards future electricity bills,
- **Travel Package (Pakiet podróży)** - a promotional offer combined with the basic offer incorporating additionally a discount card for the purchase of fuel even up to PLN 0.20 per litre and other services at LOTOS filling stations,
- **Energy to Learn (Energia do nauki)** - a promotional offer incorporating the Premium home assistance insurance package and the code for a 12-month MS Office Personal software license,
- **Energy to Learn plus (promotional offer)** - an offer incorporating the Premium home assistance insurance package and the code for a 12-month MS Office Home software license,

The portfolio included and still includes also the so-called complementary offers aimed at addressing the needs of niche customer groups:

- **Standard Plus Handymen on Stand-By (Fachowcy pod ręką standard +)** - an offer dedicated for garages and summer houses,
- **Prepaid Handymen on Stand-By (Fachowcy pod ręką PRE PAID)** - an offer dedicated to customers with prepaid meters,
- **Anti-Smog Offer and Anti-Smog Offer with Handymen Package (Oferta antymogowa i oferta antysmogowa z pakietem fachowców)** - dedicated to customers located within the operator's anti-smog tariff,
- **Cheaper Electricity Hours (Godziny tańszego prądu)** - an offer for customers on the two-zone tariff,
- **Cheaper Together (Wspólnie się opłaca)** - an offer dedicated to housing communities, housing co-operatives etc.,

Private customers are also offered a large number of convenient options such as direct debit, online payments, prepaid bills, text messages with an account balance, or electronic invoices.

Product portfolio - SOHO market

In 2019, offers incorporating an additional product/service listed below were available for SOHO customers:

- **Utility consumption monitoring (Monitoring Zużycia Mediów)** - an offer incorporating an attractive discount for electricity and access to the service assisting customers in optimising and monitoring their electricity consumption.
- **EnerPlay (EnerGra)** - an offer incorporating an attractive discount for electricity prices and 12-month access to legal music that could be played on the premises of any customer who signs a contract while taking advantage of the offer.
- **Make an Appointment (Umów się)** - an offer incorporating an attractive discount for electricity prices and access to the booking system at the premises of any customer who signs a contract while taking advantage of the offer.

- **EnerPlay (EnerGra) and Make an Appointment (Umów się)** - an offer representing a combination of two additional services within a single offer for electricity which is designed to offer comprehensive solutions dedicated to SOHO customers.
- **Benefits Zone (Strefa korzyści)** - an offer comprising discount offers for customers in 14 different variations.
- **Discount Hunters (Łowcy rabatów)** - under the offer customers receive a 14% discount on electricity prices and OH rate consistent with the Standard Electricity Price List for entrepreneurs.

In September 2019, the New Policy for SOHO Customers was introduced aimed at increasing customer loyalty levels under SOHO mass offer through addition of an attractive product/service in the offers.

Under the new product portfolio, the following were implemented:

- **Basic Offer** which incorporated an attractive fixed rate for commercial fee that is lower than in CEE. Furthermore, customers whose electricity consumption exceeds 10 MWh are entitled to an additional 5% discount on electricity prices.
- **Safe Company (Bezpieczna firma)** - an offer incorporating a discount on electricity prices and 24-month access to renowned F-Secure antivirus software,
- **Eco Company (Eko firma)** - an offer incorporating a discount on electricity prices and a certificate confirming that the volume contracted by the customer originates in 100% from renewable energy sources,
- **Smart Company (Smart firma)** - an offer whereby customers receive 24-month access to OneMeter Beacon software and an attractive discount on electricity prices,
- **Smart Company Plus (Smart firma +)** - a combination of two products, namely OneMeter Beacon service offered under the Smart Company package and F-Secure antivirus software,
- **Health Plus (Zdrowie +)** - an offer incorporating an attractive discount for electricity and access to the Premium medical package over a period of 24 months.

A major change in 2019 consisted in the launch of the sale of the new portfolio to SOHO customers in 100% via the online channel.

Product marketing

Communication of the new portfolio to individual and SOHO customers focused in 2019 on highlighting the values added to the basic offer (communicated as free perks added to the basic offer). Straightforward communication included simple slogans such as “Collect your free perks”, “Fill your tank at less cost” or “Choose maximum benefits for your company”. Additionally, simple textual communication was complemented with graphic signs such as “free”, “-10%” or “-20%”. Marketing communication was simple and legible.

Furthermore, strategic co-operation with LOTOS SA began in 2019 and led to creation of Travel Package (*Pakiet Podróżny*) offer.

Marketing activities were supported with marketing campaigns. These include, among other things:

- TV campaign promoting a new product - Current with Extra Bonus (“Prąd z extra premią”), and
- radio campaign on the Travel Package offer.

Energy Efficiency Package

The Energy Efficiency Package constitutes a package of efficiency services introduced into the company's offer in September 2018. In 2019, it generated a lot of interest among business clients. The following products from the portfolio were most popular:

- Usage Profile Visualisation (“Wizualizacja profili zużycia”),
- Reactive Power Compensation (“Kompensacja Mocy Biernej”), and

- photovoltaic installations.

The Energy Efficiency Package focuses mainly on solutions supporting business customers in the reasonable, conscious and responsible use of their existing energy resources. A customised approach to the customers' needs and high quality of offered services pave the way for generation of new business.

The portfolio containing 15 technical services gathered into the Energy Efficiency Package was expanded in 2019 to include supporting the customer in securing de minimis co-financing on account of the rise of electricity prices in Q3 and Q4 2019. The product was implemented in early November 2019.

The energy efficiency services offer has been structured for the well-recognised market needs and this allows us to address virtually any energy issue present at the customer's. Such structuring of the offer combined with high diligence in providing our services has translated into the financial result.

At the time of dynamic growth of RES installed capacity in the national power system, the company is actively involved in the development of that industry while taking responsibility for the attainment of the objectives associated with the effective purchasing of electricity for the purposes of the company's customers and the sale of new energy efficiency products.

Given EOB's demand for electricity substantially higher than the held own energy generation resources, the possibility to make additional electricity purchases directly from the producers under bilateral contracts enables the company to diversify its purchasing portfolio and to lower the volume of energy purchased at the Polish Power Exchange (TGE), which reduces growth pressure on purchasing prices.

Customer relations

Active, methodical and conscious shaping of customer experience in line with the company's vision embodied in the slogan "we want to be the most friendly and digitalised company in the energy market". Implementation of a comprehensive CEM (Customer Experience Management - CEM) strategy is of key importance for the company; it supports building customer satisfaction, loyalty and willingness to recommend.

The main achievement of 2019 is implementation of strategies for managing and continuously improving Energa Obrót's customer experience through continuous operational activities such as:

- tracking customers' changing needs and expectations (VOC - voice of customer) and adapting processes to those needs,
- improving processes continuously in response to customer expectations,
- implementing and monitoring measures, and
- involving co-workers and management in CEM strategy implementation.

All aforesaid measures were aimed at ensuring coherent customer experience at individual interfaces and improvement of indicators that characterise the condition and quality of the organisation's customer relations.

Customers' Obudsman at Energa Obrót

The Customers' Obudsman offers support to customers in the most complicated and long-running cases that carry risk to the company's image. His responsibility is to build the company's positive image not only among customers or employees but also among regulatory institutions or the media. In 2019, the Customers' Ombudsman held a number of duty services in Olsztyn, Elbląg, Toruń, Słupsk and Koszalin, as well as during the Communal Senior Citizens' Days (*Gminne Dni Seniora*). The meetings were attended by numerous persons in the cities we visited. Owing to the specialists' support, we were able to answer all customers' questions.

Simplifying communication consistently with the simple language standard

For two years already, the company has been consistently simplifying the language used by its employees when communicating between themselves but, first and foremost, in dealings with customers. Simple language renders content friendly and clear. In the first place, the company simplified the wording of the contract and the general terms of contract, i.e. documents that customers take home and usually keep over many years. In the new documents, the company no longer writes about the customer in the third person and, to explain the definitions, uses the language the customer uses on a daily basis. For that reason, in the documents electrical energy is now referred to as electricity and the measurement and settlement system is called a meter. In addition to the documents rendered more straightforward, the announcements on the company's hotline and the responses to the customers' reports have been formulated in a simple language.

Simplifying the language is nothing else but fighting mannerisms. Such major mentality change is possible exclusively thanks to great commitment on the part of our personnel. And that commitment is required especially during training. To that end, a group of internal trainers has been established at Energa Obrót SA, which helps foster language competences among the employees.

5.3.2. Financial performance

Figure 28: Results of the Sales Business Line of the Energa Group (PLN m)

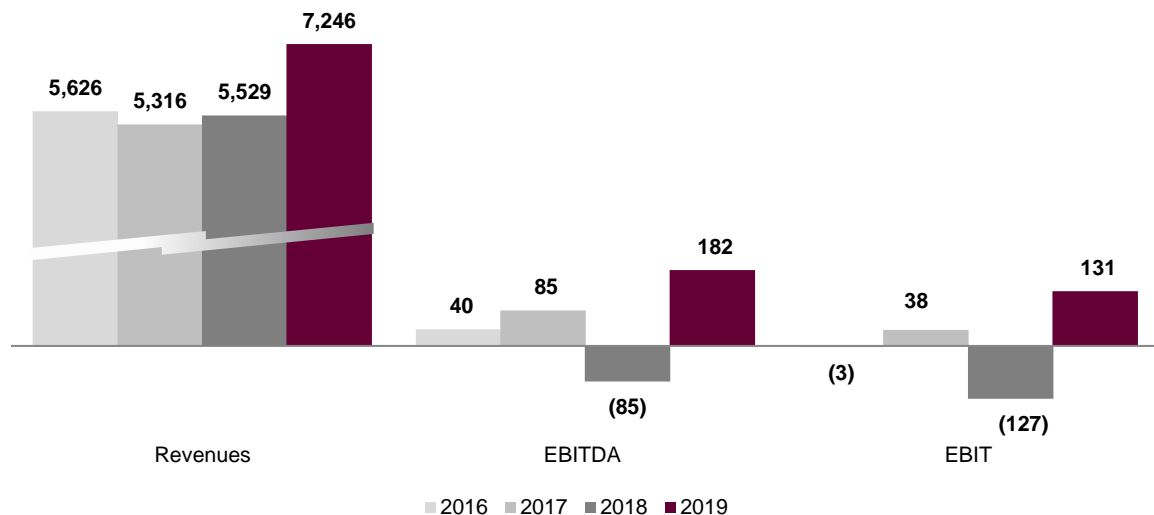
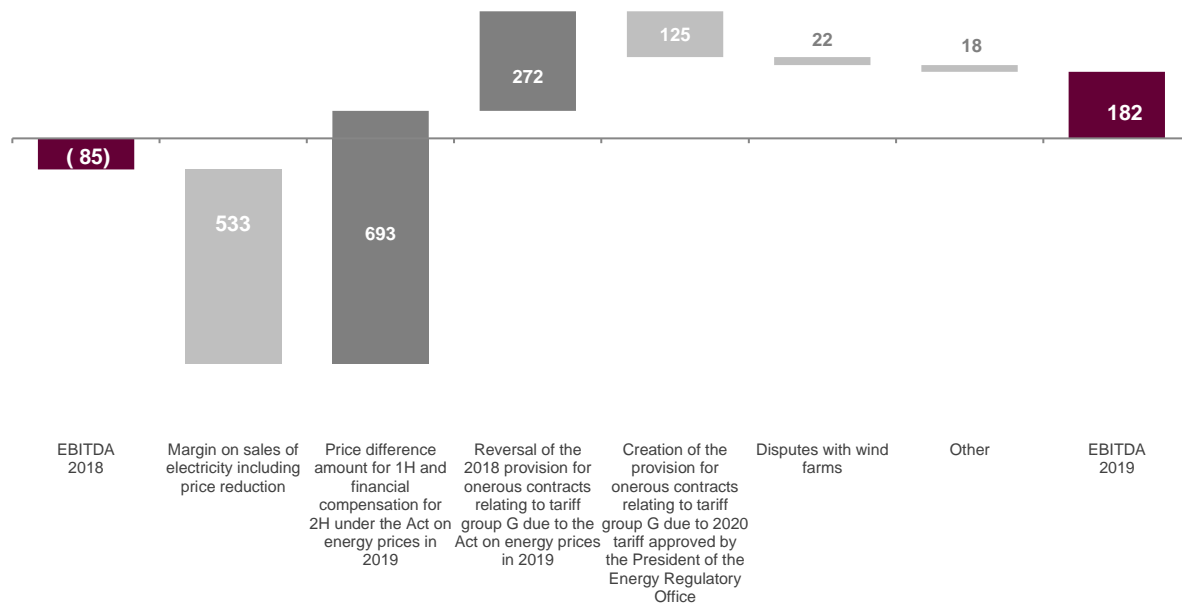


Table 25: Results of the Sales Business Line (PLN m)

	2016	2017	2018	2019	Change 2019/2018	Change 2019/2018 (%)
Revenue	5,626	5,316	5,529	7,246	1,717	31%
EBITDA	40	85	(85)	182	267	> 100%
depreciation and amortisation	39	43	39	52	13	33%
impairment losses on non-financial non-current assets	4	4	3	(1)	(4)	< -100%
EBIT	(3)	38	(127)	131	258	> 100%
Net profit (loss)	(2)	29	(100)	90	190	> 100%
CAPEX	92	43	45	44	(1)	-2%

	Q4 2018	Q4 2019	Change	Change (%)
Revenue	1,455	1,864	409	28%
EBITDA	(135)	(76)	59	44%
depreciation and amortisation	9	13	4	44%
impairment losses on non-financial non-current assets	3	-	(3)	-100%
EBIT	(147)	(89)	58	39%
Net profit (loss)	(124)	(71)	53	43%
CAPEX	23	18	(5)	-22%

Figure 29: EBITDA bridge of the Sales Business Line (PLN m)



In 2019, EBITDA of the Sales Business Line was PLN 182 m, which represents a 9% share in the Group's EBITDA. In 2018, EBITDA amounted to PLN -85 m and, consequently, did not contribute positively to the Group's EBITDA.

The revenue of the Sales Business Line in 2019 amounted to PLN 7,246 m, and it grew by PLN 1,717 m (or 31%) compared to 2018. As usual, the most important revenue item of the Business Line is revenue from the sale of electricity, which went up by 33% (or PLN 1,704 m) y/y in 2019. This is the effect of an increase in the prices at which electricity is sold to end customers that reflect the market trend.

The effect of a low base and one-off events contributed substantially to high dynamic of the Business Line's EBITDA year on year. The 2018 results were low due to an unexpected and rapid increase in the market prices of electricity during the period, leading to erosion of the margin on energy sales to end customers. In the space of the last two years, a number of one-off events took place that had a material impact on EBITDA levels.

The Act on Energy Prices was in force in 2019. Under that Act, in H1 2019 the prices from 30 June 2018 applied to all customers, whereas in H2 2019 the preferential rates were kept exclusively for certain customer groups such as, for instance, households, micro businesses, local government entities and hospitals. The settlements with the remaining customers were made at the prices derived from concluded contracts. As a result of application of the said Act, Energa Obrót SA was entitled to compensations designed to offset the losses incurred as a result of sale of energy at statutory prices. Under the compensation mechanism, Energa Obrót SA received PLN 693 m, of which PLN 526 m related to the first half and PLN 167 m related to the second half of 2019. The level of awarded

compensations allowed the company to keep the impact of the Act on the performance of the Sales Business Line relatively neutral in 2019.

As previously mentioned, the following one-off events had a material impact on EBITDA of the Sales Business Line:

- a) Provision of PLN 136 m for burdensome tariff G contracts in connection with the Act on Energy Prices in 2019. That provision was established at the end of 2018 (negative impact on the 2018 result) and was successively utilised throughout 2019, which had a positive impact on that year's result.
- b) Provision of PLN 125 m for burdensome tariff G contracts in connection with the approval of the tariff by the President of the Energy Regulatory Office for the year 2020. That provision was established at the end of 2019 and burdened the result of the reported year.
- c) Disputes with wind farms the aggregate financial consequences of which contributed to EBITDA's decline by PLN 22 m YoY. Those were made up primarily of litigations concerning validity of long-term contracts for the purchase of RES property rights (CPA agreements). In 2018, the consequences of the outcome of a number of arbitration proceedings were incorporated in the financial results whereas in 2019 provisions were established in order to secure the company's finances against potential contractual penalties to be paid by Energa Obrót SA.

EBITDA of the Sales Business Line for Q4 2019 amounted to PLN -76 m compared to PLN -135 m in Q4 2018. EBITDA growth QoQ was driven primarily by one-off events. In Q4 2018, a provision was made for burdensome contracts in the full amount of PLN 136 m whereas PLN 26 m of that provision was utilised in Q4 2019 (in proportion to the sale in that quarter). At the same time, in Q4 2019, a provision of a similar nature was established for a lower amount, i.e. PLN 125 m. Furthermore, the results for Q4 2018 were burdened with the amount of PLN 26 m derived from the outcome of arbitration proceedings in a number of litigations involving CPA agreements. On the other hand, the company's financial results were burdened on account of litigations with wind farms in other quarters of 2019.



Wind farm in Karcino

Financial and assets situation of Energa SA

6. FINANCIAL AND ASSETS SITUATION OF ENERGA SA

6.1. Rules of preparing the annual standalone financial statements

The standalone financial statements of Energa SA for the twelve months ended 31 December 2019 were prepared:

- in accordance with the International Financial Reporting Standards endorsed by the European Union;
- on a historical cost basis, except for financial instruments measured at fair value through profit or loss and hedging derivatives;
- in millions of Polish zlotys ("PLN m"), unless otherwise specified;
- based on the assumption that Energa SA would continue as a going concern in the foreseeable future and without any evidence indicating that the continuation of the Company business activities as a going concern may be at risk.

To the extent not covered by the IFRS, Energa maintains its accounting books in accordance with the accounting policy (principles) set forth by the Accounting Act of 29 September 1994 (Journal of Laws of 2016, item 1047) and its secondary legislation (the "Accounting Act", "Polish Accounting Standards", "PAS").

The accounting principles (policy) applied to prepare the annual standalone financial statements are presented in Note 8 to the annual standalone financial statements of Energa SA for the twelve months ended 31 December 2019.

6.2. Explanation of the economic and financial data disclosed in the annual standalone financial statements

Table 26: Standalone statement of profit or loss (PLN m)

	2018	2019	Change	Change (%)
Revenue from sales	89	86	(3)	-3%
Cost of sales	(79)	(63)	16	-20%
Gross profit on sales	10	23	13	> 100%
Other operating revenue	9	9	-	-
General and administrative expenses	(76)	(96)	(20)	26%
Other operating expenses	(14)	(22)	(8)	57%
Dividend income	675	644	(31)	-5%
Other financial income	239	184	(55)	-23%
Impairment losses on stakes	-	(794)	(794)	-
Other financial costs	(351)	(361)	10	3%
Profit before tax	492	(413)	(905)	< 100%
Income tax	3	39	36	> 100%
Net profit	495	(374)	(869)	< 100%

Energa's operating income arises mainly from services provided by the Company to other Group companies, in particular in the area of marketing, finance and lease of office space (in the form of recharge). In 2019 this category of income decreased slightly (i.e. by 3%).

The main source of the Company' financial income in 2019 was dividend income, which amounted to PLN 644 m (down by PLN 31 m compared to 2018). Interest income went down by PLN 58 m, with the parallel decline of interest expenses by PLN 26 m.

In 2019, impairment losses on stakes of subsidiaries in the amount of PLN 794 m were made in:

- Elektrownia Ostrołęka sp. z o.o. - due to impairment losses creation on the company's non-current assets in the total amount of PLN 1,027 m, an indication of impairment of the company's shares held by Energa SA was recognized. As a result of evaluated impairment test, the need to create an impairment loss on the entire value of company's stakes, i.e. in the amount of PLN 453 m, was recognized; and
- subsidiaries (Energa Kogeneracja Sp.z o.o. PLN 314 m, Energa Logistyka sp. z o.o. PLN 25 m, Energa Serwis sp. z o.o. PLN 2 m).

The above factors contributed to the net result of Energa, which amounted to PLN -374 m.

Table 27: Standalone statement of financial position (PLN m)

	As at 31 December 2018	As at 31 December 2019	Change	Change (%)
ASSETS				
Non-current assets				
Intangible assets	13	14	1	8%
Right-of-use assets	-	50	50	-
Shares in subsidiaries, associates and joint ventures	7,326	6,715	(611)	-8%
Bonds	3,477	1,719	(1,758)	-51%
Other non-current financial receivables	-	2,764	2,764	-
Deferred tax assets	19	39	20	> 100%
Derivative financial instruments	64	3	(61)	-95%
Other non-current assets	138	160	22	16%
	11,037	11,464	427	4%
Current assets				
Cash pooling receivables	596	831	235	39%
Trade receivables and other current financial receivables	39	310	271	> 100%
Bonds	1,462	41	(1,421)	-97%
Income tax receivables	-	37	37	-
Cash and cash equivalents	2,063	822	(1,241)	-60%
Derivative financial instruments	-	26	26	-
Other current assets	96	42	(54)	-56%
	4,256	2,109	(2,147)	-50%
TOTAL ASSETS	15,293	13,573	(1,720)	-11%
EQUITY AND LIABILITIES				
Equity attributable to equity holders				
Share capital	4,522	4,522	-	-
Reserve capital	1,018	1,018	-	-

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

Supplementary capital	1,540	2,035	495	32%
Revaluation reserve – hedging instruments	(34)	(52)	(18)	-53%
Retained earnings	539	(330)	(869)	<100%
	7,585	7,193	(392)	-5%
Non-current liabilities				
Loans and borrowings	4,864	2,398	(2,466)	-51%
Issues of debt securities	1,075	1,065	(10)	-1%
Deferred income and non-current grants	63	52	(11)	-17%
Derivative financial instruments	40	72	32	80%
Non-current lease liabilities	-	41	41	-
	6,042	3,628	(2,414)	-40%
Current liabilities				
Cash pooling liabilities	314	192	(122)	-39%
Trade liabilities and other financial liabilities	25	19	(6)	-24%
Current lease liabilities	-	11	11	-
Current loans and borrowings	202	2,459	2,257	> 100%
Issues of debt securities	1,025	10	(1,015)	-99%
Income tax liabilities	64	-	(64)	-100%
Deferred income and grants	16	11	(5)	-31%
Accrued expenses	12	11	(1)	-8%
Other current liabilities	8	39	31	> 100%
	1,666	2,752	1,086	65%
Total liabilities	7,708	6,380	(1,328)	-17%
TOTAL EQUITY AND LIABILITIES	15,293	13,573	(1,720)	-11%

As at 31 December 2019, the balance sheet total of Energa was PLN 13,573 m, down by PLN 1,720 m, i.e. 11%, compared to 31 December 2018. In 2019, Energa purchased additional stock in Elektrownia Ostrołęka Sp. o.o. – the value increased by PLN 181 m. The value of investments in bonds issued by subsidiaries declined, which was caused mainly by PLN 2,984 m worth of repurchase made by Energa Operator. At the same time, Energa Operator was granted a loan of PLN 2,866 m.

The equity and liabilities side recorded a significant change in issues of debt securities (down by PLN 1,025 m YoY) arising from the redemption of bonds by Energa.

That is reflected in the balance of cash and cash equivalents, which went down in 2019 by PLN 1,241 m YoY.

The entire result of Energa for 2018 totaling PLN 495 m was transferred to supplementary capital. As at 31 December 2019, 53% of the Company's operations were financed by equity, compared to 49.6% at the end of 2018.

Table 28: Standalone statement of cash flows (PLN m)

	2018	2019	Change	Change (%)
Net cash flows from operating activities	(30)	(61)	(31)	> -100%
Net cash flows from investing activities	(140)	327	467	> 100%
Net cash flows from financing activities	(780)	(1,505)	(725)	-93%
Net increase/ (decrease) in cash and cash equivalents	(950)	(1,239)	(289)	-30%
Cash and cash equivalents at the end of the reporting period	2,065	826	(1,239)	-60%

As at 31 December 2019, Energa held PLN 826 m in cash. Total net cash flows from operating, investing and financial activities of the Company in 2019 were negative at PLN -1,239 m, compared to PLN -950 m in 2018.

The negative cash flow from operating activities resulted mainly from a lower operating result adjusted for non-cash items.

The investing activities recorded a positive flow. This was mainly the effect of dividends received from subsidiaries and interest received on loans, partially offset by the acquisition of shares in Elektrownia Ostrołęka sp. z o.o. The negative flow of funds from investing activities in 2018 resulted from the acquisition of bonds in Energa Operator.

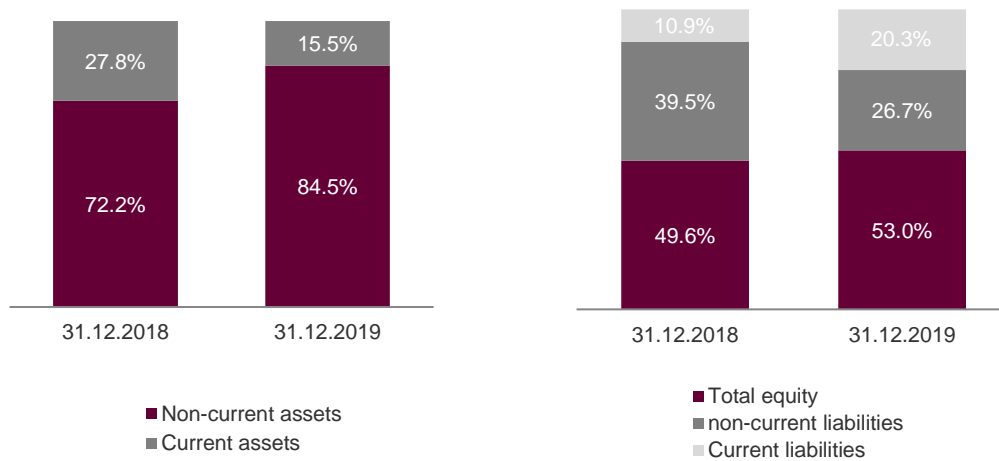
The decrease in net flows from financing activity was mainly related to the redemption of domestic bonds from Energa Operator.

