



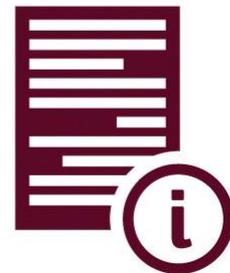
**Management  
Board Report  
on the activity  
of ENERGA SA  
for the year ended  
31 December 2015**

Gdańsk, 14 March 2016

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