6.3. Structure of assets and liabilities in the standalone statement of financial position

Table 29: Structure of the annual standalone statement of financial position

	As at 31 December 2018	As at 31 December 2019
ASSETS		
Non-current assets	72.2%	84.5%
Current assets	27.8%	15.5%
TOTAL ASSETS	100.0%	100.0%
EQUITY AND LIABILITIES		
Total equity	49.6%	53.0%
Non-current liabilities	39.5%	26.7%
Current liabilities	10.9%	20.3%
Total liabilities	50.4%	47.0%
TOTAL EQUITY AND LIABILITIES	100.0%	100.0%

Figure 30: Structure of assets and liabilities as at 31 December



As at 31 December 2019, non-current assets represented 84.5%, and current assets 15.5% of total assets. Equity accounted for 53.0% of equity and liabilities as at 31 December 2019. The remaining portion of equity and liabilities were liabilities, with financial liabilities as the main item.

6.4. Description of significant off-balance sheet items

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



Hydro plant in Pierzchały

Risk management

7. RISK MANAGEMENT

7.1. Integrated Risk Management System of the Energa Group

The Integrated Risk Management System (IRMS) has been in place at the Energa Group since 2011 and it is supervised centrally by Energa SA.

The IRMS has been implemented on the basis of a risk management process which is harmonised across the whole Group. It is based on international standards (ISO, COSO, FERMA) and spans all organisational levels and business lines. The risk management process consists of various interrelated stages that form a continuous process. It starts at the level of organisational units and moves on to top executives and from the level of Group companies to Energa SA as the Parent Company.

Figure 31: The Energa Group risk management process



The key document underlying the risk management process at the Energa Group is the *Risk Management Policy*, which defines, among other things, the harmonised approach, risk management principles and roles in the risk management process.



Management Board: defines the risk management focus, approves risk reporting outcomes and accepts risk appetite.



Risk Unit: coordinates the risk management process, conducts risk reviews and risk management strategy reviews, develops reports summarising the outcomes of risk reviews.



Risk Owner: manages risk, develops and implements the risk management strategy, monitors risk and reports its current level to the Risk Unit.



Employees: report risks and incidents.



Audit Committee: monitors the effectiveness of the risk management system



Audit and Control Unit: performs an independent and objective assessment of the risk management system and incorporates the outcomes of risk reviews as part of performance of its tasks.

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



risk review – involving identification and assessment of risks and defining the risk management strategy (in semi-annual cycles);



review of the risk management strategy – update of the risk management strategy and verification of risk mitigation measures taken by Risk Owners (in quarterly cycles);



ongoing risk management – involving identification and assessment of risks and definition of the risk management strategy, in the context of current events relevant to the Energa Group (on an ongoing basis).

Based on the semi-annual risk reviews, information on the risk exposure of the Energa Group is prepared. Relying on that information, the Management Board of Energa decides on the risk appetite level and approves the risk management strategy. The results of risk reviews are transmitted to the Risk Owners and reported to the Audit Committee.

As part of the IRMS development efforts, in 2019 the Energa Group:

- updated its Risk Management Policy, among other things, in the context of Key Risk Indicators (KRIs);
- implemented a risk management system in CCGT Grudziądz, a Group company;
- established the Energa Group Incident Record Unit and launched its operation, among other things, to optimise existing records, build synergies and obtain comprehensive knowledge of risk materialisation incidents;
- improved the tools used in the IRMS, including the risk card and record (with increased automation); and
- took measures to satisfy the requirements of cyber security risk analysis.

7.2. Description of major factors and risks

Key risks identified at the level of Energa SA and Group companies for each of the four Energa Group Risk Model areas are presented below, together with a description of key risk mitigation measures.

Strategic area

Table 30: Key strategic risks identified at the level of Energa SA and Group companies

Risk	Description of the risk and its potential effects	Control mechanisms used
Risks of strategic programmes	Risks involved in the implementation of the Group Strategy for 2016-2025. Key risks in this area are associated with the use of revenue decoupling regulations in heat tariffs, implementation of a new customer-centric business model and development of new business areas, to name just some. Materialization of risks may lead to lower EBITDA, loss of part of the market / competitive advantage, lack of return on investments, deterioration of image or social impacts.	<ul style="list-style-type: none"> • Running programmes in project-based structures; • Ongoing monitoring of progress in the implementation of individual programmes; • Ongoing risk reporting; • Carrying out investment plans and plans to sell selected district heating assets.
Project / investment risks	Risks involved in investments carried out within the Energa Group, including, without limitation, those relating to the new unit in Ostrołęka, the flue gas desulphurisation installation in Ostrołęka, the combined cycle gas and steam unit in Grudziądz and the Przykona wind farm. The risk relates also to Energa Group's capital exposure to other undertakings. Materialisation of risks may lead to non-achievement of the expected return on investments, loss of revenue, the need to repay subsidies or deterioration of image.	<ul style="list-style-type: none"> • Contracts with experienced and reputable contractors; • Ongoing monitoring and control of investments at the operating and strategic levels (Committees and Top Executives); • Ongoing cooperation with law firms; • Carrying out investments on project basis; • Periodic and ongoing risk identification.
Market risks	Risks involved in trading in electricity, fuels and property rights, including in the context of price volatility, forward market and SPOT market fluctuations, meeting customer demand or regulatory and legal requirements. Risks involve also PSE's systematically declining demand for the energy forcefully produced by the assets in Ostrołęka. Materialisation of risks may lead to difficulties in the achievement of strategic objectives, financial losses, changes to risk exposures, customer attrition and increased costs of operation.	<ul style="list-style-type: none"> • Risk management in core selling activities; • Processes and principles relating to contracting, trading and purchasing areas; • A coupled model; • Use of advisory and legal services; • Change of the contracting model while taking into consideration lower demand for forced operation.

Legal and regulatory area

Table 31: Key legal and regulatory risks identified at the level of Energa SA and Group companies

Risk	Description of the risk and its potential effects	Control mechanisms used
Regulatory risk	The risk concerns legislative changes affecting the functioning of the Energa Group's individual Business Lines. Materialization of risks may lead to the modification of investment plans, generation of lower than planned revenues or rise in operating expenses. The risk additionally offers an opportunity to adopt new legal solutions which could enable raising of additional funds or guarantee a support system for the Group's assets.	<ul style="list-style-type: none"> • Monitoring of changes in law; • Participation in the legislative process; • Participation of the Group's representatives in the activities of industry associations.
Risk of Group's non-compliance with new legal provisions	The risk is associated, for instance, with legal, financial, organizational or image-related ramifications of the Energa Group's failure to align with new legal provisions, or a misinterpretation of new legal provisions.	<ul style="list-style-type: none"> • Monitoring of changes in law; • Working groups engaged in bringing the Group's activities in line with the law; • Compliance management system at the Energa Group.
Environmental risk	Risks associated with conducting the operations in accordance with the provisions of environmental law, good practice and environmental standards (ISO 14001, ISO 50001) ensuring sustainable growth; providing information and assurances to stakeholders with respect to compliance with the national environmental regulations and the requirements of the EMAS Regulation. Materialization of risks may lead to withdrawal of the ISO 14001 certificate. Non-compliance with environmental regulations may lead to increased costs due to the need to address potential environmental incidents, imposition of financial sanctions and closures of defective plant components.	<ul style="list-style-type: none"> • Internal polices; • Ongoing monitoring of legislative changes; • Analysis and measurements of emissions; • Inspections and audits; • The EMAS system implemented by the Group companies.
Risk of fraud	The risk concerns situations and actions related to fraud, including potential conflicts of interest, corruption or misappropriation on the part of the employees of the Energa Group companies. The risk involves potential threat of fraudulent and corrupt practices in the operational processes, as well as in connection with implementation of projects subsidized from the EU funds. Materialization of risks may lead to financial losses and may entail procedures conducted by law enforcement authorities against employees or bodies of the Group companies. The risk may have an adverse effect on the Energa Group's image and reputation, undermining employees' trust in supervisors, colleagues and the organisation as a whole.	<ul style="list-style-type: none"> • Internal anti-fraud policies; • Training for employees (including, without limitation, anti-corruption), including the e-learning platform; • The organisation's three lines of defense (internal control system, risk management system and internal audit); • External controls; • Investigations.
Legal risk	The risks are associated with court and administrative proceedings carried out by or against the Group companies. This risk also involves potential mass claims from land owners. Materialization of risks may give rise to an obligation to pay damages and sanctions, or to grant customer discounts arising from the provisions of law.	<ul style="list-style-type: none"> • Cooperation with law firms; • A system for monitoring key cases; • Internal policies.

Personal data protection risk	<p>Risk involves assuring privacy and security of data subjects' details. Materialization of risks may impair operating activities conducted by the company and give rise to penal sanctions, including financial and administrative ones, control of supervisory bodies, costs of proceedings at law and damages.</p>	<ul style="list-style-type: none"> • Enforcement of provisions of internal regulations governing the personal data protection area, including handling fraud, performing disclosure obligations, exercising data subjects' rights, delivering training or managing personal data protection risks.
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Operations area

Table 32: Key operational risks identified at the level of Energa SA and Group companies

Risk	Description of the risk and its potential effects	Control mechanisms used
Risk of coronavirus and its impact on the Energa Group	<p>The risk is associated with the SARS-CoV-2 virus and the spread of COVID-19 disease caused by this virus, as well as the possible effects of the virus / disease affecting the operations of Energa Group companies. The potential effects of this risk may affect the health and lives of employees as well as the Group's stakeholders. Risk may also be the cause of higher costs (purchases of goods and services), lost revenues (lower production volume, assuming a decrease in electricity demand) and may affect business continuity.</p>	<ul style="list-style-type: none"> • COVID-19 threat monitoring team and work teams in each company; • Purchase of disinfectants, non-contact thermometers, etc. ; • Unified information policy for employees and stakeholders; • E-learning material for prevent virus infection; • remote work; • ;Suspension (minimizing of business trips; • Replacing traditional meetings with remote communication tools (Skype, phone, etc.); • Restricting access of outsiders to buildings owned to the Energa Group; • Designation of zones for collecting parcels.
Risk to the security of persons and property	<p>Risk associated with unauthorized access to facilities, including power equipment. The risk additionally involves the safety and 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 interruption of operational continuity.</p>	<ul style="list-style-type: none"> • Assurance of safety and security of persons and corporate assets by a dedicated Group company; • Security Plans, including Critical Infrastructure Security Plans; • Internal safety and security policies; • Business Continuity Plans of the Group Companies; • Property insurance, third party liability insurance and insurance for lost revenues; • Physical and technical security systems for the Group's facilities; • Security incident monitoring within the Group; • Employee training.
Risk of disruption of business continuity	<p>Risks associated with the disruption of critical distribution activities, i.e. continuity of the distribution service meeting the required performance security criteria of the distribution system. Materialisation of risks may put human life and property in danger and lead to unavailability of critical process resources (sites, systems, employees).</p>	<ul style="list-style-type: none"> • Business Continuity Strategy; • Emergency Procedures; • Critical Infrastructure Security Plan; • Rules of proceeding in emergency; • Backup sites; • Periodic testing within the business continuity management system.
Risk associated with social relations and trade unions	<p>This risk involves dialogue with the social partner, specifically trade unions, on the process of maintenance of the relationship between the employer and employees, as well as the process of communication with employees.</p>	<ul style="list-style-type: none"> • Conducting the social dialogue; • Enforcing provisions of collective bargaining agreements and collective agreements;

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

	Materialisation of risk may give rise to claims, business impairments or costs associated with possible downtime (strikes or protests) or employee departures, as well as image-related impacts.	<ul style="list-style-type: none"> • Communicating with trade union organisations and informing employees about planned changes.
Compliance Programme risks	This risk is associated with violation of the Compliance Programme in place in Energa Operator SA and URE's new guidelines on the Compliance Programme. If the risk materialises, complaints might be filed by system users to the Energy Regulatory Office (URE) and the Office of Competition and Consumer Protection. The effects of the risk involve an increased workload in the preparation and conduct of investigations before the President of the URE or potential financial sanctions.	<ul style="list-style-type: none"> • Provisions of the Compliance Programme allowing the seeking of compensation based on applicable law from an employee who has engaged in misconduct resulting in a financial sanction imposed by the President of the URE; • Contractual provisions obligating subcontractors and service providers to follow the provisions of the Compliance Programme; • Regular training.
Customer settlements risk	Risk associated, among other things, with incomplete or incorrect invoicing of customers due to incorrect recording of contract, absence of metering data or lowering of the value of the Net Promoter Score (NPS). Materialisation of risk may lead, for instance, to a drop in customer satisfaction (increased complaints), deterioration in the Group's image, customers' departure towards other vendors, and additional costs of elimination of errors/irregularities.	<ul style="list-style-type: none"> • Monitoring of supplied measurement data/issued invoices; • Servicing agreement with vendors of billing systems enabling swift elimination of critical errors; • Internal instructions governing, among other things, adjustments, interest, double invoicing control mechanism, prosumer sales and settlements or closing of a month.
Risk of no long-term heat supply contract for Elbląg	This risk involves a lower sales volume and thus reduction in the revenues of Energa Kogeneracja due to the failure to conclude a long-term heat supply contract for the city of Elbląg. It relates also to social and image-related aspects.	<ul style="list-style-type: none"> • Meetings with City Hall and EPEC representatives; • Cooperation with a law firm; • Implementation of investment and sales plans.

Finance area

Table 33: Key financial risks identified at the level of Energa SA and Group companies

Risk	Description of the risk and its potential effects	Control mechanisms used
Rating risk	Risk of Energa SA being closely connected to a capital group with a lower rating following the takeover of the Company's shares by the Caller and the risk of breach of the change of control clauses in the Company's financing agreements.	<ul style="list-style-type: none"> • Taking measures aimed at securing approvals of financing institutions for departures from currently applicable terms of financing with regard to potential breaches of change of control clauses or current rating downgrading clauses.
Liquidity risk	Risk associated with the ability to meet payment obligations in the short and long term. Materialisation of the risk may hinder the achievement of strategic objectives and organisational development, undermine creditworthiness, increase the cost of debt servicing and lead to a loss of reputation.	<ul style="list-style-type: none"> • Financial policy, including the market risk management policy; • Financial projections; • Long-term financial model; • Cash pooling; • Cash flow projections; • Analysis of variances.
Pricing policy risk	Risk associated with incorrect calculation of selling prices and approval by the President of the URE of tariff rates at a level which does not guarantee the viability of sales. If the risk materialises, this may result in the company losing the market share (margin, volume, revenue), customer attrition and, if no tariff is	<ul style="list-style-type: none"> • Ongoing market investigation for developments in the market, legal and regulatory environment; • Ongoing examination of the planned financial result and other selected ratios, and ongoing analysis of the impact of the adopted price

approved, inability to bill customers for actual sales.

calculation principles on that result/ratios;

- Ongoing examination of offering mechanisms (including the Coupled Model) and proper performance of commercial IT systems and databases;
 - Audits and inspections;
 - Quoting process monitoring system.
-

Implementing the provisions of the Energa Group's financial policy, group companies enter into various kinds of financial agreements that generate financial and market risks. The most important ones include interest rate risk, foreign exchange risk, credit risk as well as liquidity risk. The above risk categories determine the financial performance of individual companies, as well as the Energa Group as a whole.

Interest rate risk

The Energa Group finances its operating or investing activity with debt liabilities bearing interest at a floating or fixed interest rate. Interest rates are also involved when surplus cash is invested in floating or fixed interest rate assets.

The floating interest rate risk resulting from existing debt liabilities applies to WIBOR-based rates only. With respect to liabilities denominated in euro, the Energa Group has a financial liability arising from issues of fixed-coupon eurobonds, as well as issues of hybrid eurobonds, also based on a fixed coupon.

According to the interest rate risk policy, the risk of interest rates fluctuation is mitigated by maintaining a portion of debt with a fixed interest rate. In line with these guidelines, IRS variable interest rate hedging transactions are executed.

In connection with implementation of hedge accounting, the Energa Group also identifies interest rate risk related to the concluded CCIRS and IRS hedging transactions, which however has no effect on the Group's financial result. Moreover, the level of interest rates has a direct effect on the WACC quoted by the President of the URE to calculate the return on RAB, which is included in the Energa Operator SA tariffs. Low interest rates result in a lower return on RAB and an increase in actuarial provisions.

Foreign exchange risk

In the financial area, the foreign exchange risk is associated mainly with incurring and servicing Energa Group's debt liabilities in foreign currencies under the EMTN Eurobond programme, as well as issue of hybrid bonds. Additionally, some Energa Group companies have a foreign currency surplus resulting from their operating activity or investing activity. The Energa Group monitors the foreign exchange risk and manages it mainly through CCIRS hedge transactions and 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 available-for-sale financial assets. 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 the instruments acquired.

Within the scope covered by the analysis, in order to minimise the credit risk, ratings of financial institutions cooperating with the Energa Group are regularly monitored.

Liquidity risk

Liquidity risk involves the likelihood of becoming unable to pay current liabilities on time or losing the potential benefits of over-liquidity.

The Energa Group companies monitor the liquidity risk using a regular liquidity planning tool. The tool takes into account the payment due/maturity dates for investment liabilities and financial assets and liabilities and projected cash flows from operating activity. The Group aims to maintain a balance between continuity and flexibility of financing by using many different sources of financing, such as working capital and investment loans, local bonds and eurobonds. Since the Group's debt operations

are centralised within Energa SA, this company monitors the fulfilment of covenants on an ongoing basis and their long-term projections, enabling the determination of the Energa Group's creditworthiness.



Hydro power plant in Owidz, on the Wierzyce river

Shares and shareholding structure

8. SHARES AND SHAREHOLDING STRUCTURE

8.1. Energa's shareholding structure

Energa SA shares have been listed on the Warsaw Stock Exchange (WSE) since 2013. From the Company's inception, i.e. from the year 2006, until 29 April 2020, the State Treasury has been the Company's strategic shareholder holding a 51.5% share in the Company's share capital, or 64.1% of votes in the General Meeting as at 31 December 2019.

Table 34: Company's shares by series and type

Series	Type of shares	Shares	(%)	Votes	(%)
AA	ordinary bearer shares	269,139,114	65.00	269,139,114	48.15
BB	preferred registered*	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 to two votes at the General Meeting. The owner of the shares is the State Treasury.

Table 35: Shareholding structure of the Energa at 31 December 2019

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 had 144,928,000 registered series BB shares, with preference as to voting rights at the General Meeting, where one preferred share entitles to two votes at the General Meeting.

On 5 December 2019, PKN ORLEN S.A. announced a tender offer for all shares issued by Energa SA, entitling to the total of 100% votes in the General Meeting (more information has been presented in the chapter 2.3. *Key events in 2019 and after the balance sheet date* of this Report).

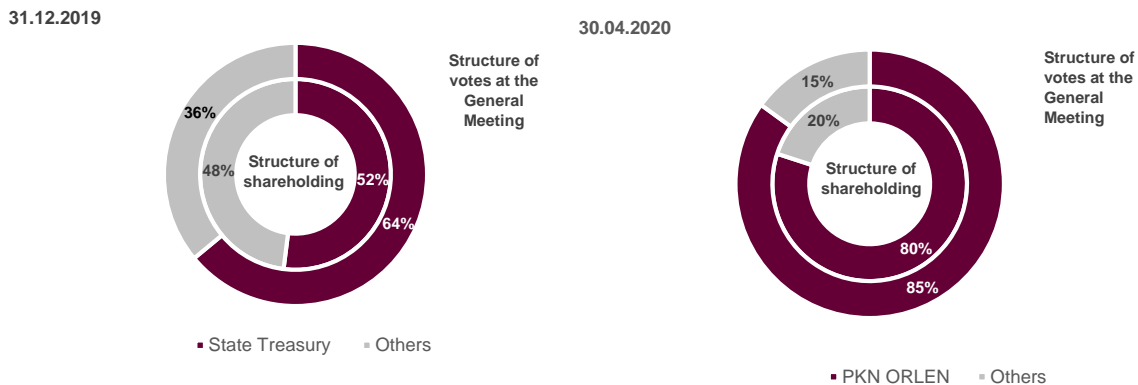
On 24 April 2020 PKN ORLEN, as a result of settlement of the purchase of shares covered by subscriptions made during the first 70 days of accepting subscriptions (i.e. until 9 April 2020 inclusive) as part of the tender offer, it increased its share in the Company's share capital and in the total number of votes in the Company to ca. 8.1% and ca. 6.0%, respectively.

On 30 April 2020 PKN ORLEN, as a result of settlement of the purchase of shares covered by subscriptions made from 10 April 2020 until 22 April 2020 inclusive as part of the tender offer, it increased its share in the Company's share capital and in the total number of votes in the Company to ca. 80.1% and ca. 85.2%, respectively.

Table 36: Shareholding structure of the Energa at the date of this Report

Shareholder's name	Company's shareholding structure			
	Shares	(%)	Votes	(%)
PKN ORLEN	331,313,082	80.01	476,241,082	85.20
Others	82,754,032	19.99	82,754,032	14.80
TOTAL	414,067,114	100.00	558,995,114	100.00

Figure 32: Shareholding and voting structure at the General Meeting of Energa as at 31 December 2019 and as at the date of this Report



The Company does not have any employee share schemes in place.

In 2019, neither the Company nor its subsidiaries purchased Energa's own shares. As at 31 December 2019, neither the Company nor its subsidiaries held any shares in Energa.

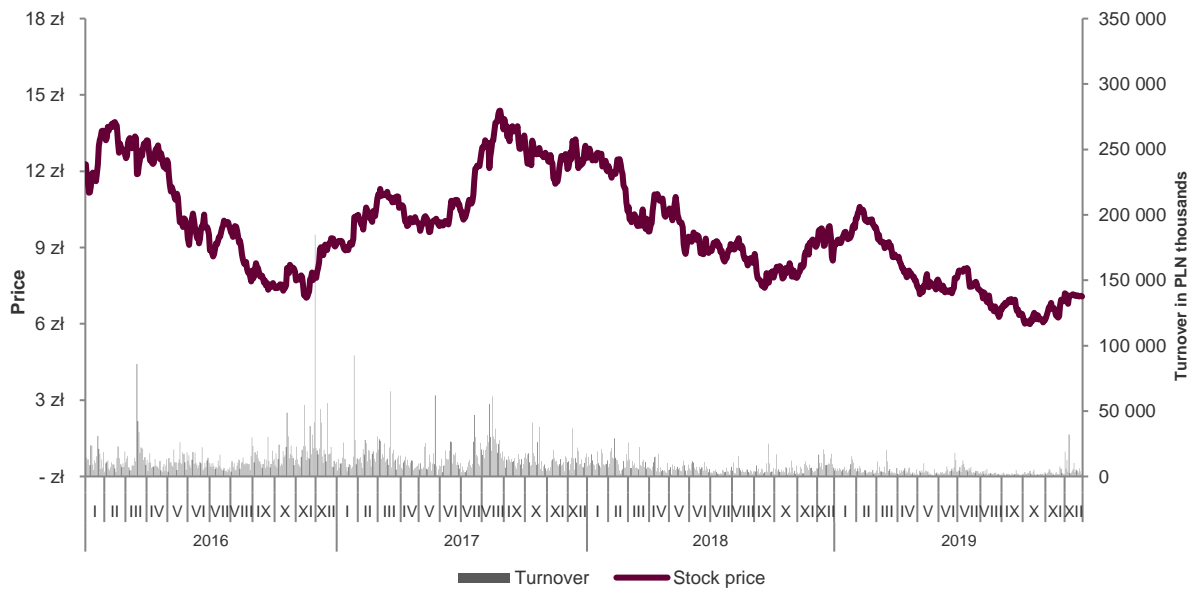
8.2. Prices of the Company's shares and recommendations

Table 37: Data for Energa shares as at 31 December 2019

Data	Value
Issue price	PLN 17.00
Number of shares	414,067,114
Stock price at the end of the period	PLN 7.08
Capitalization at the end of the period	PLN 2.9 billion
Q4 minimum at market close	PLN 5.99
Q4 maximum at market close	PLN 7.20
2019 minimum at market close	PLN 5.99
2019 maximum at market close	PLN 10.60
2019 minimum	PLN 5.98
2019 maximum	PLN 10.65
Average trading value	PLN 4.1 m
Average trading volume	521.0 thousand trades
Average number of trades	0.9 thousand trades

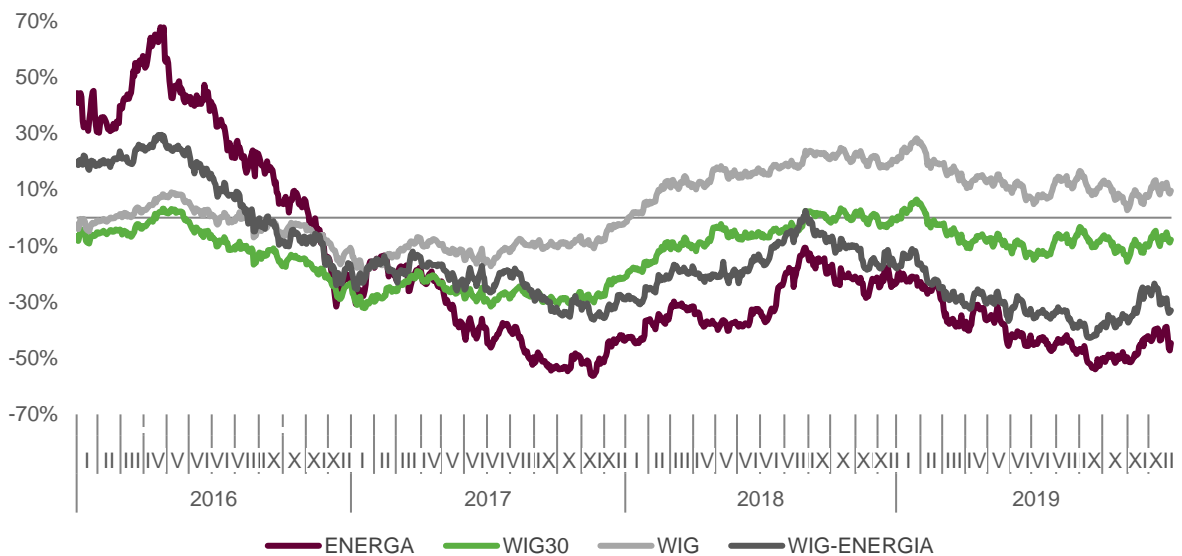
Source: Proprietary material based on data from www.infostrefa.com

Figure 33: Energa SA stock price curve in 2016-2019



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

Figure 34: Changes in Energa stock prices compared to changes in WIG, WIG20 and WIG-ENERGIA indices



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

The year 2019 began with an increase in the price of shares of Energa and the entire energy sector. Until 4 February 2019, the WIG-Energia index rose much faster than other indices and reached its peak in the first half of 2019. From then on, the energy sector started to decline. In mid-March, the price of Energa shares and the WIG-Energia index returned to the level of the beginning of the year. This coincided with the removal of Energa from the WIG20 index. This was also the period of publication of annual results in which, as recommended by the auditors, the companies created provisions due to uncertainties about compensation. From that moment on, the energy sector saw slight increases, however, the trend remained downward.

The second half of the year brought an increase in the price of shares of Energa and the entire energy sector. In July, in the perspective of the second half of the year, the share price recorded its maximum

- PLN 8.3 (11 July 2019). This price support at the beginning of July resulted from positive expectations of analysts about the scale of compensation for the freeze on energy prices for trading companies. However, a downward trend begun in the second half of the month, which continued until the end of August, and then, after a certain rebound in September, it started to decline again until the minimum annual price of PLN 6.0 was reached on 3 October 2019. The next period consisted in rebuilding the position with a clear upward trend towards PLN 7 at the end of November, but not reaching it. This level was exceeded in December due to the call for Energa shares announced by PKN ORLEN.

The Energa stock price at the close of the stock exchange session on 30 December was PLN 7.1, which means that it declined by ca. 16.5% as compared to the price of the last business day of 2018 (i.e. 28 December). In 2019, the WIG-Energia index declined by 17.8%.

The Company's shares have been included in mWIG40 and WIG30 indices since 16 March 2019. In addition, Energa SA shares have been included in the WIG-CEE plus and WIG-ESG indices from early September. Detailed information about the new indices are presented later on in this chapter.

Energa SA is part of WIG-CEE plus and WIG-ESG indices

On 4 September, during the Economic Forum in Krynica-Zdrój, the representatives of stock exchanges of the Visegrad Group (Poland, the Czech Republic, Slovakia and Hungary), Croatia, Romania and Slovenia signed a letter of intent concerning commencement of publication of a new index of the stock exchanges from the Three Seas Initiative Region, **CEE plus**.

Energa SA found itself in the WIG-CEE plus index portfolio among over 100 most liquid companies listed on the stock exchanges from the Central and Eastern European region: Bratislava, Bucharest, Budapest, Ljubljana, Prague, Warsaw and Zagreb.

Introduction of a new regional index, on the initiative of stock exchanges from the Three Seas Initiative Region, comes in response to the expectations of the investors who pointed to the need for the companies from the CEE region to be aggregated in a single index. Following Poland's promotion to the group of developed markets, we contribute to the region's increased importance and promote the local market and companies among the new groups of investors.

Information on the index will be provided on a daily basis based on the closing stock prices from all markets and subsequently converted at the exchange rate published by the National Bank of Poland (NBP) in local currencies, euro and the American dollar. In the immediate future, that index will serve as the underlying instrument for TFI PZU passive fund called inPZU CEEplus, which may contribute to the investors' increased interest in the issuers included in the index.

On 3 September 2019, the Warsaw Stock Exchange commenced publishing the new **WIG-ESG** index which includes the companies appearing on WIG20 and mWIG40 indices and deemed socially responsible, i.e. observing the socially responsible business rules, in particular with respect to environmental, social, economic and corporate governance issues. The companies' weights in the index will depend, as in the case of other indices, on the number of free float shares, adjusted according to the ESG ranking and the assessment of the compliance with the "Best Practice for WSE Listed Companies 2016".

The ESG rating of companies, representing one of the criteria of establishing weights in the index, is prepared based on the reports from Sustainalytic, an international firm specializing in provision of ESG services, which is in charge of defining corporate scoring based on the generally available information published by the companies. Sustainalytic services are used by global firms calculating indices and institutions making investments in international equity markets..

WIG-ESG is an income-based index, which means that both prices of transactions concluded therein and the dividend income are considered when calculating its value. The NN Investment Partners TFI fund will be the first product based on WIG-ESG index.

Energa SA shares are currently part of the RESPECT Index published for the last 10 years. That index will be published until the end of 2019 and, starting from 1 January 2020, only the WIG-ESG index will be published.

“Energa w Akcji!” [Energa in Action!] loyalty scheme for individual investors

“Energa w Akcji!” is the first such comprehensive and extensive loyalty scheme among the energy companies listed on the Warsaw Stock Exchange (WSE), addressed to individual investors. Thus, Energa joined other major companies both from the Polish market and international markets that pursue similar initiatives. Multiple benefits for individual shareholders are anticipated. The scheme also aims to educate. Its purpose is to raise Poles’ awareness of the functioning of the equity market.

Anyone who has owned or co-owned a minimum of 500 shares of Energa SA continuously over a period of six months is eligible to take advantage of the scheme’s attractive offer.

Under the scheme, investors may use a wide range of products and services offered by the organizer, i.e. Energa, as well as MyBenefit, PKO Bank Polski Brokerage House and the Individual Investors Association, scheme’s co-organizers.

More information on the scheme is available on a dedicated website at: <https://energawakcji.energa.pl/>.

8.3. Investor relations at Energa SA

The Investor Relations Office, in cooperation with the Management Board and other business units, works to intensify effective communication with investors and analysts. Those activities are tailored to the information needs of particular groups of recipients, based on the best market standards and practices. Contact with the Company’s stakeholders is made at direct meetings, during teleconferences, via email and regularly updated materials available on the website.

In 2019, investors and stock exchange analysts participated in three financial result conferences, both directly and online. All meetings with the Management Board held in connection with the publication of quarterly financial results were broadcast online in Polish and English, as well as made available on the Company’s website. There were ca 90 face-to-face meetings with institutional investors held during the covered period: investor conferences or non-deal roadshows and three financial result conferences transmitted online.

There were also two workshops held with brokerage house analysts covering the energy sector, during which questions related to the Generation and Sales Business Lines were discussed.

The Company makes every effort to ensure that individual investors, just like institutional investors, are provided with quick access to relevant information about the Company. In 2019, as part of its activities for individual investors, Energa participated in the WallStreet conference in Karpacz – the largest meeting of individual investors in Poland.

Furthermore, the Company organized the Individual Investor Day. On 15 October 2019, a meeting was held at the Energa Stadium in Gdansk, a presentation of the Group’s activities and a Q&A session, a tour of the Bystra Wind Farm and of the Main Power Supply Point “Młode Miasto” [“Young City”]. During this event, the participants were also presented with the assumptions and principles of the “Energa w Akcji!” [Energa in Action!] scheme. Moreover, owing to the cooperation with the Individual Investors Association, one investor chat was held.

The Office uses a bilingual website to carry out its activities, which is updated on an ongoing basis with essential information about the Group in the form of, among others, quarterly results presentations or fact sheets. Market participants are free to familiarize themselves with the rules followed by the Company in its investor relations – the website contains the Information Policy. In addition, the investor relations website contains current and periodic reports.

In 2019, we published 39 current reports which concerned, among others, disputes relating to the invalidity of agreements for the sale of property rights under certificates of origin (CPA), results of capacity market auctions for 2024, changes in the Management Board of the Company and estimated results of the Energa Group.

The second half of the year saw intensive works on the implementation and then the formal launch of the “Energa w Akcji!” scheme for individual investors, unique on the domestic capital market. The scheme is an original project of the investor relations team of the Energa Group and the first undertaking of this

kind among the domestic WSE-listed energy companies (for more information about the program see section 8.2. *Prices of the Company's shares and recommendations*).

8.4. Recommendations for the Company's stock

In 2019, analysts from brokerage houses and investment banks made 6 recommendations concerning the stock of Energa SA. A list of recommendations can be found on the Company's Investor Relations website.

Figure 35: Analyst recommendations awarded in 2019



A list of issued recommendations can be found on the Company's Investor Relations website at <https://ir.energa.pl/pl/ir/serwis-relacji-inwestorskich/dane-finansowe/rekomendacje>.

8.5. Ratings

On 3 June 2019, Fitch Ratings affirmed the Company's existing BBB long-term ratings: long-term rating in foreign and domestic currency, rating for the bonds issued by the Company's subsidiary Energa Finance AB (publ) in domestic and foreign currency, and a BB+ rating for hybrid bonds issued by Energa SA. The rating outlook remained stable.

On 10 December 2019, following a call for 100% of the Company's shares, announced by PKN ORLEN S.A., Fitch Ratings announced that the Company had been placed on the Rating Watch Negative (RWN) list.

The Agency's justification for placing Energa on the RWN includes the risk of the Company's close association with a lower-rated group of companies (BBB-), as a result of possible acquisition, and the risk of a breach of change-of-control clauses in financing agreements. On the date of this publication, the Group and the financing institutions are at the final stage of negotiations on amendments to agreements or waivers with regard to change-of-control or loss-of-rating clauses. The decision to downgrade or uphold Energa's rating will be addressed by the Agency at its rating committee meeting scheduled in early June this year.

Table 38: Valid ratings of Energa SA as at 31 December 2019

	Fitch
Long-term rating of the company	BBB
Rating outlook	Stable
Rating date	19 January 2012
Rating last changed on	12 October 2012
Rating last affirmed on	3 June 2019

8.6. Dividend

The dividend was last time paid out by the Company in 2017, in the amount of PLN 78.7 m (PLN 0.19 per share) for the financial year 2016. As of 2017, Energa SA has not paid out any dividend.



Hydro power plant in Łyna

Other information on the Group

9. OTHER INFORMATION ON THE GROUP

9.1. Information on material contracts, agreements and transactions

Agreements for loans and borrowings

Lending agreements with multilateral financial institutions

Loans to finance the investment programme at Energa Operator for the years 2009-2012

In 2009-2010, Energa and its subsidiary Energa Operator signed the following lending agreements in connection with the development and upgrading of its distribution network in 2009-2012:

- with the European Investment Bank (“EIB”) for a PLN 1,050 m facility,
- with the European Bank for Reconstruction and Development (“EBRD”) for a PLN 1,076 m facility,
- with the Nordic Investment Bank (“NIB”) for a PLN 200 m facility.

The financing was fully utilised by the Company, and the following balances remain outstanding:

- to EIB – PLN 462.9 m with a final maturity date on 15 December 2025,
- to EBRD – PLN 463 m with a final maturity date on 18 December 2024,
- to NIB – PLN 54 m with a final maturity date on 15 June 2022.

Loans to finance the investment programme at Energa Operator for the years 2012-2015

In 2013, Energa together with Energa Operator SA entered into the following lending agreements to finance the investment programme of Energa Operator SA in 2012-2015, in connection with the development and upgrading of the distribution network:

- an agreement with EBRD for a PLN 800 m facility – as at 31 December 2019 PLN 476 m were utilised (of which PLN 189 m by Energa SA and PLN 287 m by Energa Operator SA). The facility’s final maturity date is 18 December 2024.
- an agreement with EIB for a PLN 1,000 m facility – as at 31 December 2019, PLN 829 m were utilised (of which PLN 633 m by Energa SA and PLN 196 m by Energa Operator SA). The final maturity date of the drawn facility is 15 September 2031.

Nordic Investment Bank

On 23 October 2014, Energa signed a bank credit facility agreement with the Nordic Investment Bank for a PLN 67.5 m facility to finance a wind farm construction project in Myślino. As at 31 December 2019, PLN 42 m were utilised under the facility. The facility’s final maturity date is 15 September 2026.

Revolving ESG-linked credit facility

On 17 September 2019, Energa signed a revolving ESG-linked credit facility agreement totaling PLN 2,000 m. The agreement was made with a consortium of banks, namely: Santander Bank Polska S.A. with its registered office in Warsaw, Bank Gospodarstwa Krajowego with its registered office in Warsaw, Powszechna Kasa Oszczędności Bank Polski SA with its registered office in Warsaw, CaixaBank SA (Spółka Akcyjna) Oddział w Polsce with its registered office in Warsaw and MUFG Bank (Europe) N.V. with its registered office in Amsterdam.

The funding under the facility may be spent, among other things, on growth of RES capacity and further modernisation of power lines, and may also be partially allocated towards repayment of related prior indebtedness. The facility is granted on the condition that the provided funds are not spent on coal-based power generation. The facility is granted for a term of 5 years from the date of signing of the agreement which may be extended by one-year periods twice. The credit facility’s interest is set on the arm’s length principle based on WIBOR rate plus margin. The company undertook to secure an Environmental, Social, Governance (ESG) rating the level of which may impact the margin. The loan is unsecured.

As at 31 December 2019, the loan was not utilised.

Two loans totaling EUR 499 m from March 2013, granted to Energa SA by Energa Finance AB (publ) (an SPV) from the proceeds of its Eurobond (EMTN) issue in March 2013, with the final repayment day on 18 March 2020, as well as an EUR 200 m loan made in June 2017 from the monies raised as a result of the Eurobond issue (EMTN), with the final repayment day falling on 28 February 2027, were continued in 2019.

More information about the project is presented in chapter 2.3. *Key events in 2019 and after the balance sheet date.*

Loans granted

On 23 December 2019, a loan agreement was made between Energa and Enea, on the one hand, and Elektrownia Ostrołęka, on the other hand.

Granting of the loan constitutes partial performance of Energa's obligations under the Memorandum of Understanding of 30 April 2019 between Energa and Enea on the financing of the construction of the Ostrołęka C Power Plant, further detailing the declarations of financial commitment made by Energa and Enea in the Memorandum of Understanding of 28 December 2018.

The amount of the loan incurred by Elektrownia Ostrołęka spółka z o.o. is up to PLN 340 m and will be paid out in tranches upon reasonable request of the borrower associated with implementation of the Ostrołęka C Project. The first tranche in the amount of PLN 160 m was disbursed on 23 December 2019.

Furthermore, under the aforesaid loan agreement, Energa undertook to make a conditional sale to Enea of 50% of its receivables on account of the loan's principal and interest and Enea undertook to pay the agreed price for the sold receivables by 31 January 2021. Under the loan agreement, Energa proceeded to a conditional sale of 50% of its receivable held against Elektrownia Ostrołęka Sp. z o.o. to Enea. The receivables sold will be transferred to Enea upon fulfilment of the conditions precedent set out in the Memorandum of Agreement of 30 April 2019 on the later of: 31 January 2021 or the date the full price is paid by Enea to Energa. The receivables under the loan agreement may be converted by Energa and Enea to the capital of Elektrownia Ostrołęka Sp. z o.o.

On 31 December 2019, Energa entered into a long-term lending agreement with Energa Operator, its subsidiary, in the amount of PLN 4,900 m, intended for the refinancing of Energa Operator debt towards Energa on account of long-term bonds up to PLN 1,566 m and financing of the borrower's investment programme pursued in 2020-2023, up to the amount of PLN 3,334 m. On the day of signing of the agreement, two loan tranches were disbursed totaling PLN 2,866 m.

Moreover, the Energa Group serviced its internal bond issue programmes during the reporting period. The following table presents the par values of bonds taken up by Energa and not redeemed, by Energa Group issuer company, as at 31 December 2019.

Table 39: Par value of bonds taken up by Energa SA and not redeemed, by issuer, as at 31 December 2019

No.	Company name	Par value of the bonds taken up (PLN '000)
1.	Energa Operator	1,066,000
2.	Energa OZE	647,200
3.	Energa Kogeneracja	9,400
TOTAL		1,722,600

Domestic bond programme

The domestic bond programme set up in September 2012, under which Energa carried out its first PLN 1,000 m bond issue, was fully accounted for on 18 October 2019, in accordance with the Conditions of Bond Issue.

Insurance contracts

The Group has a common insurance policy in place, which provides for insurance coverage for the companies and their operations against risks involved in their business and assets, conforming to the highest market standards, at a fairly calculated market premium. The adopted sums insured are set at an adequate level for the risks and external factors and correspond to the profile of energy sector companies in Poland.

A joint Insurance Programme is carried out in cooperation with a brokerage company. In accordance with the conditions of the Programme, all Energa Group companies have a coinciding insurance period, and contracts are made for three years. The Programme accepts standardized coverage for insured risks, with individual contracts and extension clauses negotiated to suit the specific needs of the companies.

Insurance contracts are made with leading insurers operating in Poland. Currently, the Energa Group's main insurance partner is Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Guarantees and sureties granted

Table 40: Information on Energa's guarantee and surety business as at 31 December 2019

No.	Date guarantee or surety granted	End date of guarantee or surety	Entity for which guarantee or surety was granted	Entity in favour of which guarantee or surety was granted	Form of surety or guarantee granted	Amount of guarantee or surety (PLN m)	Amount of liability as at 31 December 2019 covered by surety or guarantee (PLN m)	
1.	2012-11-15	2033-12-31	Energa Finance AB		bondholders	agreement of suretyship**	5,323.1	3,373.1
2.	2015-01-08	2024-12-31	Energa SA	OZE	WFOŚiGW (Provincial Fund for Environmental Protection and Water Management) Gdańsk	surety - loan agreement	15.0	2.9
3.	2017-06-20	2021-02-28	Energa SA	OZE	NFOŚiGW Warsaw	Agreement of suretyship	4.2	2.7
4.	2017-11-22	2021-03-31	Energa Operator SA		State Treasury	agreement of suretyship	40.0	40.0
5.	2018-10-31	2026-01-01	ENSPIRION Sp. z o.o.		Polskie Sieci Elektroenergetyczne SA	Agreement of suretyship	10.1	10.1
6.	2019-11-15	2027-01-01	ENSPIRION Sp. z o.o.		Polskie Sieci Elektroenergetyczne SA	Agreement of suretyship	10.7	10.7
7.			Other Energa Group companies			surety** - guarantee agreement	164.5	41.3
TOTAL						5,567.6	3,480.8	

*The Euro Medium Term Note (EMTN) programme for up to EUR 1,000,000,000 was established on 15 November 2012. As part of the EMTN Programme, Energa Finance AB (publ), a Swedish law subsidiary of Energa SA, can issue Eurobonds with maturities of one to ten years. Under a surety agreement of 15 November 2012, as amended on 16 February 2017, Energa SA undertook to unconditionally and irrevocably guarantee the Eurobond liabilities of Energa Finance AB (publ) up to EUR 1,250,000,000 until 31 December 2033 inclusive. On 19 March 2013, Energa Finance AB (publ) issued the first series of Eurobonds totaling EUR

500,000,000 and maturing on 19 March 2020; on 7 March 2017 it issued the second series of Eurobonds totaling EUR 300,000,000 and maturing on 7 March 2027.

*** Civil-law sureties granted by Energa SA for liabilities of the Energa Group companies arising from bank guarantees granted by Bank PKO BP SA under guarantee facilities dedicated to Energa Group companies. The facility is available until 19 September 2022. The expiry dates of guarantees provided under the facility can fall beyond the end date of the facility itself. The repayment of liabilities is secured by a civil-law surety.*

The remaining guarantees granted on the instruction of Group companies include, i.e. PLN 993.1 m in bank guarantees granted by Pekao SA, ING Bank Śląski SA and Bank Gospodarstwa Krajowego to Energa Obrót.

Structure of main equity deposits or major investments within the Issuer's Group in the financial year

For a description of major investments, please see Section 2.3. herein. The table below presents the main equity deposits as at 31 December 2019.

Table 41: Main equity deposits of Energa SA as at 31 December 2019

No.	Bank	Instrument type	Start date	Maturity date	Amount (PLN)
1.	DNB Bank Polska SA	short-term deposit	2019-20-12	2020-20-01	100,000,000
2.	Bank Gospodarstwa Krajowego	short-term deposit	2019-20-12	2020-20-01	50,075,000
TOTAL					150,075,000

Information on material transactions with related parties made on non-arm's length terms

All transactions within the Energa Group are entered into based on arm's-length prices of the goods, products or services delivered, which result from the cost of production. For details, please see Note 33 to the Consolidated financial statements for the year ended 31 December 2019.

Assessment of management of financial resources and prospects of investment projects

During the financial year, the Energa Group had sufficient financial resources to timely cover all current and planned expenses in connection with its operating and investing activities. The cash held by the Group as well as the available credit facilities allow the Group to pursue a flexible liquidity management policy.

The execution of investment projects was based on the use of own funds combined with debt financing. The structuring of the projects implemented by the Energa Group assumes that its financial security will be maintained, which is reflected in the use of long-term debt financing sources, pursuing a dividend policy aligned with the strategy, maintaining financial covenants as agreed with debt capital providers, and maintaining the investment-grade rating. The two latter represent restrictions that determine the investment capabilities of the Energa Group, which are defined in the long-term perspective. Such a conservative approach allows to carry out the investing policy in a way that minimises any risk of violation of financial covenants or rating downgrades, while optimising the financial structure of the Group in consideration of the current and projected financial market trends.

The Company monitored its liquidity risk using a regular liquidity planning tool, taking into account the due/maturity dates of investment liabilities, financial assets and financial liabilities, as well as the projected cash flows from operating activities, in order to maintain a balance between continuity and flexibility of financing by using many different sources of financing.

In 2019, the Energa Group continued the optimisation of liquidity management using zero-balancing cash pooling, which took over the functions associated with short-term bond issuances, and additionally maximised the Group's ability to use its surplus cash to finance the current activities of its individual companies.

9.2. Proceedings pending before courts, arbitration or public administration bodies

As at 31 December 2019, the Energa Group was a party to 13,601 court proceedings. The Group was a plaintiff in 11,938 cases where the aggregate amount in dispute was approx. PLN 667.3 m. The Group acted as a defendant in 1,603 cases where the aggregate amount in dispute was approx. PLN 576.5 m.

As at 31 December 2019, the total amount of claims involving the location of power installations on third-party properties without a legal title, awarded by final judgments, was approx. PLN 48.7 m in approx. 849 cases. 988 court cases with amounts in dispute totaling PLN 98.3 m were pending.

Based on the available data pertaining to the value of pending proceedings, we assume that the actual amount to be paid after the above-mentioned disputes are resolved may reach PLN 84.7 m, which is subject to change if new court cases involving power installations located on third-party properties without a necessary legal title are brought against Energa Operator.

The above data do not include cases in which court and enforcement-based collection is conducted for and on behalf of Energa Obrót in order for the company to recover the amounts due from its customers and bankruptcy cases, with the exception of the case brought by Energa Obrót against Ergo Energy Sp. z o.o. for the amount of approx. PLN 13 m. As regards the aforesaid case, the following changes took place in 2019 relation to the information contained in the 2018 Report of the Energa SA Management Board on the Activity of Energa Group:

1. On 8 May 2019, the Court of Appeal in Gdańsk, 1st Civil Division, (court of second instance) issued the final and non-appealable judgment in case file No. I Aga 453/18.
2. Within the scope covered by the primary claim, the statement of claim filed by ERGO ENERGY Sp. z o.o. as to point I of the judgment of the first-instance court was dismissed (relative to the amount of PLN 100,000) and the appeal filed by ERGO ENERGY Sp. z o.o. was dismissed in its entirety. Within the remaining scope, the judgment related to the costs of court proceedings.

As at 31 December 2019, the aggregate value of the cases in which court and enforcement-based collection is conducted for and on behalf of Energa Obrót in order for the Company to recover the amounts due from its customers and bankruptcy cases amounted to approx. PLN 379.9 m, of which:

Type of receivables	Balance as at 31 December 2019 (PLN m)
court and enforcement-based	126.0
bankruptcies	59.9
non-billed	7.3
non-billed – bankruptcies	2.4
TOTAL	195.7

Below are presented the proceedings with the highest value in dispute submitted to or continued before the court in 2019. The Company's previous periodic reports contain details of the legal steps taken during earlier years.

Table 42: Proceedings pending before courts, arbitration or public administration bodies

Parties	Object of dispute	Case description
Energa Operator SA (plaintiff), T-Matic Systems SA and Arcus SA (defendants)	Claim for payment of contractual penalties under the agreements to supply and launch the metering infrastructure (re: stage I of AMI).	<p>The statement of claim for payment (the amount in dispute is PLN 23,152,481) was filed by Energa Operator SA on 7 April 2015.</p> <p>The case is pending before the Regional Court in Gdańsk, file No. IX GC 381/15.</p> <p>On 10 June 2015, the defendants filed a statement of defence, requesting that the claim be dismissed in its entirety, arguing that the defendants are not at fault for the delays and that some of the delays being caused by reasons attributable to Energa Operator. Also, the operation of force majeure, the fact that Energa Operator SA suffered no losses and grossly excessive amount of contractual penalties were invoked.</p> <p>In the letter of 18 December 2015, the defendants argued that the agreements were invalid due to their imprecise language and contractual inequality of the parties.</p> <p>The parties moved to the court to appoint experts for the purpose of drafting of opinions. The case files were provided to the experts so that they could prepare their opinions. As at 19 March 2020, the Company received 2 opinions in the area of metrology and meteorology.</p>
T-Matic Systems SA, Arcus SA (plaintiff) Energa Operator SA (defendant)	<ul style="list-style-type: none"> • Claim to declare an agreement regarding stage II of AMI invalid • Counterclaim for payment of contractual penalties for stage II of AMI 	<p>On 8 February 2016, a copy of the statement of claim filed by T-Matic Systems SA and Arcus SA was served on Energa Operator.</p> <p>The case is pending before the Regional Court in Gdańsk, file No. IX GC 893/15.</p> <p>On 7 November 2016, a counterclaim was filed against Arcus and T-Matic for payment of PLN 157,063,142 on account of the payment of contractual penalties of PLN 156,060,200 and PLN 1,002,942 on account of a reduction in remuneration, as per the call for payment of 9 November 2015. On 30 January 2017, the court issued a decision to resume the proceedings which had been stayed upon the parties' motion.</p> <p>On 13 June 2017, the court decided to discontinue the interlocutory appeal proceedings to dismiss the Plaintiff's motion for injunctive relief prohibiting the use of the insurance guarantee, in connection with a motion to withdraw the interlocutory appeal. The case files have been forwarded to the Regional Court in Gdańsk. In this case, evidence proceedings have been initiated and further witnesses are being heard.</p> <p>As regards the counterclaim, it was served on the plaintiffs (counterclaim defendants) who filed a statement of defence. The court heard the witnesses and representatives of Arcus SA, T-Matic Systems SA and Energa Operator SA. The parties submitted motions to examine evidence from the experts' opinions, the court will decide on whether to admit and examine that evidence. Currently, the court is looking for experts capable of preparing an opinion.</p>

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

<p>T-Matic Systems SA, Arcus SA (plaintiff) Energa Operator SA (defendant)</p>	<p>Claim for payment of compensation for unlawful acts/unfair competition practices</p>	<p>On 29 January 2018, Energa Operator received a copy of the statement of claim from Arcus SA and T-Matic Systems SA for payment of the amount of PLN 174,111,458.96 to Arcus SA as compensation for unlawful acts allegedly committed by Energa Operator. The compensation concerns losses resulting from an unlawful act/unfair competition practice committed deliberately by Energa Operator SA and involving illegal actions or omissions in relation to the process of performing construction contracts for stage I and II of the AMI system. It appears from the reasons for the pleading that the loss incurred by Arcus SA and T-Matic SA is related to the unlawful calculation of contractual penalties by Energa Operator SA, as a result of which a dispute arose and escalated, leading to numerous court proceedings, thereby causing a loss "which was related to the occurrence of the circumstances (described in the statement of claim) concerning the business activity carried out."</p> <p>Energa Operator disputes legitimacy of that statement of claim and in response to the statement of claim dated 30 April 2018. Pursuant to Article 177 § 1 Clause 1 of the Code of Civil Procedure, the court suspended the related proceedings. Energa Operator appealed against this decision in a complaint, which was dismissed.</p>
<p>T-Matic Systems SA, Arcus SA (plaintiff) Energa Operator SA (defendant)</p>	<p>For payment for additional works at AMI Stage 1</p>	<p>On 30 September 2019, the Company received a copy of the statement of claim filed by Arcus SA and T-Matic Systems SA, in which the companies demand that Energa Operator pays PLN 4,710,466 of remuneration or returns groundless enrichment, or damages for alleged additional works performed during AMI Stage 1. The Company disputes legitimacy of that statement of claim and has moved for it to be dismissed.</p>
<p>Energa Operator SA (plaintiff); PKN ORLEN S.A. (defendant)</p>	<p>Claim for payment on account of the system fee for services provided to that entity as an autoproducer undertaking</p>	<p>On 30 June 2004, Energa Operator SA (formerly Zakład Energetyczny Płock) filed in the Regional Court in Warsaw a claim against PKN ORLEN S.A. for the payment of PLN 46 m as the system fee for the services provided to that entity as an autoproducer undertaking. On 25 June 2008, the judgment dismissing the statement of claim filed by Energa Operator SA was pronounced. On 2 September 2008, Energa Operator SA appealed against the judgment to the Court of Appeal in Warsaw. On 10 September 2009, the Court of Appeal in its judgment modified the appealed judgment so that the amount of PLN 46 m was awarded to Energa Operator SA together with statutory interest and the reimbursement of the costs of proceedings. On 30 September 2009, PKN ORLEN S.A. paid the entire awarded amount including interest, i.e. PLN 75 m and reimbursed the costs of proceedings. However, PKN ORLEN S.A. filed a cassation appeal to the Supreme Court against that judgment. On 28 January 2011, the Supreme Court repealed the judgment of the Court of Appeal and returned the case to that court for re-examination. After re-examining the case, the Court of Appeal in the judgment of 4 August 2011 repealed the judgment of the Regional Court dismissing the action of Energa Operator SA and returned the case to that court for re-examination. As a result, the basis for the</p>

consideration paid by PKN ORLEN to Energa Operator SA ceased to exist. In view of the above, Energa Operator SA returned the previously received amount, together with the costs of the proceedings, to PKN ORLEN. The Regional Court in Warsaw pronounced the judgment in the case on 27 October 2014. It awarded to Energa Operator SA from PKN ORLEN SA the entirety of the sought claim, i.e. PLN 46 m with the interest accrued from 30 June 2004. The judgment was not final and non-appealable. Both parties moved to the court to prepare a written statement of grounds for the judgment and deliver it to each of them. Energa Operator SA received the judgment with the statement of grounds on 12 December 2014 and on 29 December 2014 PKN ORLEN filed an appeal against that judgment to which Energa Operator SA responded. A hearing was held on 12 November 2015 before the Court of Appeal in Warsaw. Following the court's suggestions, the parties' legal representatives agreed to postpone the hearing and initiate discussions relating to a settlement. The parties did not reach an agreement following negotiations and, consequently, Energa Operator SA informed the court about the failed talks and moved to the court to set the date of the next hearing which was held on 6 April 2016. On 19 April 2016, the Court of Appeal in Warsaw pronounced its judgment in the case, file No. I ACa 257/15, brought by Energa Operator SA, Branch in Plock, against PKN ORLEN. The court partially dismissed the defendant's appeal. Consequently, the judgment of the Regional Court in Warsaw of 27 October 2014 in the case, file No. XVI GC 782/11, awarding PLN 16.1 m plus interest accrued from 30 June 2004 to the plaintiff, became final and non-appealable. The judgment is final and non-appealable. Energa Operator SA moved to the court to have the judgment with the statement of grounds delivered to it.

On 29 September 2016, Energa Operator filed with the Supreme Court a cassation appeal against the judgment of 19 April 2016 handed down by the Court of Appeal in Warsaw.

On 24 October 2016, the representative of Energa Operator received PKN ORLEN's cassation appeal filed against the aforesaid judgment of the Court of Appeal in Warsaw. The Supreme Court dismissed the appeal filed by the defendant PKN ORLEN but granted the appeal filed by Energa Operator SA, reversing the appealed judgment of the Court of Appeal and remanding the case to the same for re-examination. Having re-examined the case, the Court of Appeal rendered a judgment of 15 November 2017 reversing those provisions of the appealed judgment of the Regional Court of 27 October 2014 which ordered PKN ORLEN to pay PLN 30,093,882.82 and remanding the case for re-examination to the Regional Court in that respect.

On 26 November 2019, the Regional Court in Warsaw pronounced its judgment, awarding the amount of PLN 16,036,400 plus statutory interest accrued from 30 June 2004 until 31 December 2015 and penalty interest accrued from 1 January 2016 until the date of payment from PKN ORLEN SA to Energa Operator. The court dismissed the statement of claim in the remaining part.

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

		<p>The court ruled that the plaintiff won the case in 70% and the defendant successfully defended itself in 30%. Therefore, the court divided the costs of proceedings accordingly, with the defendant bearing 70% of them and the plaintiff covering the remaining 30%.</p> <p>The judgment is not final and the parties announced that they would move to the court to prepare a written statement of grounds for the judgment. Energa Operator has filed such motion. Given the current status of the case, the Group showed a contingent asset in the amount of PLN 11.7 m.</p>
<p>Energa Operator SA (party); PRESIDENT OF THE ENERGY REGULATORY OFFICE (authority)</p>	<p>Fine imposed by the authority</p>	<p>Energa Operator received the decision of 21 December 2016 in which the President of the URE imposed a fine of PLN 11 m on Energa Operator for misleading the President of the URE. The Company appealed against this decision and requested that it be reversed in its entirety or, alternatively, revised by waiving the fine or reducing it to PLN 50,000. On 24 May 2019, the Regional Court in Warsaw pronounced a judgment in the case file No. XVII AmE 224/17 reducing the fine to PLN 5.5 m.</p> <p>Both parties filed appeals in this case.</p>
<p>Energa Operator SA (party); PRESIDENT OF THE ENERGY REGULATORY OFFICE (authority)</p>	<p>Fine imposed by the authority</p>	<p>Energa Operator received the decision of 6 November 2017 imposing fines totaling PLN 13,600,000 for breaching the Traffic and Distribution Grid Operation Manual by: (1) communicating with trading companies using other codes than provided for in the Traffic and Distribution Grid Operation Manual; (2) failing to meet the deadlines to provide measurement data to trading companies; (3) failing to meet the deadlines to consider complaints from trading companies; (4) failing to meet the deadlines to verify reports on replacement of the vendor; (5) failing to meet the deadlines for the final settlement of electricity sales agreements; and (6) failing to resume electricity supplies to one of the customers.</p> <p>The Company appealed against this decision and requested that it be reversed or, alternatively, revised by waiving or reducing the fine.</p> <p>The case is pending before the Regional Court in Warsaw under file No. XVII AmE 68/18.</p> <p>The first hearing was held on March 3, 2020, further dates set for 7 April and 19 May 2020 were abolished due to the epidemic status associated with COVID-19. As of May 15, 2020, no further deadlines have been set.</p>
<p>Energa Kogeneracja Sp. z o.o. (plaintiff) – Mostostal Warszawa SA (defendant)</p>	<p>Claim for payment on account of a contract price reduction</p>	<p>On 22 June 2017, Energa Kogeneracja Sp. z o.o. filed a statement of claim against Mostostal Warszawa SA with the Regional Court in Gdańsk, requesting that the defendant be ordered to pay to the plaintiff PLN 106,417,065.12 plus statutory penalty interest accrued for the period from the date of filing the statement of claim until the payment date. The plaintiff seeks the reduction of the contractual price owing to Energa Kogeneracja Sp. z o.o. for the performance of Contract No. EKO/86/2011 by PLN 90,286,722.15 (legal basis: Article 637(2) of the Civil Code in conjunction with Article 656(1) of the Civil Code). The case is pending under file No. IX Gc 494/17.</p>

On 15 September 2017, the Regional Court in Gdańsk issued a decision to preserve evidence in the form of an opinion by an expert (institute) witness. Inquiries about the possibility of preparing a relevant opinion sent out by the Court were all refused by the institutes.

On 22 December 2017, Energa Kogeneracja Sp. z o.o. received a statement of defence accompanied by a counterclaim for the amount of PLN 7,753,230. The State Treasury, represented by the Minister for Energy, joined the proceedings as a secondary intervenor alongside Energa Kogeneracja Sp. z o.o.

In a letter dated 27 April 2018, Mostostal Warszawa SA upheld its opposition and presented its further position. In the letter dated 13 June 2018, Mostostal Warszawa SA moved for a reversal of the evidence preservation decision and admission of evidence in the form of an opinion issued by a research and scientific institute in the normal course of proceedings, i.e. once the witnesses have been heard. Additionally, Mostostal Warszawa SA moved that the opinion be prepared by a foreign institute and designated two institutes from the United Kingdom. Responding to the letter, Energa Kogeneracja Sp. z o.o. moved for a dismissal of the motion of Mostostal Warszawa SA to reverse the decision of 23 August 2017, amendment of the decision of 23 August 2017 to reflect further circumstances described in procedural writs, and should the motion of Mostostal Warszawa SA be granted and the decision of 23 August 2017 be reversed, Energa Kogeneracja Sp. z o.o. moved that the inquiry for an opinion be sent first to the Wrocław University of Technology, and only if it is refused, that an inquiry about the possibility of delivering an opinion be sent to foreign institutes, and to this end, Energa Kogeneracja listed five institutes, highlighting one from Denmark. With the letter of 7 September 2018, Energa Kogeneracja Sp. z o.o. expanded its statement of claim to include PLN 7,969,194.27 arising from contractual penalties for the failure to achieve the guaranteed availability of the Unit in the third year of operation.

A hearing was held on 6 November 2018 where the Court granted the opposition of Mostostal Warszawa SA to the intervention of the State Treasury – the Minister for Energy. Energa Kogeneracja Sp. z o.o. filed an appeal against the decision. The State Treasury also filed an appeal against that decision. The appeals filed by Energa Kogeneracja Sp. z o.o. and the State Treasury were granted and, consequently, the opposition of Mostostal Warszawa SA was dismissed. The court summoned Energa Kogeneracja Sp. z o.o. to declare whether it withdraws its motion to preserve evidence from examination of the expert/institute opinion due to completion of the Unit's renovation and absence of institutes in Poland willing to draft an opinion. With the letter of 8 July 2019, Energa Kogeneracja Sp. z o.o. upheld its motion to preserve evidence from examination of an expert/institute opinion and moved to the court to make enquiries with the designated foreign institutes relating to their willingness to draft opinions. The court decided to ask the Danish institute with about the possibility of drafting an opinion in the case, the

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

		<p>anticipated date of its drafting and the anticipated related costs.</p> <p>The Danish institute failed to respond to the court's enquiry by 15 May 2020.</p>
<p>Mostostal Warszawa SA (plaintiff) Energa Kogeneracja Sp. z o.o. (defendant)</p>	<p>Claim for payment of remuneration</p>	<p>Mostostal Warszawa SA moved to the court to award the amount of PLN 26,274,037.16 thereto from Energa Kogeneracja Sp. z o.o. as (partial) remuneration.</p> <p>On 2 February 2018, the Regional Court in Gdańsk issued a payment order under the writ of payment proceedings in the case, file No. IX GNc 125/18, in which the principal amount receivable awarded from Energa Kogeneracja Sp. z o.o. to Mostostal Warszawa SA amounted to PLN 26,274,037.16.</p> <p>In its objection to the payment order of 23 February 2018, Energa Kogeneracja Sp. z o.o. moved to the court to dismiss the statement of claim in its entirety. The case is pending before the Regional Court in Gdańsk, file No. IX GC 190/18.</p> <p>In the letter of 22 June 2018, Mostostal Warszawa SA presented a settlement proposal (relating exclusively to interest payments).</p> <p>In the letter of 25 June 2018, Energa Kogeneracja Sp. z o.o. informed the court about lack of prospects for the settlement of the dispute.</p>
<p>Boryszewo Wind Invest Sp. z o.o. (plaintiff) Energa Obrót SA (defendant)</p>	<p>Claim for payment of damages for the failure by Energa Obrót SA to perform part of the agreement to purchase property rights in certificates of origin for renewable electricity.</p>	<p>Case file No. IX GC 701/17; on 25 August 2017, Boryszewo Wind Invest filed a statement of claim against Energa Obrót with the Regional Court in Gdańsk for payment of PLN 31,931,614.78 plus interest as damages for a failure to perform part of the Framework Agreement for the Sale of Property Rights under Certificates of Origin No. W/HH/210/2010/1, which consisted in making a representation about partial termination of the agreement and refusal to acquire property rights in certificates of origin. The amount claimed comprises "losses" incurred by the plaintiff due to the necessity to sell the property rights at the TGE exchange plus statutory interest (PLN 25,694,540.08) and incidental costs relating to debt service under a credit facility agreement (PLN 6,282,074.70).</p> <p>On 27 December 2017, a hearing was held at which Boryszewo Wind Invest withdrew the statement of claim with regard to the amount of PLN 150,000.00.</p> <p>The first-instance judgment was passed on 28 November 2018. The Court awarded PLN 17,796,755 plus statutory interest from 26 July 2017 from Energa Obrót to the Plaintiff and dismissed the remaining part of the action, i.e. concerning the amount of PLN 13,984,860, awarding the costs of proceedings amounting to PLN 58,596 from Energa Obrót SA to the Plaintiff.</p> <p>On 5 February 2019, Energa Obrót filed an appeal.</p> <p>The second-instance judgment was passed on 28 October 2019. The Court dismissed the appeal filed by Energa Obrót and awarded the costs of proceedings</p>

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

		<p>amounting to PLN 18,750 from the Defendant to the Plaintiff.</p> <p>On April 30, 2020, the justification of the judgment of the second instance court was received. The company plans to lodge a cassation complaint against the judgment.</p>
<p>Energa Obrót SA (plaintiff) – MEGAWATT BALTICA SA (defendant 1), Powszechna Kasa Oszczędności Bank Polski SA (defendant 2)</p>	<p>Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)</p>	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Arbitration Court at the Polish Chamber of Commerce in Warsaw. Case file number assigned: SA 128/17. The parties filed a response to the counterclaim.</p> <p>On 29 January 2018, a court session with Megawatt Baltica SA’s participation was held with respect to the summons for a settlement attempt. No settlement was signed.</p> <p>An updated counterclaim was filed by Megawatt Baltica SA on 1 September 2018. The amount of the claim is PLN 16,969,401.36 including statutory penalty interest.</p> <p>On 27 December 2018, the final judgment was issued whereby contractual penalties were awarded. The amount of the contractual penalties awarded was reduced by 10% (i.e. PLN 15,272,462).</p> <p>On 26 September 2019, hearings were held regarding complaints for reversing the partial and final judgment.</p> <p>The judgment dismissing the appeal filed by Energa Obrót against the final judgment was passed by the court on 10 October 2019. The court awarded the costs of proceedings amounting to PLN 2,417 from Energa Obrót to Megawatt Baltica SA.</p> <p>On 11 October 2019, Energa Obrót SA filed a request for the statements of grounds for the judgments. The Company decided not to file the cassation appeal in the case of the appeal to reverse the partial judgment. On the other hand, the cassation appeal relating to the appeal to reverse the final judgment was filed on 17 February 2020.</p> <p>On 24 March 2020, the opponent filed a cassation appeal.</p>
<p>Energa Obrót SA (plaintiff) – EOLICA KISIELICE sp. z o.o. (defendant 1), RAIFFEISEN BANK POLSKA SA (defendant 2)</p>	<p>Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)</p>	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Gdańsk, 9th Commercial Division. Case file number assigned: IX GC 739/17.</p> <p>On 12 March 2018, Raiffeisen Bank Polska SA filed a counterclaim for payment (the amount claimed: PLN 3,104,430). A settlement was signed on 22 July 2019. Energa Obrót withdrew the statement of claim and Raiffeisen withdrew the counterclaim.</p> <p>On 1 August 2019, the court decided to discontinue the proceedings regarding the main claim and the counterclaim.</p>
<p>Energa Obrót SA (plaintiff) – PGE ENERGIA</p>	<p>Action for declaration of the non-existence of a legal relationship purportedly established as</p>	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Warsaw, 20th</p>

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

ODNAWIALNA SA (defendant)	a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin ("CPA")	<p>Commercial Division. Case file number assigned: XX GC 839/17.</p> <p>On 25 April 2018, a hearing was held whereby ENERGIA ODNAWIALNA SA filed a counterclaim for payment of contractual penalties (the amount claimed: PLN 9,175,362). The court referred the parties to mediation which did not lead to a settlement. Nonetheless, the parties continue to discuss the settlement.</p> <p>In the course of consecutive hearings, among other things, PGE ENERGIA ODNAWIALNA SA filed an expanded counterclaim for payment of contractual penalties, Energa Obrót filed a response to the statement of defence and the evidence from witness testimonies was examined.</p> <p>On 5 November 2019, Energa Obrót filed a response to the extension of the counterclaim. On 3 March 2020, Energa Obrót withdrew her claim.</p> <p>On 9 March 2020, PGE Energa Odnawialna S.A. withdrew the counterclaim.</p> <p>On 12 March 2020, Energa Obrót withdrew the application for legal costs in a counterclaim.</p> <p>On 27 February 2020, Energa Obrót SA concluded with PGE Energa Odnawialna S.A. to settle and end disputes regarding three framework agreements for the sale of property rights arising from certificates of origin.</p>
Energa Obrót SA (plaintiff) – C&C WIND Sp. z o.o. (defendant 1), Bank Ochrony Środowiska SA (defendant 2)	Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin ("CPA")	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Arbitration Court at the Polish Chamber of Commerce in Warsaw. Case file number assigned: SA 127/17. The parties filed a response to the counterclaim. On 29 December 2017, Energa Obrót 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 proceedings against the defendant BOŚ SA as the statement of claim filed against that entity had been withdrawn.</p> <p>On 1 September 2018, C&C Wind Sp. z o.o. filed the updated counterclaim (the amount claimed is PLN 7,767,619.14 including statutory penalty interest).</p> <p>On 10 October 2018, Energa Obrót paid the amount due on account of contractual penalties making a reservation that it was to be refunded 90% of the paid amount on the grounds of gross overstatement of contractual penalties. C&C Wind withdrew its counterclaim which Energa Obrót opposed with respect to the amount the refund of which it reserved. C&C Wind withdrew the withdrawal of the counterclaim for the amount opposed by Energa Obrót and changed the claim for payment to an action for declaration that Energa Obrót was not entitled to the refund of contractual penalties.</p> <p>On 27 December 2018, the court issued a judgment whereby it decided that C&C Wind was not required to refund the paid contractual penalties of PLN 6,578,480 to Energa Obrót.</p>

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

		<p>On 8 March 2019, Energa Obrót filed an appeal seeking a reversal of the final judgment and C&C Wind Sp. z o.o. filed a response to that appeal on 6 August 2019.</p> <p>The date of the hearing has not been set.</p>
<p>Energa Obrót SA (plaintiff) – BORYSZEWO WIND INVEST sp. z o.o. (defendant 1), mBank SA (defendant 2)</p>	<p>Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)</p>	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Warsaw, 16th Commercial Division. Case file number assigned: XVI GC 799/17. The parties filed a response to the counterclaim and exchanged procedural writs.</p> <p>In September 2018, the Court closed the court proceedings and issued a judgment dismissing the statement of claim, and Energa Obrót filed an appeal on 2 November 2018.</p> <p>On 21 December 2018, Boryszewo Wind Invest submitted a response to the appeal, and on 28 December 2018 - mBank SA.</p> <p>The appellate hearing has not been scheduled.</p>
<p>Energa Obrót SA (plaintiff) – JEŻYCZKI WIND INVEST sp. z o.o. (defendant 1), mBank SA (defendant 2)</p>	<p>Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)</p>	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Warsaw, 16th Commercial Division. Case file number assigned: XVI GC 805/17.</p> <p>The parties submitted a response to the counterclaim and exchanged procedural writs. Thereafter, a hearing was held, during which, on 6 June 2018 the court issued a judgment dismissing the statement of claim, which the parties appealed against.</p> <p>The appellate hearing has not been scheduled.</p>
<p>Energa Obrót SA (plaintiff) – WIND INVEST sp. z o.o. (defendant 1), mBank SA (defendant 2)</p>	<p>Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)</p>	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Warsaw, 16th Commercial Division. Case file number assigned: XVI GC 798/17.</p> <p>The judgment was pronounced on 19 September 2019. The court dismissed the statement of claim filed by Energa Obrót.</p> <p>On 27 November 2019, Energa Obrót filed an appeal.</p>
<p>Energa Obrót SA (plaintiff) – STARY JAROSŁAW WIND INVEST sp. z o.o. (defendant 1), mBank SA (defendant 2)</p>	<p>Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)</p>	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Warsaw, 16th Commercial Division. Case file number assigned: XVI GC 802/17.</p> <p>On 17 November 2017, the defendants filed statements of defence, the parties exchanged procedural writs and the witnesses were heard.</p> <p>With its judgment of 24 September 2019, the court dismissed the action for declaration.</p> <p>On 17 December 2019, Energa Obrót filed an appeal against the judgment.</p> <p>On 19 March 2020, STARY JAROSŁAW WIND INVEST filed a response to the appeal.</p> <p>On 23 March 2020, mBank responded to the appeal.</p>

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

<p>Energa Obrót SA (plaintiff/counter-defendant) – PGE ENERGIA ODNAWIALNA SA (defendant/counter-plaintiff)</p>	<p>Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)</p>	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Warsaw, 20th Commercial Division. Case file number assigned: XX GC 842/17. On 27 March, PGE Energia Odnawialna SA filed a statement of defence and the Court referred the parties to mediation and appointed a mediator. The mediation procedure ended on 15 December 2018. The parties did not reach an agreement.</p> <p>On 22 May 2019, a hearing was held during which the court took evidence from a witness and PGE filed a counterclaim to which Energa Obrót filed a defence on 12 June 2019. The hearing scheduled for 4 September 2019 was postponed at the mutual request of the parties motivated by settlement negotiations.</p> <p>On 3 March 2020, Energa Obrót withdrew the claim. On 9 March 2020, PGE Energia Odnawialna S.A. withdrew the counterclaim. On 12 March 2020, Energa Obrót SA. withdrew the application for legal costs in a counterclaim.</p> <p>The settlement was concluded on 27 February 2020.</p>
<p>Energa Obrót SA (plaintiff) – KRUPY WIND INVEST sp. z o.o. (defendant 1), mBank SA (defendant 2)</p>	<p>Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)</p>	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Warsaw, 16th Commercial Division. Case file number assigned: XVI GC 803/17. The parties filed statements of defense to the statement of claim. On 10 April 2019, the court held a hearing at which it heard the defendant and closed the proceedings. On 8 May 2019, the court passed a judgment dismissing the statement of claim against which Energa Obrót filed an appeal.</p> <p>On 14 August 2019, KRUPY WIND INVEST responded to the appeal. On August 16, 2019, mBank submitted a response to the appeal.</p> <p>The date of the appeal hearing set for 17 April 2020 was cancelled due to the state of the epidemic.</p>
<p>Energa Obrót SA (plaintiff) – PGE ENERGIA NATURY sp. z o.o. (defendant)</p>	<p>Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)</p>	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Warsaw, 20th Commercial Division. Case file number assigned: XX GC 841/17.</p> <p>On 26 February 2018, the court referred the parties to mediation. The mediation procedure ended on 15 December 2018. The parties did not reach an agreement. Nonetheless, they continue discussing the settlement.</p> <p>On 20 August 2019, PGE ENERGIA NATURY Sp. z o.o. filed a counterclaim to which Energa Obrót filed a defence on 14 November 2019.</p> <p>The court scheduled the next hearing for 28 May 2020. The court shall decide on the evidence to be examined during the hearing (witnesses and parties may be heard).</p> <p>On 3 March 2020, Energa Obrót withdrew the claim. On 9 March 2020, PGE Energia Odnawialna S.A. withdrew the counterclaim.</p> <p>On 12 March 2020, Energa Obrót withdrew the application for legal costs in a counterclaim.</p>

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

		The settlement was concluded on 27 February 2020.
Energa Obrót SA (plaintiff) – WINDVEST – POLAND sp. z o.o. (defendant 1), RAIFFEISEN BANK POLSKA SA (defendant 2)	Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Warsaw, 26th Commercial Division. Case file number assigned: XXVI GC 711/17.</p> <p>On 20 November 2019, the parties reached a settlement and Energa Obrót withdrew the statement of claim and moved for the proceedings to be discontinued.</p>
Energa Obrót SA (plaintiff) – SAGITTARIUS SOLUTIONS sp. z o.o. (defendant 1), RAIFFEISEN BANK POLSKA SA (defendant 2)	Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Warsaw, 16th Commercial Division. Case file number assigned: XVI GC 804/17.</p> <p>The parties filed statements of defence and exchanged procedural writs, and witnesses were heard.</p> <p>On 8 May 2020, the parties concluded an out-of-court settlement.</p>
Energa Obrót SA (plaintiff/counter-defendant) – EW CZYŻEWO sp. z o.o. (defendant 1/counter-plaintiff), BANK BGŻ BNP PARIBAS SA (defendant 2)	Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Gdańsk, 9th Commercial Division. Case file number assigned: IX GC 736/17. With the statement of defence, EW CZYŻEWO sp. z o.o. filed a counterclaim.</p> <p>On 4 December 2018, the court issued a judgment dismissing the action for declaration and awarding from Energa Obrót contractual penalties in the amount of PLN 4,065,769 with statutory interest. Energa Obrót SA filed an appeal on 6 February 2019 and EW Czyżewo Sp. z o.o. and BGŻ BNP Paribas SA filed appeals on 18 March 2019.</p> <p>The judgment was pronounced on 28 November 2019 whereby the second-instance court revised the judgment of the first-instance court in such a way that it awarded PLN 2,439,461 (instead of PLN 4,065,769) plus statutory penalty interest from Energa Obrót to EW Czyżewo Sp. z o.o. and dismissed the remaining part of the counterclaim and awarded the amount of PLN 62,160 on account of costs of first-instance proceedings (instead of PLN 130,000) from Energa Obrót to EW Czyżewo Sp. z o.o. In the remaining part, the court dismissed the appeal and awarded from Energa Obrót to Bank BGŻ BNP PARIBAS SA the amount of PLN 11,250 on account of reimbursement of the cost of appellate proceedings and from EW Czyżewo Sp. z o.o. to Energa Obrót the amount of PLN 26,500 on account of reimbursement of the costs of appellate proceedings. A statement of the grounds for the judgment was requested.</p> <p>The statement of the grounds for the judgment was received on 4 February 2020.</p> <p>On 6 April 2020, a cassation complaint was filed.</p>

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

<p>Energa Obrót SA (plaintiff) – ELEKTROWNIA WIATROWA EOL sp. z o.o. (defendant 1), BANK ZACHODNI WBK SA (defendant 2)</p>	<p>Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)</p>	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Warsaw, 26th Commercial Division. Case file number assigned: XXVI GC 712/17.</p> <p>On 6 February 2018, the court referred the parties to mediation and the defendants refused to mediate.</p> <p>By a judgment of 21 February 2020, the court dismissed the claim of Energa Obrót. An application for justification of the judgment has been submitted.</p>
<p>Energa Obrót SA (plaintiff) – WIELKOPOLSKIE ELEKTROWNIE WIATROWE sp. z o.o. (defendant 1), BANK BGŻ BNP PARIBAS SA (defendant 2)</p>	<p>Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)</p>	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Gdańsk, 9th Commercial Division. Case file number assigned: IX GC 735/17.</p> <p>On 6 December 2018, the court dismissed the action for declaration with its judgment. Energa Obrót filed an appeal.</p> <p>On 13 August 2019, the court pronounced a judgment dismissing the appeal by Energa Obrót and awarding the costs of legal representation to the defendants. The judgment is final and non-appealable.</p>
<p>Energa Obrót SA (plaintiff) – EW KOŹMIN sp. z o.o. (defendant 1), BANK BGŻ BNP PARIBAS SA (defendant 2)</p>	<p>Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)</p>	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Regional Court in Gdańsk, 9th Commercial Division. Case file number assigned: IX GC 738/17. The defendant wind farm filed a counterclaim against the Company for payment of contractual penalties.</p> <p>On 30 August 2018, the court issued a judgment dismissing the action for declaration and awarding contractual penalties. Energa Obrót filed an appeal.</p> <p>The appeal hearing, originally scheduled for 17 March 2020, was moved to June 1, 2020 due to the current situation related to the epidemiological threat.</p>
<p>Energa Obrót SA (plaintiff/counter-defendant) – WIATROWA BALTICA sp. z o.o. (defendant 1/counter-plaintiff), Raiffeisen Bank Polska SA (defendant 2)</p>	<p>Action for declaration of the non-existence of a legal relationship purportedly established as a result of Energa Obrót SA entering into an agreement for the sale of property rights under certificates of origin (“CPA”)</p>	<p>On 11 September 2017, Energa Obrót filed a statement of claim with the Arbitration Court at the Polish Chamber of Commerce in Warsaw. Case file number assigned: SA 129/17. The defendants filed a statement of defence accompanied by a counterclaim.</p> <p>On 4 June 2018, the court issued a partial judgment dismissing the action for declaration filed by Energa Obrót.</p> <p>An updated counterclaim was filed by Raiffeisen Bank on 1 September 2018. The amount claimed was PLN 1,352,533.66 including statutory penalty interest.</p> <p>By its final judgment of 27 December 2018, the court awarded the amount of contractual penalties, reduced by 10% (i.e. PLN 1,019,280.31).</p> <p>On 8 March 2019, Energa Obrót filed an appeal seeking a reversal of the final judgment.</p> <p>The defendants did not file a response to the appeal and the date of the hearing was not set.</p>

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

Wielkopolskie Elektrownie Wiatrowe sp. z o.o. (plaintiff), Energa Obrót SA (defendant)	Claim for payment of contractual penalties on account of Energa Obrót SA failure to perform the contract for the sale of property rights derived from certificates of origin ("CPA")	On 14 August 2019, Wielkopolskie Elektrownie Wiatrowe (WEW) filed a statement of claim with the Regional Court in Gdańsk, 9th Commercial Division, for payment by Energa Obrót SA of contractual penalties on account of failure to perform CPA. Case file number assigned: IX GC 719/19. The court referred the parties to mediation and a mediation meeting took place on 14 January 2020. The parties did not reach an agreement. Mediation has ended, no settlements have been reached. You should expect to set a date for the first hearing after the end of the epidemic. During the hearings, evidence will be conducted (evidence from witness statements).
Elektrownia Wiatrowa Zonda sp. z o.o. (plaintiff), Energa Obrót SA (defendant)	Claim for payment of damages on account of Energa Obrót SA failure to perform the contract for the sale of property rights derived from certificates of origin ("CPA")	On 19 August 2019, Elektrownia Wiatrowa Zonda filed a statement of claim with the Regional Court in Gdańsk, 9th Commercial Division, for payment by Energa Obrót of damages on account of failure to perform CPA. Case file number assigned: IX GC 735/19. On 8 October 2019, Energa Obrót SA filed a statement of defence. The court referred the parties to mediation. However, neither party consented thereto. On 31 January 2020, a preparatory meeting was held at which a schedule for witnesses' hearings was established. Due to the epidemic, the dates of hearing witnesses and parties were cancelled.
Elektrownia Wiatrowa EOL sp. z o.o. (plaintiff), Energa Obrót SA (defendant)	Claim for payment of contractual penalties on account of Energa Obrót SA failure to perform the contract for the sale of property rights derived from certificates of origin ("CPA")	On 20 August 2019, Elektrownia Wiatrowa EOL filed a statement of claim with the Regional Court in Gdańsk, 9th Commercial Division, for payment by Energa Obrót of contractual penalties on account of failure to perform CPA. Case file number assigned: IX GC 740/19. On 23 September 2019, Energa Obrót filed a statement of defence to which Elektrownia Wiatrowa EOL filed a response on 18 December 2019. On 23 January 2020, the Regional Court in Gdańsk decided to suspend the case for payment brought by Elektrownia Wiatrowa EOL Sp. z o.o. until final and non-appealable conclusion of the action for declaration (Regional Court in Warsaw, case file No. XXVI GC 712/17).

9.3. HR and payroll situation

9.3.1. Energa Group

Employment

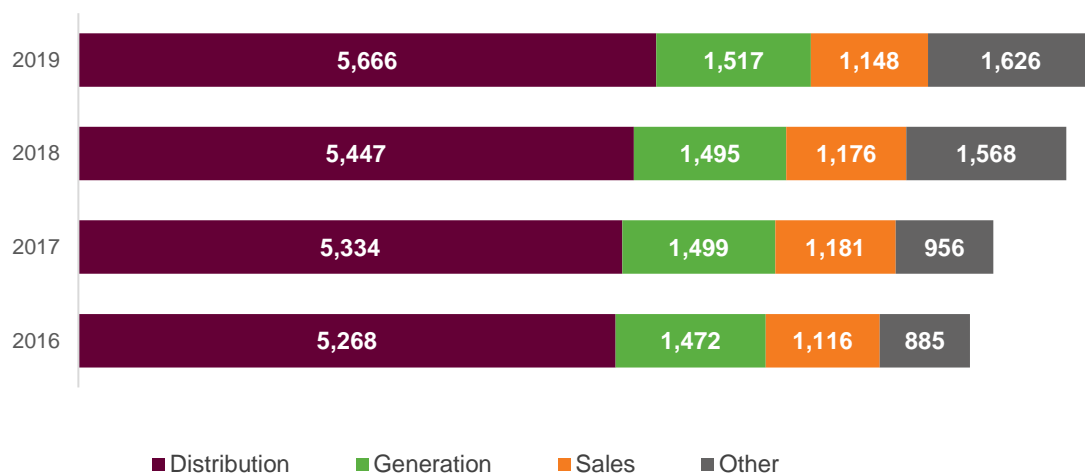
At the end of 2019, the Energa Group employed 9,957 people under employment contracts, which means an increase in employment by 271 persons, i.e. 2.8% compared to the end of 2018.

The 2019 employment growth is primarily attributable to the continuation of efforts taken to bridge the competency and generation gap among wiremen and technical engineers employed in the Distribution and Generation Business Line and further development of competences within the Group in the area of medium- and high-voltage power line design services and substations for the Distribution Business Line and generating sources for the Generation Business Line by Energa Invest Sp. z o.o. (Other Business Line). Additionally, the launch of new IT services supporting achievement of business goals within the Group's companies contributed to employment growth in the Other Business Line.

The headcount growth in 2018 was driven mainly by the hiring of security guards by Energa Ochrona Sp. z o.o. (Other Business Line), and the competency improvement process within the Energa Group with respect to MV and HV power line design and distribution substation design services provided by Energa Invest Sp. z o.o. (Other Business Line) to the Distribution Business Line. Additionally, as part of the centralization of purchasing process, employees from the Group companies moved to 2 companies from the Other Business Line, having specialized purchasing centers in the area of IT and other purchases.

In Q4 2019, the Group's headcount increased by 31 persons, or 0.3%.

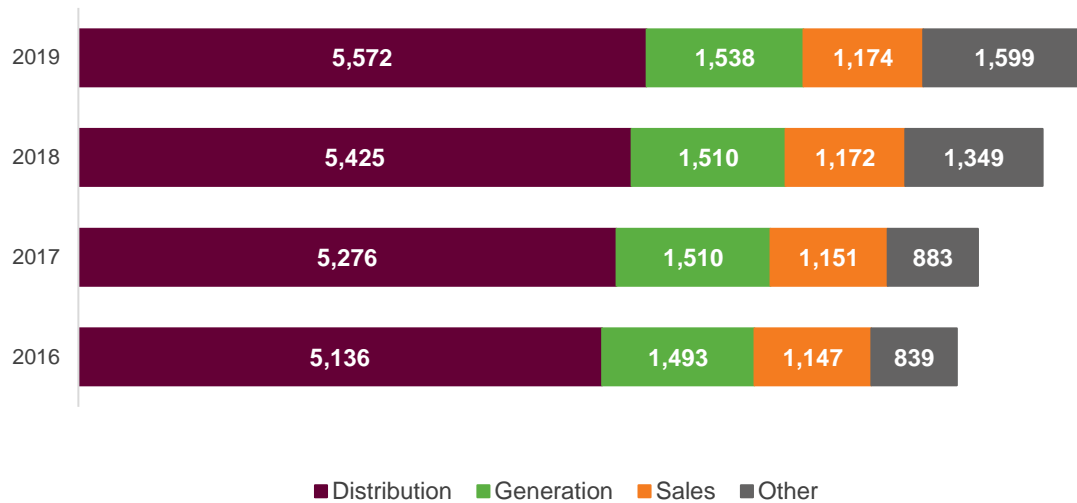
Figure 36: Energa Group's headcount as at 31 December 2016-2019 *



* refers to employment contracts, to the exclusion of unpaid leaves, parental leaves and rehabilitation benefits; data for 2016-2017 has been adjusted to the structure of the Energa Group in 2019.

The average employment in FTEs in the Energa Group in the period from January to December 2019 was 9,883 FTEs vs. 9,456 FTEs in the same period last year. The figure below shows the average employment by business line.

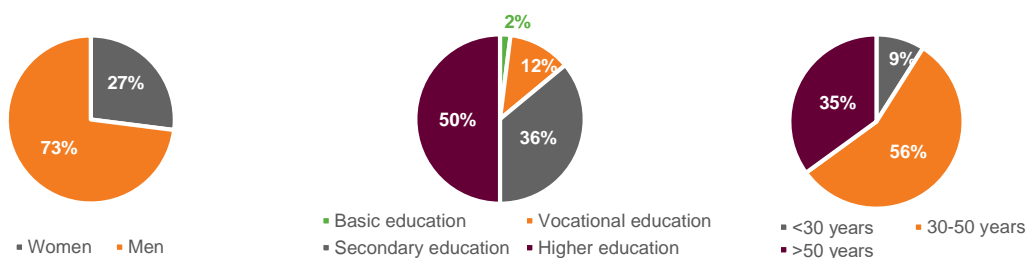
Figure 37: Energa Group's average employment in 2016-2019 (FTEs)*



* refers to employment contracts, to the exclusion of unpaid leaves, parental leaves and rehabilitation benefits; data for 2016-2017 has been adjusted to the structure of the Energa Group in 2019.

Detailed employment structure figures by gender, age and education have been presented on the charts below.

Figure 38: Energa Group's headcount as at 31 December 2019 by gender, education and age



Compensation plans

The compensation plans at the Energa Group are decentralised and differentiated. They are governed by the Company Collective Bargaining Agreements, Compensation Policies, the Labour Code and collective agreements with trade union organisations as well as the provisions of the Multi-Employer Collective Bargaining Agreement for Power Industry Employees. No significant changes were made to the compensation plans of individual Energa Group companies in 2019.

Material information relevant to the HR and payroll situation

Principles of setting and monitoring of objectives

The strategic objectives of the Lead Entities of Business Lines and heads of Energa SA departments have been set in a consultation process, using a top-down cascading approach. The objectives for executive staff covered by the system are underpinned by the strategic objectives of the Group. The objectives for Lead Entities and heads of Energa departments have been designed on the basis of the Energa Group's Strategy, long-term financial plans and budget information. Achievement of the objectives constitutes, among other things, the basis for executive incentives within the Energa Group.

Standardisation of HR processes

In 2019, the Energa Group continued the measures taken to standardise the HR processes across the Group, in accordance with the HR Policy adopted on 20 December 2017, which sets out the main focus

of development for the HR function and supports the implementation of the HR strategy of the Energa Group.

Employee benefits

In 2019, the system of additional employee benefits at the Energa Group includes, without limitation:

1. The 'employee tariff' for electricity offered once an employee reaches 1 year of service in the power industry,
2. The Company Social Benefits Fund permitting contributions equal to twice the annual basic contribution set out in the Act on the Company Social Benefits Fund (CSFB),
3. Special vouchers given to employees for Easter, the Power Engineers' Day and Christmas,
4. Employee Pension Plans within the Group companies funded by employers at the rate of 7% of employee remuneration,
5. The Additional Medical Services Plan.

Training provided by all employers within the Energa Group aims to maintain the qualifications of staff members at a consistently high level, improve performance, build knowledge, increase motivation and commitment, and develop the employees' soft skills.

The employees exercise additional powers derived from the Agreement securing employee, social and trade union rights of 18 September 2017.

Although the Group companies withdrew from the agreement on 31 December 2014, some additional pay components remain in place as acquired rights within the Energa Group companies covered by the Multi-Employer Collective Bargaining Agreement for Power Industry Employees of 13 May 1993, including but not limited to:

1. An annual bonus, equal to 8.5% of the annual salary fund from the previous year, paid in proportion to years in service,
2. A supplement to the base salary, depending on years in service,
3. Money equivalent of free coal,
4. The 'employee tariff' for electricity offered once an employee reaches 1 year of service in the power industry,
5. Hazard pay,
6. Length of service bonus.

Changes in wage conditions

Under the Agreement on the determination of the Energa Group employees' salary increase in 2019 of 17 January 2019, the Group's employees received base pay raises starting from 1 January 2019.

Collective dismissals

No collective dismissals occurred within the Group companies in 2019.

Collective disputes

At the end of 2019, there were 33 trade union organisations in the Energa Group companies. Almost 5,700 Group's employees were members of trade unions as at 31 December 2019.

Six collective disputes were pending within the Energa Group in 2019:

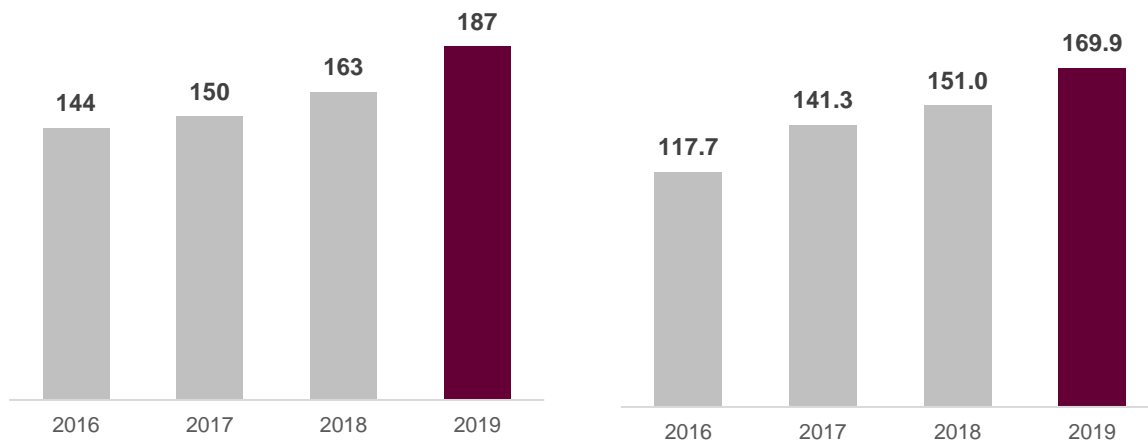
1. A collective dispute with ENERGA Elektrownie Ostrołęka SA initiated by manifests of trade union organisations dated 22 August and 8 September 2017. This collective dispute is currently at the mediation stage.
2. A collective dispute with ENERGA Elektrownie Ostrołęka SA initiated by manifests of trade union organisations dated 7 February 2019 and relating to the launch of the Employee Pension Plan (PPE). This collective dispute is currently at the mediation stage.

3. A collective dispute with ENERGA Informatyka i Technologie Sp. z o.o. initiated by manifests of trade union organisations dated 15 January 2019. This collective dispute ended with conclusion of an agreement on 20 February 2019.
4. A collective dispute with Energa-Operator Wykonawstwo Elektroenergetyczne Oddział w Płocku Sp. z o.o. initiated by manifests of trade union organisations dated 14 and 15 January 2019. This collective dispute ended with conclusion of an agreement on 23 April 2019.
5. A collective dispute with Energa Operator SA Oddział w Płocku Sp. z o.o. initiated by manifests of trade union organisations dated 14 and 15 January 2019. This collective dispute ended with conclusion of an agreement on 15 May 2019.
6. A collective dispute with Energa Logistyka Sp. z o.o. initiated by manifests of trade union organisations dated 14 and 15 January 2019. This collective dispute ended with conclusion of an agreement on 7 May 2019.

9.3.2. Energa SA

Employment

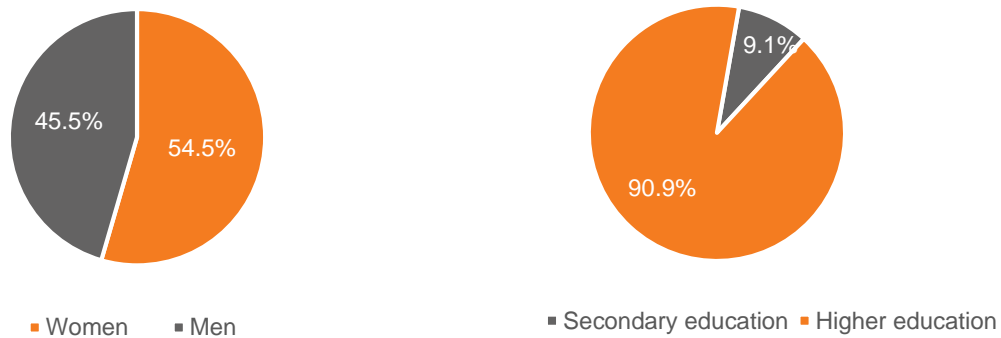
Figure 39: Employment at Energa as at 31 December 2016-2019 (headcount) and average employment in 2016-2019 (FTEs) *



* excluding unpaid and parental leaves, and rehabilitation benefits.

The reason for the employment growth in 2019 was centralization of marketing and auditing processes, which involved employee transfers within the Energa Group from subsidiaries to Energa SA. Another reason for the employment growth in Energa SA was implementation of the centrally coordinated Compliance Management System in the Energa Group following the Good Practice for Companies Listed on the Warsaw Stock Exchange and alignment of processes within the Group with ISO 19600 Compliance Management Systems.

Figure 40: Employment in Energa as at 31 December 2019 (headcount) by gender and education in 2016-2019 (FTEs)



Compensation plans

The Company compensation system is defined in the Energa SA Compensation Regulations approved by Resolution No. 46/I/2007 of the Energa SA Management Board on 25 July 2007, Annex 7 of 5 December 2017 which introduced, as an attachment to the Compensation Regulations, the rules of Energa SA employee bonus fund, Annex No. 8 to the Energa SA Compensation Regulations of 28 August 2019, adopting a new table of job classification and monthly remuneration rates at Energa SA and the Agreement on protecting employee, social and union rights dated 18 September 2017.

In addition, due to employee takeover within the Group under a trilateral agreement (agreements among employing establishments), the following regulations are applicable:

1. the Multi-Employer Collective Bargaining Agreement for Power Industry Employees,
2. Energa Operator SA Compensation Regulations,
3. the Company Collective Bargaining Agreement of Energa Operator SA, Gdańsk Branch,
4. the Company Collective Bargaining Agreement of Energa Kogeneracja Sp. z o.o.

As at 31 December 2019, 48 managers were employed under contracts for management services, including five members of the Company's Management Board. The costs of services are not charged to the payroll fund.

Material information relevant to the HR and payroll situation

Employee benefits

In 2019, the system of additional employee benefits at the Company included, among others:

1. An annual bonus equal to 8.5% of the previous year's annual payroll fund, payable in proportion to the length of employment,
2. The 'employee rates' for electricity offered after one year of employment in the power industry,
3. Holiday benefits paid to employees for Easter, the Power Engineers' Day and Christmas,
4. The Employee Pension Plan funded by the employer at the rate of 7% of employee remuneration,
5. A supplement to the base salary, depending on years of service,
6. Anniversary bonus,
7. The Additional Medical Services Plan. All employees are entitled to additional medical services under the Guaranteed Package, which is funded by the employer,
8. The Company Social Benefits Fund permitting contributions equal to twice the annual basic contribution set out in the Act on the Company Social Benefits Fund (CSFB).

Employees enjoy the rights arising from the Agreement Securing Employee, Social and Union Rights of 18 September 2017.

In addition, under the collective agreement of 28 August 2019 on the allocation of assets to salary growth at Energa in 2019, employees received an additional holiday benefit in December 2019.

As of 31 December 2014, the Company withdrew from the Multi-Employer Collective Bargaining Agreement. As a result, employees hired after 1 January 2015 are not entitled to the benefits listed in points 1, 5 and 6 above.

The company offers training and other forms of personal development to its employees to maintain high level competence, to expand knowledge and to make a valuable contribution to the Company's operations.

The pro-development measures taken by the Company in 2019 focused mainly on enhancing professional qualifications and competence through post-graduate studies, courses and training (including e-learning).

Changes in compensation terms

Based on the Agreement of 17 January 2019 on determining payroll increases for Energa Group Employees in 2019 and the Agreement of 24 April 2019 on the allocation of assets to payroll increases in 2019, as of 1 January 2019 Company employees received base salary raises.

Lay-offs

In 2019, there were no lay-offs at the Company.

Labour disputes

In 2019, the Company did not engage in any labour disputes.

9.4. Information on the statutory audit firm

The statutory audit firm engaged to audit the financial statements of Energa SA and of the Energa Group is KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa ("KPMG").

The agreement between Energa SA and KPMG was concluded on 28 June 2019 and covers an audit of separate and consolidated financial statements of the Company and of the Group for 2019 and a review of the statements for H1 2019. Aside from the audit of financial statements in 2019, KPMG performed a covenant review service for Energa SA. Therefore, the Audit Committee evaluated the independence of the audit firm and approved the provision of the service.

Table 43: Remuneration of the auditor for services provided to the Group (PLN '000)

	Year ended 31 December 2018	Year ended 31 December 2019
Audit of annual statements	559	622
Other assurance services, including review of financial statements	223	309
Other services	41	27
TOTAL	823	958



Hydro power plant in Gałąźnia Mała on the Słupia river

Corporate governance statement

10. CORPORATE GOVERNANCE STATEMENT

In 2019, the Company and its corporate bodies followed corporate governance principles, which are described in the set of documents approved by Resolution No. 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych in Warszawie SA of 13 October 2015 as the “Best Practice of GPW Listed Companies 2016” (Best practice, DPSN), published on the website of the Warsaw Stock Exchange and in the Investor Relations section of the Company’s website.

10.1. Application of corporate governance principles

As of 31 December 2019, Energa does not apply principle III.Z.3 – the Company does not comply with the requirement of Standard 1110-1, but only with respect to the organisational independence of appointing and dismissing the Internal Audit Manager (IAM) and the approval and changes of his or her remuneration. The standard referred to above has been defined in the International Standards for the Professional Practice of Internal Auditing by the Institute of Internal Auditors. Moreover, IAM does not functionally report to the Supervisory Board.

In the absence of a decision on the publication of forecasts and considering the provisions of the Regulation of the Minister of Finance on Current and Interim Information of 29 March 2018, the Specific Principle I.Z.1.10 did not apply, either.

In addition to applying the principles set out in the “Best Practice”, Energa tries to communicate with capital market participants by publishing materials that meet the needs of investors, such as: files with the Group’s long-term quarterly data and estimated financial and operational data for each reporting period in the form of current reports available on the Company’s website.

10.2. Significant shareholders

For information on the shareholding structure, please see Section 8.1 *The Company’s shareholding structure* in this Report.

10.3. Holders of stock with special control rights and a description of special control rights

In 2019 and in 2020, until the date of sale of all shares to Polski Koncern Naftowy ORLEN S.A., the State Treasury held a majority of shares and voting rights at the General Meeting. The State Treasury held 144,928,000 series BB registered shares, preferred in terms of voting at the General Meeting, where one BB share carries two votes at the General Meeting.

Furthermore, the State Treasury, as a stakeholder of the Company, was individually authorised to appoint and dismiss a part of the members of the Company’s Supervisory Board, and also to select the Chairman of the Supervisory Board, based on the principles set out in the Company’s Articles of Association.

At the same time, in accordance with the Company’s Articles of Association, the State Treasury has the right to obtain:

1. information regarding the Company and the Group in the form of a quarterly report, in accordance with the applicable guidelines, subject to relevant provisions on the disclosure of confidential information,
2. copies of announcements which are subject to obligatory publication in *Monitor Sądowy / Gospodarczy*,
3. complete sets of documents which must be debated by the Annual General Meeting in accordance with Article 395 sec. 2 of the Commercial Companies Code (CCC), i.e.: financial statements (consolidated financial statements of the Group), Management Board report on the Company’s operations (Management Board report on the Group’s operations) for the previous financial year, the auditor’s opinion and report on the audit of the Company’s financial

- statements (consolidated financial statements of the Group), Supervisory Board report, Management Board's recommendation on profit distribution or loss coverage,
4. consolidated text of the Articles of Association within four weeks from the date of entry of amendments to the Articles of Association in the business register.

In connection with the sale by the State Treasury of all Company's shares, including 144,928,000 series BB registered shares, resulting from these shares, as described above, the preference for voting rights at the General Meeting is currently vested in the buyer of shares - Polskie Koncern Naftowy ORLEN S.A.

10.4. Restrictions on voting rights

Section 27 of the Company's Articles of Association provides for restrictions of the exercise of voting rights by shareholders, usufructuaries and pledgees holding shares representing more than 10% of the total vote at the General Meeting as at the date of the General Meeting.

For the purposes of restricting the voting rights, the votes of shareholders linked by a parent or subsidiary relationship are aggregated by adding up the number of votes vested in such shareholders.

If, as a result of such cumulative treatment, a reduction in votes is required, it is effected through a pro rata reduction in the number of votes of all the shareholders linked by a parent or subsidiary relationship, by rounding down or up the fractional votes of the shareholder possessing the largest stake. If such rounding is impossible due to the fact that two or more shareholders have the same number of votes, then the shareholder in respect of whom such operation is to be performed is selected by the Management Board on a random basis. Such reduction cannot lead to any shareholder being entirely stripped of his voting right.

The restrictions are without prejudice to the requirements pertaining to the acquisition of significant blocks of shares in accordance with the provisions of the Act of 29 July 2005 on Public Offering and the Terms and Conditions for Introducing Financial Instruments to an Organised Trading System and on Public Companies (consolidated text: Journal of Laws of 2013, item 1382) (hereinafter: the "Act on Offering"). Along the same lines, those provisions do not apply in the event of the determination of obligations of entities acquiring or intending to acquire significant blocks of shares.

Resolution No. 5 adopted on 22 April 2020, the Extraordinary General Meeting of Energa SA changed the content of § 27 of the Company's Articles of Association, lifting the abovementioned restrictions with respect to exercising voting rights. Pursuant to Article 430 § 1 of the Code of Commercial Companies and Partnerships, a change in the articles of association, in addition to a resolution of the General Meeting, requires a constitutive entry in the Register of Entrepreneurs of the National Court Register, which took place on 20 May 2020.

10.5. Restrictions on transfer of ownership of securities

As at the date of this report, there are no restrictions on the transfer of ownership of the Company's securities.

10.6. Amendments to the Articles of Association

Amendments to the Articles of Association must be made in accordance with the provisions of the CCC, in particular, an amendment to the Articles of Association requires a resolution of the General Meeting adopted by a three-quarters majority vote, and then requires a constitutive entry in the Register of Entrepreneurs of the National Court Register. In the case of matters listed in paragraph 27, items 8 and 9 of the Company's Articles of Association (which also require an amendment to the Articles of Association), a resolution of the General Meeting requires a qualified majority of four-fifths majority vote. The Company's General Meeting may authorise the Supervisory Board to establish the consolidated text of the amended Articles of Association or make other editing changes as specified in a resolution of the General Meeting.

On 25 June 2019, the Annual General Meeting of Energa SA amended the content of the Articles of Association (amendment to § 10 item 2 point 3 letter c, § 16 item 10, § 17, § 26 and § 31b of the Articles of Association). The abovementioned change was registered in the Register of Entrepreneurs of the National Court Register on 13 August 2019.

On April 22, 2020, the Extraordinary General Meeting of Energa SA amended in the content of § 27 of the Company's Articles of Association in order to lift statutory restrictions on the right to vote, by repealing the existing paragraphs 1 - 7 and changing the numbering of the existing paragraphs 8 and 9 to the numbers 1 and 2, respectively. On 20 May 2020, the changes were entered into the Register of Entrepreneurs of the National Court Register.

10.7. Corporate bodies

The General Meeting

The rules of procedure of the Company's General Meeting are set out in the CCC and in the Articles of Association. Additional issues concerning the conduct of the General Meeting are governed by the Rules of Procedure of the General Meeting (available on the Company's corporate website).

Shareholders have certain rights associated with the General Meeting which arise expressly from the applicable provisions of law.

Manner of convening the General Meeting

The General Meeting is convened by means of a notice published on the Company's website and in the manner prescribed for the provision of current information in the Act on Offering, i.e. in the form of current reports. The notice must be published at least 26 days before the date of the General Meeting, in accordance with the provisions of the CCC.

In line with the Articles of Association, the General Meeting is convened by the Management Board:

1. on its own initiative,
2. at the written request of the Supervisory Board,
3. at the written request of a shareholder or shareholders representing at least one-twentieth of the share capital, or
4. at the written request of the State Treasury, as long as it is the Company's shareholder.

As a general rule, a properly convened General Meeting is valid irrespective of the number of shares represented therein.

General Meetings can be held either at the Company's registered office in Gdańsk or in Warsaw.

Conduct of the Ordinary General Meeting

The General Meeting is opened by the Chairperson or Vice-Chairperson of the Supervisory Board, and in their absence – by the President of the Management Board or a person designated by the Management Board. Subsequently, the Chair of the Meeting is elected from among the persons entitled to participate in the General Meeting, in accordance with the Rules of Procedure of the General Meeting.

Resolutions must not be passed on items not covered by the agenda of the General Meeting, unless the entire share capital is represented therein and no one of those present has objected as regards the adoption of such resolutions.

Voting is open. Voting by secret ballot is ordered in the case of elections and motions to dismiss members of the Company's governing bodies or liquidators, motions to hold them liable, as well as in personnel-related matters. Further, a secret ballot must be ordered at the request of at least one of the shareholders present or represented at the General Meeting.

Resolutions of the General Meeting are adopted by an absolute majority, unless the CCC or the Articles of Association provide otherwise.

The General Meeting may order adjournments (by a two-thirds majority), which may not last longer than thirty days altogether.

Powers and responsibilities of the General Meeting

Key powers and responsibilities of the General Meeting, as prescribed by the CCC and the Articles of Association, include:

1. reviewing and approving the Management Board's report on the Company's operations, and the financial statements for the previous financial year,
2. granting discharge to the members of the corporate bodies,
3. distribution of profit or coverage of loss,
4. changing the principal business activity of the Company,
5. amending the Articles of Association,
6. share capital increases or decreases,
7. merger, demerger or transformation of the Company,
8. dissolution or liquidation of the Company,
9. issues of convertible bonds, bonds with pre-emptive rights and subscription warrants,
10. disposal or lease of the enterprise or a branch of activities and creation of limited property rights thereon,
11. creation, utilisation and liquidation of the Company's capitals and funds,
12. appointment and dismissal of members of the Supervisory Board and determining the level of their remuneration,
13. stripping existing shareholders of subscription rights, in whole or in part,
14. purchase of own shares and authorising the Management Board to purchase them for redemption,
15. execution by the Company of a loan, advance or surety agreement or another similar agreement with a member of the Management Board, a member of the Supervisory Board, a commercial proxy (*prokurent*) or a liquidator, or in favour of any such person,
16. postponement of the record date, setting the record date or arrangement for dividend payment in instalments.

In 2019, one General Meetings took place, i.e. An Annual General Meeting on 25 June 2019. The content of the resolutions adopted by that Meeting was published in Current Report No. 20/2019 dated 26 June 2019.

On 22 April 2020, the Extraordinary General Meeting of the Company was held. The content of resolutions adopted during this Meeting were published in Current Report No. 31/2020 of 22 April 2020.

The Supervisory Board

Composition

In FY 2019 and until the date of this Report, the composition of the Energa SA Supervisory Board has been as follows:

1. from 1 January 2019 to 19 March 2020:
 - a) Paula Ziemecka-Księżak – Chairperson of the Supervisory Board,
 - b) Zbigniew Wtulich – Vice-Chairperson of the Supervisory Board,
 - c) Agnieszka Terlikowska-Kulesza – Secretary of the Supervisory Board,
 - d) Andrzej Powalowski – Member of the Supervisory Board,
 - e) Marek Szczepaniec – Member of the Supervisory Board,
 - f) Maciej Żótkiewicz – Member of the Supervisory Board.
2. from 19 March 2020 to 21 April 2020:
 - a) Paula Ziemecka-Księżak – Chairperson of the Supervisory Board,
 - b) Zbigniew Wtulich – Vice-Chairperson of the Supervisory Board,
 - c) Agnieszka Terlikowska-Kulesza – Secretary of the Supervisory Board,
 - d) Andrzej Powalowski – Member of the Supervisory Board,
 - e) Marek Szczepaniec – Member of the Supervisory Board,
 - f) Maciej Żótkiewicz – Member of the Supervisory Board,
 - g) Trajan Szuladziński – Member of the Supervisory Board.
3. from 22 April 2020 until the date of the Report:
 - a) Paula Ziemecka-Księżak – Chairperson of the Supervisory Board,
 - b) Zbigniew Wtulich – Vice-Chairperson of the Supervisory Board,
 - c) Agnieszka Terlikowska-Kulesza – Secretary of the Supervisory Board,
 - d) Andrzej Powalowski – Member of the Supervisory Board,
 - e) Maciej Żótkiewicz – Member of the Supervisory Board,
 - f) Trajan Szuladziński – Member of the Supervisory Board.

On 19 March 2020, Mr. Trajan Szuladziński was appointed to the Supervisory Board as a statement by the Minister of State Assets.

On 21 April 2020, Mr. Trajan Szuladziński was dismissed from the Council, by the statement of the Minister of State Assets.

On 22 April 2020, the Extraordinary General Meeting of Energa SA dismissed Mr. Marek Szczepaniec from the Supervisory Board of Energa SA and appointed one Member of the Supervisory Board of the 5th term, i.e. Mr. Trajan Szuladziński.

Trajan Szuladziński and Andrzej Powalowski satisfy the independence criteria envisaged for independent supervisory board members taking into account the requirements envisaged by the Best Practices of WSE Listed Companies, and also for independent members of the Audit Committee, within the meaning of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, item 1089).

The current term of office of the Company's Supervisory Board will end on 26 June 2020.

Paula Ziemecka-Księżak graduated from the Leon Koźmiński Entrepreneurship and Management College. In 1996, she began her employment with the Ministry of Treasury. She worked in departments responsible for the oversight of state-owned companies. She was in charge of the oversight of companies from the motor transportation and marine transport sectors, and also in the energy sector. Currently, she is the Head of the Supervision Division in the Department of Supervision and Ownership Policy of the Ministry of Energy. Her responsibilities include the supervision of overall economic and legal issues associated with the activity of state-owned companies from the mining sector, energy sector and other sectors. Additionally, she has gained experience in corporate governance since 2002, serving on supervisory bodies of companies such as SIP-MOT SA in Zamość, PKS Ostrołęka SA, Opakomet SA based in Kraków and PERN SA based in Płock. She has been the Chairperson of the Energa SA Supervisory Board since 12 November 2015.

Agnieszka Terlikowska-Kulesza graduated from the Agricultural Faculty of the Warsaw University of Life Sciences and completed postgraduate studies at the Warsaw School of Economics in finance and European economic and legal relations. In February 1997, she started her career with the Ministry of State Treasury, in the Department of Commercialisation and Direct Privatisation, in the Tender Privatisation Team. Between September 1997 and June 2002, she worked for the Privatisation Agency in the Tender Team as a Chief Specialist and then as a Section Manager. During that period, she participated in the organisation of tenders for the selection of providers of pre-privatisation analyses for companies with State Treasury shareholding, she was in charge of the oversight and execution of privatisation projects, mainly through the invitation to tender procedure, reviews of economic and financial analyses and valuations of state-owned companies slated for privatisation. Between July 2002 and June 2016, she was a Chief Specialist in state-owned company supervision departments at the Ministry of Treasury. She supervised companies from the ceramic, construction and vehicle transportation industries. In 2009-2016, she supervised chemical sector companies. Since July 2016, she has been a Chief Specialist at the Department of Supervision and Ownership Policy at the Ministry of Energy, in charge of the oversight of mining companies. She gathered additional experience in 2001-2016 by serving on supervisory bodies of companies with State Treasury shareholding such as: "Chłodnia Szczecińska" Sp. z o.o., Zakłady Ceramiczne "Bolesławiec" w Bolesławcu Sp. z o.o., Przedsiębiorstwo Komunikacji Samochodowej w Białymstoku SA, 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 Hydro Drainage Design Department. Subsequently, he worked as a Construction Engineer for the Regional Drainage Projects Enterprise (in October 1984). He held that position until April 1988. In 1988-1991, he worked as an Engineer for Amak, a foreign company (construction sector), and in 1993-1997 he was employed by the State Treasury Agricultural Property Agency. Before his appointment on the Supervisory Board, Zbigniew Wtulich served as a Chief Expert in the Department of Treasury Property Records of the Ministry of Treasury (1997-1998), Chief Expert and Team Coordinator in the Department of Reprivatisation and Compensation of the Ministry of Treasury (1998-2001), Head of Unit in the Department of Reprivatisation and Share Allocation of the Ministry of Treasury (2002 to 2006), Head of Unit in the Department of Records, Reprivatisation, Compensation and Share Allocation (2006-2010). In 2010-2017, he additionally performed the function of Head of Unit in the Department of Treasury Property of the Ministry of Treasury. Additionally, he was a Member of the Supervisory Board in Zakłady Tworzyw Sztucznych GAMRAT SA (in 2011) and in Przedsiębiorstwo Gospodarki Wodnej i Rekultywacji SA (2002 to 2009). Currently he is the Minister's Advisor in the Department of Forestry of the Ministry of the Environment.

Maciej Żółtkiewicz graduated from the Faculty of Electrical Engineering of the Częstochowa University of Technology and completed a postgraduate course 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 worked at Elektrociepłownia Radom SA, successively as: an Automation and Measurement Specialist, Corporate Governance and Restructuring Department Manager, Chief Specialist for Organisational and Staff Matters and Management Board Member. In 1999-2000, he sat on the Management Board of Zakład Maszyn do Szycia Łącznik Sp. z o.o. in Radom. In 2001-2005, he successively held the following offices: a Forced Administrator of Putis in Milanówek, a privatisation representative at Transdrog in Warsaw, Vice-President of the Management Board at P.W. Mediainstal Sp. z o.o. in Radom. In 2006-2008, he was the President of the Management Board at Fabryka Łączników Radom SA. From 2009 he was in charge of internal control and audit at RTBS Administrator Sp. z o.o. in Radom, and from 2013 at Radpec SA in Radom. He has acquired state-owned company oversight experience sitting on the supervisory boards of such companies as: Elektrociepłownia Radom SA, Elektrownia Wodna Żarnowiec SA, Fabryka Łączników Radom SA. In 2009-2015, he served on the supervisory board of PPUH Radkom Sp. z o.o. in Radom.

Andrzej Powalowski studied at the Faculty of Law and Administration of the Nicolaus Copernicus University in Toruń in 1969-1973. In 1973, he started a job as a Junior Lecturer in the National Economy Management Law Section at the Faculty of Law and Administration of the University of Gdańsk. In 1980,

he obtained the title of PhD in legal studies and was employed as an Assistant Professor. From 1992, he was a Senior Lecturer at the Public Economic Law Faculty, and from 1994 – at the Public Economic Law and Environmental Protection Faculty. In 2009, he received a post-doctorate degree (*doktor habilitowany*) in legal studies in the area of public economic law. In 2010, he was nominated to the position of an Associate Professor at the University of Gdańsk. Currently, he is the Head of the Public Economic Law Section at the Law and Administration Faculty and the Head of postgraduate programmes: “Legal conditions for conduct of business activity” and “Public procurement law and system” at the University of Gdańsk. He is also a lecturer at the Branch Campus of the Gdańsk School of Higher Education in Olsztyn. He was employed as an Associate Professor at the Baltic College of the Humanities and the Real Estate Management College. He wrote a number of publications, including books and papers for scientific journals, and he is a member of governing bodies of non-governmental organisations and scientific periodicals. He worked as a legal advisor (*radca prawny*), and since 2010 he has been a trial lawyer (*adwokat*) in his own law firm in Gdańsk. He is an arbitrator of the International Court of Arbitration of the Polish Chamber of Maritime Commerce.

Trajan Szuladziński graduated from the Faculty of Law, in 2009 he obtained the title of Master of Business Administration at postgraduate studies conducted by the University of Gdańsk and the Business Center Club and RSM Erasmus University as a validation institution. He is a court-appointed expert at the Regional Court in Warsaw in the field of accounting, finance and book-keeping. Between 08/2017 and 11/2019, he was the President of the Management Board at Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol SA – responsible for the financial, accounting and legal division, as well as mining and railway plant. Between 2006 and 2007, he was the President of the Management Board of Bankowe Towarzystwo Kapitałowe SA – a private equity company dealing in capital investments in the sector of small and medium enterprises. From 2007 to 2008, he was a Vice-President responsible for the finance and accounting division at Centrum Finansowe Puławska sp. z o.o. (a company dealing in management of and investment in real estate). Between 2008 and 2010, he was a Deputy Director in the Office of the President of the National Bank of Poland Chairman or member of the supervisory boards of such companies as: Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol SA, Zakłady Chemiczne „Zachem” SA, Agencja Inwestycyjna CORP SA, Konsorcjum Ochrony Kopalń sp. z o.o., Finder SA, PL Energia sp. z o.o., Management Board of Pałac Kultury i Nauki sp. z o.o., Holding Wars SA. He wrote articles and studies on tax law, and lectured in tax law, among others during notary applications.

None of the above members of the Supervisory Board are engaged in any activities competitive to the business of Energa SA, participate in any competitive company as a partner of a partnership or as a member of a body of a corporation, or participate in any other competitive legal person as a member of its corporate bodies, neither is any of them listed in the Registry of Insolvent Debtors maintained pursuant to the Act on the National Court Register.

Powers and responsibilities of the Supervisory Board

The powers and responsibilities of the Supervisory Board include, in particular:

1. assessing the Management Board’s reports on the Company’s and capital group’s operations as well as the financial statements for the previous financial year and the consolidated financial statements of the capital group in terms of their consistency with the records, relevant documents and the actual state of affairs, and assessing the Management Board’s motion on allocation of profit or coverage of loss,
2. submitting to the General Meeting a written report on the outcome of the activities referred to in point 1,
3. preparing reports in connection with the exercise of supervision over the performance of investments by the Management Board and supervision over correctness and effectiveness of investment outlays made,
4. preparing, at least once per year, together with a report on the results of the assessment of the annual financial statements and the consolidated financial statements of the capital group, an opinion of the Supervisory Board on the economic viability of the Company’s capital exposure to other commercial companies effected in the relevant financial year,

5. preparing and presenting, once per year, to the Ordinary General Meeting a brief assessment of the Company's standing, including an evaluation of the internal control system and the system for managing risks of significant importance to the Company,
6. reviewing and presenting opinions on issues forming the subject matter of the resolutions to be passed by the General Meeting,
7. selecting the audit firm to examine the financial statements and the consolidated financial statements of the capital group,
8. specifying the scope and deadlines for submission of annual/long-term material and financial plans, other long-term plans and strategies for the Company and its capital group by the Management Board,
9. approving strategies for the Company and its capital group,
10. approving annual/long-term material and financial plans and investment plans for the Company and its capital group,
11. adopting the bylaws defining in detail the mode of operation of the Supervisory Board,
12. approving the Management Board's bylaws,
13. approving the organizational bylaws for the Company's enterprise,
14. approving the principles of the Company's sponsoring activity and assessing its effectiveness,
15. agreeing the consolidated text of the Company's Articles of Association,
16. granting consent to the Management Board for the acquisition and disposal of specific fixed assets as well as the conclusion of specific contracts,
17. setting the rules and amounts of remuneration for the President of the Management Board and Management Board members, subject to the mandatory provisions of law,
18. delegating members of the Supervisory Board to perform temporarily the duties of Management Board members who are at the time unable to perform their duties and setting their remuneration, provided that the total remuneration received by the delegated person for his or her performance of the function of a Supervisory Board member and his or her temporary performance of the duties of a Management Board member does not exceed the salary set in respect of the Management Board member being filled in for by the delegated member of the Supervisory Board,
19. granting consent for the establishment of the Company's branches abroad,
20. authorizing Management Board members to assume positions in corporate bodies of other companies and collecting resulting remuneration,
21. defining the mode for exercising the voting right by the Company at the general meetings or shareholders' meetings of companies.

A detailed description of the powers and responsibilities of the Supervisory Board is provided in the Company's Articles of Association, published on the Company's website.

Method of operation of the Supervisory Board

The Supervisory Board is responsible for the permanent supervision of the operations of the Company, in accordance with the CCC and the Articles of Association. The detailed operating procedure is defined in the Rules of Procedure of the Supervisory Board, available on the corporate website.

The Supervisory Board carries out its activities as a body. Members of the Supervisory Board participate in meetings, exercise their rights and perform their obligations in person. Members of the Supervisory Board are obliged to keep confidential any information related to the Company's operations which they have obtained, whether in connection with the exercise of their mandates or otherwise.

As a general rule, the Supervisory Board adopts its resolutions at meetings held at least once every 2 months.

Meetings of the Supervisory Board are convened by the Chairperson or Vice-Chairperson, who present a detailed agenda. A meeting should also be convened at the request of any Supervisory Board member or of the Management Board.

Meetings of the Supervisory Board are chaired by the Chairperson, and in his or her absence – by the Vice-Chairperson.

Supervisory Board members may participate in meetings and vote on resolutions adopted during such meetings by means of distance communication, i.e. tele- or videoconferencing technologies, provided that at least one Supervisory Board member is present at the venue chosen by the person who convened the meeting and that it is technically possible to ensure a secure connection.

In accordance with the Articles of Association, the Supervisory Board may adopt resolutions if at least half of its members are present at the meeting and all Supervisory Board members have been invited to the meeting.

The proposed agenda may be amended if all Supervisory Board members are present at the meeting and none of them objects to such amendment. An item not included on the agenda should be put on the agenda of the next meeting.

The Supervisory Board may adopt resolutions independently of its meetings, either by circulation or by means of distance communication, including in particular by electronic mail. Such resolution is valid if all members of the Supervisory Board have been notified of the wording of the draft resolution.

Supervisory Board resolutions are passed by an absolute majority of votes, and in the event of a tie vote, the Chairperson's vote is decisive.

As a general rule, the Supervisory Board passes resolutions by open vote, however, at a request of a member of the Supervisory Board and in personnel-related matters, voting by secret ballot is ordered. Whenever voting by secret ballot is ordered, resolutions must not be adopted by circulation or by means of distance communication.

For important reasons, the Supervisory Board may delegate individual members to perform certain supervisory activities on their own.

The Supervisory Board may delegate its members, for no longer than three months, to temporarily substitute for the members of the Management Board who have been dismissed, have resigned or are otherwise unfit for office.

Details of the activities of the Supervisory Board in the past financial year can be found in the Report on the Activities of the Supervisory Board, which is submitted on an annual basis to the General Meeting and published on the Company's corporate website.

The Supervisory Board appoint the Audit Committee and the Nomination and Compensation Committee from among its members.

From 1 January to 31 December 2019, the Supervisory Board of Energa SA held 11 meetings and adopted 159 resolutions. All Supervisory Board meetings in 2019 were held with all members in attendance.

The most important matters handled by the Supervisory Board in FY 2019 included, without limitation:

1. initiation and conduct of recruitment procedures for the positions of members of the Management Board of Energa SA,
2. approving the Energa Spółka Akcyjna Organisation Policy,
3. analysis of the current economic and financial position of the Company and the Group and of the execution of and return on Energa Group's investments,
4. adopting a consolidated version of the Articles of Association of Energa SA,
5. supervising the activities carried out as part of the investment project consisting in the construction of the Ostrołęka C power unit with a capacity of approx. 1,000 MW.

Additionally, in 2019, the Supervisory Board decided how to vote at the general meetings of subsidiaries, to the extent arising from the Company's Articles of Association, approved the income and expenditure

budgets of Energa SA and the Energa Group, evaluated separate and consolidated financial statements for FY 2018 along with a motion to distribute profit, and monitored the Management Board's execution of the sponsorship activity plan.

The Audit Committee

The operating principles of the Audit Committee are defined in the Articles of Association of Energa SA and the Rules of Procedure of the Supervisory Board, available on the Company's website.

The Audit Committee operates as a body and provides advice and opinion to 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 at the Company,
4. monitoring the performance of financial audit activities,
5. verifying whether the statutory auditor and the statutory audit firm are independent and objective, in particular when they provide non-audit services,
6. recommending a statutory audit firm to be engaged for financial auditing to the Supervisory Board.

The Audit Committee performs its functions by submitting proposals, recommendations, opinions and reports within its area of competence to the Supervisory Board, in the form of resolutions.

The Audit Committee is independent from the Company's Management Board, which must not give any binding instructions to the Committee as to the performance of the Committee's functions.

The Audit Committee includes at least three members of the Supervisory Board, of whom at least one should be qualified in the field of accounting or financial auditing. Moreover, the majority of members of the Audit Committee, including its chairman, should be independent and meet the criteria listed in Article 129 section 3 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, item 1089). Members of the Audit Committee should also have knowledge and skills in the industry in which the Company operates. This condition is considered to be met if at least one member of the Audit Committee has knowledge and skills in the industry or individual members in specific areas have knowledge and skills in the industry.

In FY 2019 and to date, the composition of the Audit Committee has been as follows:

1. from 1 January 2019 to 22 April 2020:
 - a. Marek Szczepaniec – Chairperson of the Committee,
 - b. Zbigniew Wtulich,
 - c. Andrzej Powałowski.
2. from 22 April 2020 to 5 May 2020:
 - a. Zbigniew Wtulich
 - b. Andrzej Powałowski
3. from 5 May 2020 to 25 May 2020:
 - a. Zbigniew Wtulich,
 - b. Andrzej Powałowski,
 - c. Trajan Szuladziński.
4. from 25 May 2020 until the date of the Report:
 - a. Trajan Szuladziński - Chairperson of the Committee
 - b. Zbigniew Wtulich,
 - c. Andrzej Powałowski.

Since 18 October 2017, Marek Szczepaniec has been the Chairperson of the Audit Committee. On 22 April 2020, Mr. Marek Szczepaniec was dismissed from the Supervisory Board of Energa SA by the Extraordinary General Meeting of Energa SA.

On 5 May 2020, the Company's Supervisory Board supplemented the composition of the Audit Committee by appointing Mr. Trajan Szuladziński to it. On 25 May 2020, Mr. Szuladziński was appointed the Chairman of the Audit Committee.

A description of the Audit Committee's activities in the previous financial year, together with a detailed description of the activities undertaken by the Committee, are provided in the Report on the activities of the Audit Committee, which is an Appendix to the Report on the Activities of the Supervisory Board, submitted annually to the General Meeting and published on the Company's corporate website.

In 2019, the Audit Committee held 4 meetings, of which 3 took place with all members in attendance.

The Nomination and Compensation Committee

The Nomination and Compensation Committee of the Supervisory Board of Energa SA has operated since 27 February 2015, when the Company's Supervisory Board made a decision to appoint it and approve the new Rules of Procedure of the Supervisory Board of Energa SA, setting out its method of operation.

The scope of activity of the Nomination and Compensation Committee covers expressing opinions and conducting analyses to support the Supervisory Board in the performance of its duties prescribed in the Articles of Association in respect of the overall compensation policy for Management Board members and executives of the Company and other Energa Group companies, as well as making recommendations concerning the appointments of Management Board members.

The powers and responsibilities of the Nomination and Compensation Committee include in particular:

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 supervision of the performance of the contractual obligations taken by the parties,
3. supervising the implementation of the Management Board's compensation plan, in particular preparing billing documents concerning variable and bonus pay elements,
4. monitoring and analysis of the compensation plan for the Management Boards and executives of Energa Group companies,
5. supervising the correct provision of contractual benefits for the Company's Management Board, such as personal and medical insurance, use of company cars, apartments and other benefits.

In FY 2019, the composition of the Nomination and Compensation Committee was as follows:

1. from 1 January 2019 until the date of the Report:
 - a. Paula Ziemiecka-Księżak – Chairperson of the Committee,
 - b. Agnieszka Terlikowska-Kulesza,
 - c. Zbigniew Wtulich.

Three meetings of the Nomination and Compensation Committee were held in 2019, with all members in attendance.

A description of the Nomination and Compensation Committee's activities in the previous financial year is provided in the Report on the Activities of the Nomination and Compensation Committee, which is an Appendix to the Report on the Activities of the Supervisory Board.

The Management Board

Rules of appointing and dismissing the members of the Management Board

The Management Board may consist of one to five persons, including the President and one or more Vice-Presidents. The term of office of the Management Board is three years, and all members serve the same term of office.

In accordance with the Articles of Association, Management Board members are appointed and dismissed by the Supervisory Board, which appoints one member as the President and one or more members as the Vice-President.

A member of the Management Board can also be:

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

In conformity with section 16 of the Articles of Association of Energa SA, the Supervisory Board appoints the members of the Management Board following a recruitment procedure.

A Management Board member submits his or her resignation to another member of the Management Board or to the commercial proxy (*prokurent*), and where this is not possible, to the Supervisory Board. The resignation notice should be submitted in writing. The member of the Management Board must inform the Chairperson of the Supervisory Board of the resignation.

Composition

Throughout 2019 and until the date of this Report, the Management Board of the Company has had the following members:

1. between 1 January 2019 and 30 May 2019:
 - a. Alicja Barbara Klimiuk – Vice-President of the Management Board for Operations, acting President of the Management Board,
 - b. Jacek Kościelniak – Vice-President of the Management Board for Finance,
 - c. Grzegorz Ksepko – Vice-President of the Management Board for Corporate Affairs.
2. between 31 May 2019 and 2 June 2019:
 - a. Jacek Kościelniak – Vice-President of the Management Board for Finance,
 - b. Grzegorz Ksepko – Vice-President of the Management Board for Corporate Affairs,
 - c. Dominik Wadecki – Vice-President of the Management Board for Operations.
3. between 3 June 2019 and 16 December 2019:
 - a. Grzegorz Ksepko – Vice-President of the Management Board for Corporate Affairs, acting President of the Management Board,
 - b. Jacek Kościelniak – Vice-President of the Management Board for Finance,
 - c. Dominik Wadecki – Vice-President of the Management Board for Operations.
4. between 17 December 2019 and 16 January 2020:
 - a. Jacek Goliński – President of the Management Board,
 - b. Jacek Kościelniak – Vice-President of the Management Board for Finance,
 - c. Grzegorz Ksepko – Vice-President of the Management Board for Corporate Affairs,
 - d. Adrianna Sikorska – Vice-President of the Management Board for Communication,
 - e. Dominik Wadecki – Vice-President of the Management Board for Operations.
5. between 17 January 2020 and 9 February 2020:
 - a. Jacek Goliński – President of the Management Board,
 - b. Grzegorz Ksepko – Vice-President of the Management Board for Corporate Affairs,
 - c. Adrianna Sikorska – Vice-President of the Management Board for Communication,
 - d. Dominik Wadecki – Vice-President of the Management Board for Operations.
6. between 10 February 2020 and 14 March 2020:
 - a. Jacek Goliński – President of the Management Board,
 - b. Marek Kasicki – Vice-President of the Management Board for Finance,

- c. Grzegorz Ksepko – Vice-President of the Management Board for Corporate Affairs,
 - d. Adrianna Sikorska – Vice-President of the Management Board for Communication,
 - e. Dominik Wadecki – Vice-President of the Management Board for Operations.
7. between 15 March 2020 and 6 May 2020:
- a. Jacek Goliński – President of the Management Board,
 - b. Marek Kasicki – Vice-President of the Management Board for Finance,
 - c. Adrianna Sikorska – Vice-President of the Management Board for Communication,
 - d. Dominik Wadecki – Vice-President of the Management Board for Operations.
8. Between 7 May 2020 and the date of this Report:
- a. Jacek Goliński President of the Management Board,
 - b. Marek Kasicki Vice-President of the Management Board for Finance,
 - c. Adrianna Sikorska Vice-President of the Management Board for Communication,
 - d. Dominik Wadecki Vice-President of the Management Board for Operations,
 - e. Iwona Waksmundzka-Olejniczak Vice-President of the Management Board for Corporate Affairs.

In view of the expiry of the 5th Term of Office of the Management Board of Energa SA on 4 January 2019, on 14 December 2018, the Supervisory Board of Energa SA initiated a qualification procedure to appoint the members of the Company's Management Board of the 6th Term of Office, namely:

1. President of the Management Board,
2. Vice-President of the Management Board for Finance,
3. Vice-President of the Management Board for Operations,
4. Vice-President of the Management Board for Corporate Affairs.

On 30 May 2019, the Company's Supervisory Board adopted a resolution to recall Alicja Barbara Klimiuk from the position of the Vice-President of the Management Board for Operations, Jacek Kościelniak from the position of the Vice-President of the Management Board for Finance, Grzegorz Ksepko from the position of the Vice-President of the Management Board for Corporate Affairs, from the Company's Management Board of the 5th Term of Office.

As a result of the qualification procedures conducted, the Supervisory Board of Energa SA identified as the best candidates and subsequently appointed to the Management Board of the 6th Term of Office on 31 May 2019 as:

1. Vice-President of the Management Board for Finance – Jacek Kościelniak,
2. Vice-President of the Management Board for Operations – Dominik Wadecki,
3. Vice-President of the Management Board for Corporate Affairs – Grzegorz Ksepko.

The procedure to appoint the President of the Management Board was completed without the best candidate being identified.

On 31 May 2019, the Management Board of Energa SA passed a resolution on entrusting the duties of the President of the Company's Management Board to Grzegorz Ksepko. On 3 June 2019, the Supervisory Board of the Company approved the decision on entrusting the duties of the President of the Management Board of Energa SA to Grzegorz Ksepko, Vice-President of the Management Board for Corporate Affairs.

On 27 November 2019, the Supervisory Board initiated the qualification procedures to appoint the President of the Management Board and the Vice-President of the Management Board for Communication that were completed on 13 December 2019.

As a result of the conducted qualification procedures, the Supervisory Board of Energa SA identified as the best candidates and subsequently appointed to the Management Board of the 6th Term of Office on 17 December 2019 as:

1. President of the Management Board – Jacek Goliński,
2. Vice-President of the Management Board for Communication – Adrianna Sikorska.

On 16 January 2020, the Company's Supervisory Board passed a resolution to recall Jacek Kościelniak from the position of the Vice-President of the Management Board for Finance.

On 18 January 2020, the Company's Supervisory Board initiated the qualification procedure to appoint the Vice-President of the Management Board for Finance, which was completed on 28 January 2020, without the best candidate being identified.

On 29 January 2020, the Company's Supervisory Board once again initiated the qualification procedure to appoint the Vice-President of the Management Board for Finance that was completed on 6 February 2020.

The procedure to appoint the Vice-President of the Management Board for Finance ended with the appointment of Marek Kasicki on 10 February 2020.

On 14 March 2020, the Company's Supervisory Board passed a resolution regarding the dismissal of Mr. Grzegorz Ksepko from the Company's Management Board, acting as the Vice-President of the Management Board for Corporate Affairs.

On 23 April 2020, the Company's Supervisory Board initiated the qualification procedure for the position of Vice President of the Management Board for Corporate Affairs, which ended on 5 May 2020.

The proceedings for the position of the Vice-President of the Management Board for Corporate Affairs were completed by the appointment of Ms Iwona Waksmundzka-Olejniczak to this position, on 7 May 2020.

The current 6th Term of Office of the Management Board of Energa SA expires on 31 May 2022.

Jacek Goliński – President of the Management Board

He is a graduate of the Faculty of Economics and Management at the Koszalin University of Technology (MA studies, 2014). In 2017, he completed a postgraduate studies program in agricultural economics and agro-energetics, and in 2018, he completed a postgraduate studies program Executive Master of Business Administration at the University of Commerce and Science in Poznań, which have helped him to improve his managerial skills by integrating competencies from such areas as management, finance and soft skills. Starting from October 2019, he performed the function of the President of the Management Board of ORLEN Paliwa Sp. z o.o., directing, managing and supervising the company's activity within a collective Management Board. He focused on developing the company, among others by seeking solutions aimed at the creation of new and the improvement of current processes, mechanisms, technologies and solutions that were already being used by the company, as well as products it manufactured or distributed, and the services it provided. Beginning from May 2018, he performed the function of the President of the Management Board of Inowrocławskie Kopalnie Soli "Solino" S.A., managing the company's activity and supervising the implementation of its key performance indicators. He developed and supervised the implementation of the company's strategy and also supervised the planning and implementation of investments. Among other things, he succeeded in making Ciech S.A. and Ciech Soda Polska S.A. conclude an agreement related to technical infrastructure, which enabled combining the saline solution transmission systems of the Salt Mine and the Underground Crude Oil and Fuel Storage Depot "Góra" with the saline solution transmission system of the Mogilno Salt Mine into a single logistics unit, under full control of IKS "Solino" S.A. From May 2017, as the General Director of the Gdańsk Branch of Energa Operator S.A., he implemented business processes, including operational management of grid assets, optimization of investment processes in terms of effectiveness of outlays made and optimization of processes enhancing the Branch's business effectiveness. In 2014, he operated as a sole trader in the field of energy consulting and was the Regional Sales Manager at PKP Energetyka S.A. Between 2007 and 2013, Jacek Goliński worked for Energa Obrót SA. where he performed the function of an Authorized Representative of the Management Board and supervised the implementation of commercial plans, the building of the purchasing portfolio and direct care over strategic clients. Between 2004 and 2007, he coordinated tasks in the commercial area, among others, in Carlsberg Polska, Wella Polska and ZT Kruszwica. His current professional career is mostly associated with management, supervision over the company's activity as well as marketing, achievement of the set sales targets and optimization of business processes taking place in enterprises, in particular in the energy sector.

Marek Kasicki – Vice-President of the Management Board for Finance

A graduate of the Faculty of Management and Economics at the Gdańsk University of Technology (1995), French-Polish Postgraduate Studies in Banking and Finance (1995), Postgraduate Tax Studies

(2001), Postgraduate Management Studies – Executive MBA (2010) organized by the Gdańsk Foundation for Management Education and Rotterdam School of Management Erasmus University. He started his professional career in 1995, first in the Financial Department of Danone Polska Sp. z o.o. and then in the Enterprise Analysis Department of Credit du Nord bank in France. In 1996, he joined Agencja Rozwoju Pomorza SA (ARP SA), initially as an investment specialist and, subsequently, he became its financial director and authorized representative. In 2007, he took the position of the Vice-President of the Management Board for Finance. As part of his work for ARP SA, he also dealt with the restructuring of state-owned enterprises, which included organization of the financing of their operations, preparation and implementation of effectiveness and remedial programs, budgeting and controlling systems. In the years 2009-2016, he also managed the ARP SA Capital Fund, within which investments in innovative projects (start-ups) were made. In parallel, he worked as Financial Director, Vice-President and President of the Management Board of the Pomerania SA Management Group in the years 2000-2007. In that capacity, he implemented investment projects in the area of commercial real estate. From March 2016, as the Vice President of the Management Board of Energa Operator SA, he was responsible for the Finance and Regulation Division and the Distribution Services Division. In the Finance and Regulation Division, he supervised the budgeting and controlling of the company's operations as well as the entire Distribution Business Line of Energa SA. He also managed the company's financial liquidity in cooperation with Energa SA. He supervised the organization and monitoring of the financing of operational and investment activities from financial institutions, including the European Investment Bank and the European Bank for Reconstruction and Development, as well as the regulatory policy, including the determination of all elements of the regulated income of DSOs. Within the Distribution Services Division, he supervised the area of metering, issues related to customer service and the area of settlements with customers and the balancing market. He was a member of the supervisory boards of Mikrostyk SA, MODE SA, Pomorski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o., INVENO Sp. z o.o., i-Find.pl Sp. z o.o. and i-Trends Sp. z o.o. He has undergone training in IAS, corporate mergers and acquisitions. He has a state diploma for Candidates for Supervisory Board Members in State Treasury Companies.

Adrianna Sikorska – Vice-President of the Management Board for Communication

The Vice-President of the Management Board of Energa SA since 17 December last year. In charge of communication, corporate social responsibility, sponsorship and marketing activities. Adrianna is a manager with about a dozen years' professional experience in the areas of information, analysis and security. She has hands-on knowledge of building communication strategies, and knowledge of the financial mechanisms of businesses. Adrianna has experience in the key areas of operational business management, i.e. communication, security, finance, logistics and human resources. In the years 2016 to 2019, she held board and managerial positions in the energy sector, being professionally associated with PKN ORLEN Capital Group entities. In the years 2013 to 2016, she provided consulting services in the areas of risk detection, business irregularities and their elimination. In the years 2007 to 2013, she was an economic analysis expert with the Central Anti-Corruption Bureau (CBA). In the years 1993 to 2007, she held specialist and expert positions with the Police. She completed her postgraduate Executive MBA studies at the University of Commerce and Services in Poznań. Adrianna graduated from the School of Entrepreneurship in Warsaw, the Lublin University of Technology, and the Police Academy in Szczytno.

Dominik Wadecki – Vice-President of the Management Board for Operations

Graduate of the Faculty of Law of the Catholic University of Lublin. Completed controller apprenticeship at the Supreme Audit Office with honours and postgraduate studies at the Collegium of Business Administration of the SGH Warsaw School of Economics. He began his professional career in 1997 in the banking sector, working for Pierwszy Komercyjny Bank S.A. in Lublin. From 1999 to 2007, he worked for the Supreme Audit Office, where he was responsible for examining the implementation of the state budget and monetary policy, privatization of banks, operation of capital market supervision authorities, the investment operations of banks, and the effectiveness of the tax relief and exemptions system. Since 2008, he has worked in the energy sector. As an internal auditor at Polska Grupa Energetyczna, he examined the full range of operations of the companies belonging to the group, and participated in the development of the PGE operating model. In 2010, he served on the Supervisory Board and the Management Board of PGE Zamojska Korporacja Energetyczna S.A. He gained executive experience

at PGE Polska Grupa Energetyczna as well as at Polska Spółka Gazownictwa sp. z o.o. and the National Fund for Environmental Protection and Water Management. He joined Energa Capital Group in 2017. He worked at Energa Logistyka Sp. z o.o. as the managing director, a management board member and, most recently, as the president of the management board.

Iwona Waksmundzka-Olejniczak – Vice President of the Management Board for Corporate Affairs

Ms. Iwona Waksmundzka-Olejniczak has long-standing experience in managing large teams and corporate structures, in particular in the oil & gas and banking sectors. She has an in-depth knowledge of the rules of the capital market, corporate governance, management of large projects as well as building and implementing company strategies. She joined PKN ORLEN S.A. in February 2018, first as director of the Investor Relations Office, and since February 2019 as executive director, strategy and investor relations, where her responsibilities include the development and implementation of the PKN ORLEN strategy and supervision over the implementation of strategic projects, preparation and execution of investment projects and divestitures, as well as the design and execution of the information policy and relationships with capital market participants. In 2016-2017, as a director of successive departments at Bank Ochrony Środowiska S.A., she supervised the bank's private banking and subsequently corporate banking business. From 2013 to 2016, as brand manager at Plus Bank S.A., she was responsible for the creation, design and execution of the marketing strategy and external communication policy. . In 2002-2012, she worked for Invest Bank S.A., where she managed the sales network, was responsible for the development of the product range, design and execution of the bank's strategy, supervised the implementation of external communication policy, and managed key account relationships, in the following successive positions: retail banking manager, marketing and analysis manager and brand manager. From 2001 to 2002 she was the key account manager at ComputerLand. In 1998-2001 she worked for Bank Współpracy Europejskiej, where she was responsible for key account relationships. She is a graduate of the Cracow University of Economics (Management and Marketing) and the University of Insurance and Banking in Warsaw (Finance and Banking). She holds an Executive MBA diploma awarded by the University of Commerce and Services in Poznań. She also completed a postgraduate Project Management programme at the Warsaw School of Economics. She is certified as a Financial Adviser by the European Financial Planning Association. She completed a wide range of courses and trainings in the field of financial market and managerial skills. She serves on the supervisory boards of UNIPETROL, a.s., ORLEN Upstream Sp. z o.o. and is the Vice Chairperson of the Supervisory Board at Baltic Power sp. z o.o. She was also a member of the Supervisory Board of ORLEN Centrum Usług Korporacyjnych Sp. z o.o.

None of the above mentioned of the Management Board Members does not conduct any business activity competitive to Energa SA, nor does he participate in any business competitive in respect of Energa SA as a partner in a civil law partnership, partnership or as a member of the governing body of a capital company, nor does he participate in any other rival legal entity as a member of its governing body. Dominik Wadecki is not listed in the Register of Insolvent Debtors, maintained pursuant to the National Court Register Act.

Powers and responsibilities of the Management Board

The Management Board proceeds in compliance with the CCC and the Articles of Association. The organisation and operating principles of the Management Board, including the detailed resolution procedure, are set out in the Rules of Procedure of the Management Board approved by the Supervisory Board, published on the corporate website of the Company.

The Management Board administers the Company's business and represents the Company. Joint action of two members of the Management Board or of a member of the Management Board and a commercial proxy (*prokurent*) is required to bind and sign on behalf of the Company.

The area of responsibility of the Management Board includes all matters of the Company that are not restricted by the law or Articles of Association to the competence of the other corporate bodies. In accordance with the Articles of Association, subject to certain exceptions provided for therein, each member of the Management Board may administer the Company's business within his or her competence set forth on the Rules of Procedure of the Management Board, without a prior resolution of the Management Board. However, if prior to handling of any such matter even one of the remaining

members of the Management Board opposes to its handling, a resolution of the Management Board is required.

As at the date of this Report, members of the Management Board, in order to manage matters falling within their competence individually, have functionally divided specific areas of the Company's activities, delegating:

1. to the President of the Management Board – functional oversight of the following areas of activity:
 - a. organisational management,
 - b. legal services,
 - c. audits and inspections,
 - d. strategic risk management,
 - e. safety and security,
 - f. HR policy of the Group, including recruitment of members of corporate bodies of the Energa Group companies,
 - g. social dialogue,
 - h. management by objectives.
2. To the Vice-President of the Management Board for Finance – functional oversight of the following areas of activity:
 - a. planning and financial analysis,
 - b. financial reporting and consolidation,
 - c. financial policy,
 - d. financial risk management within the Group,
 - e. business controlling,
 - f. investor relations,
 - g. stakeholder relations.
3. To the Vice-President of the Management Board for Operations – functional oversight of the following areas of activity:
 - a. regulatory policy,
 - b. environmental policy,
 - c. research, development and innovation,
 - d. IT area,
 - e. operational supervision over the implementation of projects related to assets investments through being a member of steering committees.
4. To the Vice-President of the Management Board for Communications – functional oversight of the following areas of activity:
 - a. marketing and sponsoring,
 - b. internal and external communication,
 - c. CSR and relations with stakeholders,
 - d. press relations.
5. To the Vice-President of the Management Board for Corporate Affairs – functional oversight of the following areas of activity:
 - a. Strategy of the Group,
 - b. strategic asset management,
 - c. market analysis and Group development,
 - d. mergers and acquisitions,

- e. corporate governance within the Group
- f. management of organizational governance within the Group.

Furthermore, in the periods between 3 June and 16 December 2019 (as referred to above), pursuant to Article 1 sec. 6 of the Rules of Procedure of the Management Board of Energa SA, the Management Board appointed Grzegorz Ksepko, Vice-President of the Management Board for Operations, as acting President of the Management Board of Energa SA. At the same time, the Management Board delegated functional oversight of the following areas of activity to Grzegorz Ksepko acting President of the Management Board of Energa SA:

1. press relations,
2. audits and inspections,
3. strategic risk management,
4. legal services,
5. safety and security,
6. HR policy of the Group, including recruitment of members of corporate bodies of the Energa Group companies,
7. marketing and sponsoring,
8. organisational management,
9. social dialogue.

Method of operation of the Management Board

Resolutions of the Management Board, as a general rule, are adopted at meetings. Meetings are held as scheduled, when required, however no later than once every two weeks.

Meetings of the Management Board are convened by the President or by a member of the Management Board. Meetings held according to a fixed schedule adopted by a Management Board resolution do not require any notice. Furthermore, at a written request from a member of the Management Board or Supervisory Board, a meeting of the Management Board should be convened within no more than four days after the submission of the request to the President of the Management Board.

As a general rule, meetings of the Management Board are chaired by the President of the Management Board. The meeting venue is either the registered office or a different venue specified by the person convening the management board meeting. The Rules of Procedure of the Management Board allow management board members to participate in meetings and vote on resolutions adopted during such meetings by means of distance communication, i.e. tele- or videoconferencing technologies, provided that at least one Management Board member is present at the venue chosen by the person who convened the meeting and that it is technically possible to ensure a secure connection.

Management Board resolutions are passed by an absolute majority of votes. In the event of a tie vote, the vote of the President of the Management Board is decisive. For resolutions to be valid, it is necessary to properly notify all members of the Management Board of the meeting to be held and, if the Management Board has at least three members, more than half must be present at the meeting. In the case of a Management Board consisting of two members, all members must be present for resolutions to be valid. As a general rule, voting is open. However, at a request of a member of the Management Board, voting by secret ballot is ordered.

In urgent situations, it is acceptable to adopt resolutions by circulation or by means of distance communication, such as fax and electronic mail, provided that all members of the Management Board consent to that. A resolution is valid if the proposal for the resolution has been circulated or communicated by means of distance communication to all members of the Management Board.

In 2019, the Management Board of Energa SA held 51 meetings and adopted 546 resolutions.

Key activities and decisions of the Management Board included:

1. implementation of the project involving the construction of a new power unit in Ostrołęka nad other projects related to RES development,
2. continuation of the development of the SMILE system for the Energa Group,
3. adoption of the Long-Term Financial Model for the Energa Group,
4. exercising supervisory and ownership rights in subsidiaries of the Energa Group,
5. implementation of the Compliance Management System in the Energa Group,
6. taking measures to implement an optimum structure for the Energa Group and to harmonise purchasing and logistics processes,
7. implementation of marketing and sponsorship projects building position and brand of Energa
8. approving the Energa Spółka Akcyjna Organisation Policy.

10.8. Salaries of executive and supervisory staff

The Management Board

On 25 June 2019, pursuant to Resolution No. 20, the General Meeting, acting on the basis of the Act of 9 June 2016 on Remuneration Policies for Persons Managing Certain Companies (Journal of Laws of 2016, item 1202), decided that the rates of remuneration (the fixed component) for the members of the Management Board of Energa SA will range of 7 to 15 times the basis of assessment referred to in Article 1 paragraph 3 point 11 of the Act of 9 June 2016 on the principles of determining the remuneration of persons managing certain companies.

On the basis of the remuneration principles, contracts for management services are concluded with the management staff, which provide for:

1. the right to non-competition compensation for a period of 6 months after the date of termination of the contract,
2. the right to a severance grant equal to three times the base monthly salary if the manager is dismissed from his or her office as a member of the Management Board.

The individual salaries of the members of the Company's Management Board for 2018 are presented in the table below.

Table 44: Salaries of members of the Management Board of Energa SA in the period from 1 January to 31 December 2019 (in PLN '000)

Name	Period in office	Wages and salaries	Bonus for 2017 - paid in January 2020 - SB resolution on 10 December 2019	Bonus for 2018 - paid in January 2020 - SB resolution on 10 December 2019	Other benefits	Total*
Alicja Barbara Klimiuk	from 1 January to 30 May 2019	308.26	339.68	285.1	14.19	947.23
Jacek Kościelniak	from 1 January to 31 December 2019	739.84	361.38	285.1	32.60	1,418.92
Grzegorz Ksepko	from 1 January to 31 December 2019	739.84	412.36	285.1	6.00	1,443.3
Wadecki Dominik	from 31 May to 31 December 2019	433.63	0	0	20.1	453.73
Goliński Jacek	from 17 December to 31 December 2019	33.03	0	0	0.20	33.23
Sikorska Adrianna	from 17 December to 31 December 2019	30.83	0	0	0.54	31.37
TOTAL		2,285.43	1,113.42	855.30	73.63	4,327.78
Obajtek Daniel	until 5 February 2018	0	365.73	0		365.73

*differences in totals are due to rounding

Members of the Management Board were additionally entitled to benefits in kind in the previous year, including without limitation:

1. medical cover for the member and his or her immediate family (up to PLN 500 net/month),
2. tied accommodation, in justified situations, or partial reimbursement of rental costs,
3. financing or reimbursement of individual training relating to the scope of activities performed for the Company,
4. use of the Company's assets enabling management activities to be carried out.

The compensation plan for the members of the Management Board of Energa SA is based on management by objectives. Objectives are set on the basis of the current Energa Group Strategy, the Multi-Annual Plan of Strategic Investments and the internal and external challenges faced by the Group. The payment of variable pay components to members of the Management Board of Energa SA depends on the degree and level of achievement of objectives. Additionally, the objectives of the Management Boards of Lead Entities of Business Lines and Company management are aligned with the objectives of the Management Board of Energa SA and cascaded in a top-down fashion. The existing model offers incentives and integrates the executives and managers around the objectives, encouraging co-ownership.

The system design allows both a focus on activities that are important from the perspective of the Group and the fulfillment of the Group's ambitions. It is also important for the Company's shareholders, allowing to create long-term value for Energa and ensuring the stability of business operations.

The Supervisory Board

In accordance with the Articles of Association, members of the Supervisory Board are entitled to a monthly salary at a rate set by the General Meeting.

Furthermore, the Company covers the expenses incurred in connection with the performance of functions by the members of the Supervisory Board, in particular the cost of travel to attend Supervisory Board meetings, costs of accommodation and meals.

No remuneration is payable for a month in which a member of the Supervisory Board attended none of the formally convened meetings and the absences were not excused. Salaries of the members of the Supervisory Board of Energa SA for 2019 are presented in the table below.

Table 45: Salaries of members of the Supervisory Board of Energa SA in the period from 1 January to 31 December 2019 (in PLN '000)

Name	Period in office in 2019	Wages and salaries	Total
Paula Ziemiecka-Księżak	from 1 January to 31 December 2019	89.84	89.84
Zbigniew Wtulich	from 1 January to 31 December 2019	79.27	79.27
Marek Szczepaniec	from 1 January to 31 December 2019	79.27	79.27
Maciej Żółtkiewicz	from 1 January to 31 December 2019	79.27	79.27
Agnieszka Terlikowska – Kulesza	from 1 January to 31 December 2019	79.27	79.27
Andrzej Powalowski	from 1 January to 31 December 2019	79.27	79.27
TOTAL*		486.19	486.19

**differences in totals are due to rounding*

Number and par value of Company shares and shares in the Company's related entities held by management and supervisory staff

None of the members of the Management Board or Supervisory Board of Energa SA had any Company shares as at 31 December 2019.

10.9. Diversity policy

Energa SA respects the dignity of every person regardless of race, nationality, religion, gender, education, professional position, sexual orientation, degree of disability or political affiliation, and does not accept any form of discrimination. The Company seeks to ensure diversity through the selection of diverse and professional managerial and supervisory talents. Furthermore, inspiring ideas put forward by employees encourage action, while stimulating the Company's development. This diverse human potential is a source of innovation.

Another cornerstone of diversity management at Energa involves ensuring equal access to professional development and promotions. Based on the same principles, equal rights and obligations, the Company ensures that everyone can be fairly and fully involved in the Energa Group's fields of activity.

10.10. Main features of internal control and risk management systems in relation to the financial reporting process

The internal audit function is an important element of the internal control system. The Company has an internal audit unit which performs audit and control functions across the Energa Group. These functions are performed in line with the Energa Group's Internal Audit Policy. Internal auditing is an independent, objective activity designed to add value and improve an organisation's operations, bringing a systematic,

disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. It helps an organisation accomplish its objectives, giving assurance as to the effectiveness of these processes, also through consulting.

The purpose of an effective internal control system in financial reporting is to ensure the adequacy and accuracy of the financial information disclosed in periodic reporting. For that purpose, the Company has designed, implemented and used financial reporting process control matrices.

The area of financial reporting is part of the annual evaluation of internal controls, risk management and compliance at Energa SA, which for 2019 was carried out by employees of the Audit and Internal Control Office. The assessment regarding aspects of financial reporting was positive.

Financial information used for financial reporting, Management Board reports and Energa's monthly management and operational reporting is derived from the Company's financial accounting system. Following the completion of all predefined end-of-month ledger closing processes, detailed management reports on finance and operations are prepared. The reports are drafted with the involvement of managers and executives from each organisational unit. For completed reporting periods, the Company's financial results are subject to detailed analysis compared to budget assumptions, and the identified deviations are properly explained.

Both financial and management reporting of the Company and the Energa Group are based on the Accounting Policy (according to the International Financial Reporting Standards), which is updated as required and adopted for application by means of a resolution of the Company's Management Board.

The Company carries out annual reviews of strategies and economic and financial plans. Managers and executives are engaged in a detailed planning and budgeting process, which spans all areas of operation. When prepared, the economic and financial plan is adopted by the Management Board and approved by the Supervisory Board.

The selection of an auditor to audit the separate and consolidated financial statements of the Company is the responsibility of the Supervisory Board. A statutory auditor licensed to audit the financial statements of the Company is understood as the entity defined in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, item 1089).

The Company adopted a document entitled "The policy and procedure governing the selection of an audit firm and the policy on the provision of additional services by the audit firm, its related entities and members of its network", whose provisions satisfy the requirements of the Act on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, item 1089). In accordance with Article 23a of the Articles of Association, the Audit Committee recommends a statutory auditor to perform the financial audit to the Supervisory Board, while its selection and change are the responsibility of the Supervisory Board. In previous practice, the Company did not cooperate for a continuous period of more than 5 years with any statutory audit firm.

The auditor selection procedure as a whole is carried out by the Audit Committee of the Supervisory Board and it includes the definition of auditor selection criteria, carrying out the selection procedure and authorising the Management Board to enter into a contract for auditing services with the auditor of choice. The Supervisory Board awards the contract for auditing services following a procedure aimed at selecting an independent auditor and a proposal in which the quote reflects the auditor's workload, its position on the market for auditing services and understanding of the Company's industry.

Due to the entry into force of the Regulation of the European Parliament and of the Council (EU) on the detailed requirements for statutory audits of financial statements of public-interest entities and the amendment to the Accounting Act, which assumes a minimum term of two years for which the contract for auditing financial statements should be signed, The Supervisory Board decided to carry out the auditor firm selection procedure for for the years 2019-2021. As a result of the procedure, on 29 June 2019, the Company's Supervisory Board selected the statutory audit firm KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k., with registered office in Warsaw, ul. Inflancka 4A ("KPMG") as the statutory auditor to audit and review the separate and consolidated financial statements of Energa SA and the Energa Group for annual periods ended, respectively, 31 December 2020 and 31 December 2021.

The audit report is presented to the Management Board, Audit Committee and Supervisory Board. Following the annual audit, the statutory auditor presents the Company with the 'Audit Management Letter', describing the deficiencies and irregularities which have been identified in the course of the audit but do not have any significant impact on the reliability and accuracy of the financial statements.

As part of the Integrated Risk Management System in the Energa Group, the financial reporting risk is identified and managed, which relates to the timely and error-free preparation of the Company's and the Group's financial statements, as well as the risk of reporting and management information related, among others with obtaining and preparing management, operational and financial information necessary to make management decisions. The control mechanisms for the above risks include, without limitation: the Energa Group Accounting Policy, ledger accounting instructions, automatic controls embedded in IT systems, financial plan preparation rules, financial and management reporting calendar, hedge accounting principles.

The risk management process, which is described in more detail in section 7 herein, spans all business lines and corporate levels across the Group. It provides for ongoing and periodic risk reviews, an independent periodic evaluation of system effectiveness and efficiency, and continuous improvement of the system based on the PDCA cycle.

The findings of risk identification and assessment, including reporting risks, are always adopted by the Company's Management Board in the form of a resolution of the Management Board, which additionally covers the definition of the organisation's risk appetite and management strategies for individual risks, while obligating risk owners to implement action plans. Additionally, as part of the monitoring of the effectiveness of the Energa Group risk management system, a summary risk review report is submitted to the Audit Committee of the Energa Group's Supervisory Board.



The Head office of Energa SA in Gdańsk at Grunwaldzka street

Management Board representation and information

11. MANAGEMENT BOARD REPRESENTATION AND INFORMATION

Gdańsk, 27 May 2020

The Management Board of Energa SA hereby informs and represents that:

- (1) to the best of its knowledge, the annual consolidated financial statements and reference data have been prepared in accordance with the applicable accounting policies and that they give a true, fair and clear view of the Energa Group's assets, financial standing and profit/loss. The Report of the Management Board on the operations of the Energa Group gives a true view of the Group's development, achievements and condition, and includes a description of the key risks and threats;
- (2) KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k., the statutory audit firm which audited the consolidated financial statements of the Energa Group for the financial year ended 31 December 2019, was selected in accordance with the applicable regulations. The firm and the auditors who audited the aforesaid statements met the conditions for expressing an impartial and independent audit opinion in accordance with the applicable regulations and professional standards,
- (3) the selection of the audit firm for the annual financial statements was compliant with legal provisions, including those on the selection and selection procedure of audit firms, and states that:
 - a) the firm and the members of the audit team met the conditions required to issue an impartial and independent auditor's report on the annual financial statements, in accordance with the applicable provisions of law, professional standards and principles of professional ethics,
 - b) the Group complies with the applicable legal provisions governing the rotation of audit firms and lead auditors as well as with the mandatory cooling-off periods,
 - c) the issuer has a policy in place governing the selection of audit firms and a policy on the provision of non-audit services by audit firms, their related parties or members of their service networks to the issuer, including services conditionally exempted from the prohibition on provision by audit firms.

Signatures of Energa SA Management Board Members

Jacek Goliński
President of the Energa SA Management Board

Marek Kasicki
Vice-President of the Energa SA Management Board for Finance

Dominik Wadecki
Vice-President of the Energa SA Management Board for Operations

Iwona Waksmundzka-Olejniczak
Vice-President of the Energa SA Management Board for Corporate Affairs

Adrianna Sikorska
Vice-President of the Energa SA Management Board for Communication

Mikołaj Zwierzewski
Director of the Finance Department

List of tables

Table 1: Status of the investment programme as at 31 December 2019.....	25
Table 2: Prices of property right indices listed on the Polish Power Exchange	45
Table 3: List of key legal acts of relevance to the Group	47
Table 4: List of legal acts of relevance to the Group	49
Table 5: Consolidated statement of profit or loss (PLN m).....	54
Table 6: EBITDA after material one-off events* (PLN m).....	57
Table 7: Consolidated statement of financial position (PLN m)	58
Table 8: Consolidated statement of cash flows (PLN m)	60
Table 9: Financial ratios of the Energa Group.....	62
Table 10: EBITDA of the Energa Group, by Business Line (PLN m)	65
Table 11: Electricity distribution by tariff group (GWh)	65
Table 12: SAIDI and SAIFI indicators	66
Table 13: Number of customers of Energa Operator SA in 2016-2019 (by tariff group)	67
Table 14: Results of the Distribution Business Line (PLN m).....	68
Table 15: Gross electricity production (GWh).....	70
Table 16: Gross heat production (TJ)	71
Table 17: Volume and cost* of consumption of key fuels.....	71
Table 18: Results of the Generation Business Line (PLN m).....	74
Table 19: EBITDA of the Generation Business Line by Division (PLN m)	74
Table 20: Results of the Hydro Power Division (PLN m).....	77
Table 21: Results of the Wind Power Division (PLN m)	77
Table 22: Results of the Ostrołęka Power Plant Division (PLN m)	77
Table 23: Results of Other and Adjustments (PLN m)	78
Table 24: Sales of electricity (GWh)	78
Table 25: Results of the Sales Business Line (PLN m).....	83
Table 26: Standalone statement of profit or loss (PLN m)	87
Table 27: Standalone statement of financial position (PLN m)	88
Table 28: Standalone statement of cash flows (PLN m)	90
Table 29: Structure of the annual standalone statement of financial position.....	90
Table 30: Key strategic risks identified at the level of Energa SA and Group companies	95
Table 31: Key legal and regulatory risks identified at the level of Energa SA and Group companies.....	96
Table 32: Key operational risks identified at the level of Energa SA and Group companies.....	97
Table 33: Key financial risks identified at the level of Energa SA and Group companies	98
Table 34: Company's shares by series and type.....	102
Table 35: Shareholding structure of the Energa at 31 December 2019.....	102
Table 36: Shareholding structure of the Energa at the date of this Report.....	102
Table 37: Data for Energa shares as at 31 December 2019.....	103
Table 38: Valid ratings of Energa SA as at 31 December 2019.....	107
Table 39: Par value of bonds taken up by Energa SA and not redeemed, by issuer, as at 31 December 2019	111
Table 40: Information on Energa's guarantee and surety business as at 31 December 2019	112
Table 41: Main equity deposits of Energa SA as at 31 December 2019	113
Table 42: Proceedings pending before courts, arbitration or public administration bodies	115
Table 43: Remuneration of the auditor for services provided to the Group (PLN '000).....	133
Table 44: Salaries of members of the Management Board of Energa SA in the period from 1 January to 31 December 2019 (in PLN '000)	154
Table 45: Salaries of members of the Supervisory Board of Energa SA in the period from 1 January to 31 December 2019 (in PLN '000)	155

List of figures

Figure 1: Business locations and main assets of the Group	7
Figure 2: Number of customers of Energa Operator SA as at 31 December 2016-2019 (in thousands).....	8
Figure 3: Structure of Energa Obrót's end customers by customer type	9
Figure 4: Simplified organizational chart of the Energa Group as at 31 December 2019.....	9
Figure 5: Organisational chart of Energa as at 31 December 2019.....	12
Figure 6: Diagram of objectives and programmes of the revised Energa Group Strategy	27
Figure 7: Annual changes in the GDP, domestic demand, individual consumption and capital expenditures	37
Figure 8: Production and consumption of electricity in Poland in 2010-2019 (TWh)	40
Figure 9: Power generation mix in Poland in 2010-2019 (TWh)	40
Figure 10: Annual cross-border power exchange volumes in Poland 2010-2019 (TWh)	41
Figure 11: Prices of energy in the SPOT market in Poland and in neighbouring countries in 2019 (PLN/MWh).....	42
Figure 12: Prices of coal including cost of transport for coal-fired power plants at year-end in 2014-2019 (PLN/GJ).....	42
Figure 13: Energy prices on the Day-Ahead Market in 2018-2019 (PLN/MWh)	43
Figure 14: Base-load electricity futures price with delivery in 2020	44
Figure 15: Prices for emission allowances (EUA DEC 2019) in 2019.....	45
Figure 16: Comparison of prices on the balancing market and SPOT market (exchange) in 2019 (PLN/MWh)	46
Figure 17: Prices and generating capacities constituting the operating reserve in 2019.....	46
Figure 18: Distribution territories of top energy groups	50
Figure 19: Comparison of operating data for the Energa Group and the other energy groups (data from Q1 to Q3 2019)	51
Figure 20: Factors affecting the Energa Group's performance within at least one year.....	52
Figure 21: EBITDA bridge by Business Lines (PLN m) in 2016-2019 (PLN m)	55
Figure 22: Cash flows of the Group in 2016-2019 (PLN m)	61
Figure 23: Structure of assets and liabilities	62
Figure 24: Results of the Distribution Business Line of the Energa Group (PLN m)	68
Figure 25: EBITDA bridge of the Distribution Business Line (PLN m)	69
Figure 26: Results of the Generation Business Line of the Energa Group (PLN m)	73
Figure 27: EBITDA bridge of the Generation Business Line (PLN m)	74
Figure 28: Results of the Sales Business Line of the Energa Group (PLN m)	83
Figure 29: EBITDA bridge of the Sales Business Line (PLN m)	84
Figure 30: Structure of assets and liabilities as at 31 December	91
Figure 31: The Energa Group risk management process	93
Figure 32: Shareholding and voting structure at the General Meeting of Energa as at 31 December 2019 and as at the date of this Report.....	103
Figure 33: Energa SA stock price curve in 2016-2019.....	104
Figure 34: Changes in Energa stock prices compared to changes in WIG, WIG20 and WIG-ENERGIA indices.....	104
Figure 35: Analyst recommendations awarded in 2019	107
Figure 36: Energa Group's headcount as at 31 December 2016-2019 *	128
Figure 37: Energa Group's average employment in 2016-2019 (FTEs)*	129
Figure 38: Energa Group's headcount as at 31 December 2019 by gender, education and age	129
Figure 39: Employment at Energa as at 31 December 2016-2019 (headcount) and average employment in 2016-2019 (FTEs) *	131
Figure 40: Employment in Energa as at 31 December 2019 (headcount) by gender and education in 2016-2019 (FTEs)	132

Glossary of terms and abbreviations

Biomass	Solid or liquid, biodegradable substances of plant or animal origin, originating from products, waste and residues from agriculture, forestry and related industries, as well as the biodegradable fraction of other waste, in particular agricultural raw materials
CAPEX	Capital expenditures
Certificate of origin from co-generation	A document issued by the President of the URE pursuant to Article 9l of the Energy Law confirming that electricity has been generated in high-efficiency co-generation in: (i) a gas-fired co-generation unit or a co-generation unit with a total installed electrical capacity at source under 1 MW (known as the yellow certificate), (ii) a co-generation unit fired by methane released and captured during deep mining operations in coal mines (open, in liquidation or closed), or gas obtained by processing biomass, (known as a purple certificate), or (iii) another co-generation unit (known as a red certificate)
Certificate of origin from renewable energy sources, green certificate	A document issued by the President of the URE pursuant to Article 9e of the Energy Law confirming that electricity has been generated from a renewable energy source (known as a green certificate)
CIRS, CCIRS (Currency Interest Rate Swap, Cross-Currency Interest Rate Swap)	Currency Interest Rate Swap and Cross-Currency Interest Rate Swap transactions in which payments are made over a specified period with a prescribed frequency, based on variable interest rates, in two different currencies (CIRS) or in more currencies (CCIRS)
Co-firing	Electricity or heat generation based on a joint, simultaneous process of biomass or biogas combustion with other fuels in one device; part of the energy generated in the above manner may be considered as energy produced from a renewable energy source
Co-generation, CHP	An engineering process of simultaneous production of heat and electrical or mechanical energy in the course of the same engineering process
CO ₂	Carbon dioxide
DSO, Distribution System Operator	A utility company distributing gaseous fuels or electricity, responsible for grid operation in a gas or electricity distribution system, current and long-term operational safety of the system, operation, maintenance, repairs and the necessary expansion of the distribution network, including connections to other gas or electricity systems
EIB	European Investment Bank
EBITDA (Earnings before interest, taxes, depreciation and amortization)	Energa SA defines EBITDA as operating profit/loss plus depreciation/amortisation and impairment of non-financial non-current assets.
EBIT (earnings before interest and taxes)	Operating profit
EBOR	European Bank for Reconstruction and Development
Energa SA, Energa	Parent company in the Energa Group of Companies
Energa Operator, EOP	Energa Operator SA – a subsidiary of Energa SA and the Leading Entity of the Distribution Business Line in the Energa Group.
Energa Obrót, EOB	Energa Obrót SA – a subsidiary of Energa SA and the Leading Entity of the Sales Business Line in the Energa Group
EMTN	The Euro Medium Term Notes programme
EUR	Euro, currency used in European Union's eurozone countries
Energa Group of Companies, Energa Group	A Group of Companies engaged in distribution, trade and generation of electricity and heat. It also conducts activity related to street lighting, design, procurement of materials, grid-related services, specialized transport, hotel and IT services
GDP	Gross Domestic Product
GUS	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
IRS (Interest Rate Swap)	An interest rate swap agreement between two parties, under which the parties pay interest to each other on a contractual nominal amount calculated according to a different interest rate
KRS	National Court Register (Krajowy Rejestr Sądowy)
kWh	Kilowatt hour, unit of electricity generated or used by a 1 kW device in an hour; 1 kWh = 3,600,000 J = 3.6 MJ
MW	Unit of power in the International System of Units, 1 MW = 10 ⁶ W

Management Board Report on performance of the Energa Capital Group and of Energa SA in 2019

MWe	Megawatt of electrical power
MWh	Megawatt hour
NIB	Nordic Investment Bank
OR	Operating reserve
OZEX_A	Volume-weighted average price for all transactions pertaining to the PMOZE_A contract on an exchange session
PLN	Polish zloty; national currency
PMI	Industrial economic activity index calculated by Markit in cooperation with HSBC
Polish Power Exchange, TGE	Towarowa Giełda Energii SA, a commodity exchange where admitted commodities are traded, i.e. electricity, liquid and gaseous fuels, mine gas, pollution emission allowances and property rights arising from certificates of origin, whose price depends directly or indirectly on the price of electricity, liquid or gaseous fuels and the volume of pollution emissions.
Property rights	Transferable rights constituting a commodity arising from certificates of origin for renewable energy and energy from co-generation
PSE	Polskie Sieci Elektroenergetyczne Spółka Akcyjna with its registered office in Warsaw, entered in the Register of Entrepreneurs of the National Court Register under KRS No. 0000197596; a company designated by the President of the URE's decision No. DPE-47-58(5)/4988/2007/BT of 24 December 2007 to operate as the Electricity Transmission System Operator in the Republic of Poland in the period from 1 January 2008 to 1 July 2014
QoQ	quarter on quarter
RAB	Regulatory Asset Base
Renewable energy sources, RES	Sources converting the energy of wind, solar radiation, geothermal energy, waves, currents and marine tides, run of rivers and energy obtained from biomass, landfill biogas as well as biogas from sewage discharge or treatment processes or the decomposition of plant and animal remains to generate electricity
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SPOT	Day-Ahead Market (DAM): an energy market operating in the "day ahead" time interval (DA) supplying energy on day D
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
Tariff G	A tariff group for individual customers – households
TPA (Third Party Access)	The rule which means the ability to use the power grid of a power company without an obligation to buy electricity from that company
TWh	Terawatt hour, a multiple of the SI unit of electricity. 1 TWh equals 10 ⁹ kWh.
URE	Energy Regulatory Office
WACC	Weighted average cost of capital
WIBOR	Warsaw Interbank Offered Rate
WSE	Warsaw Stock Exchange
YoY	year on year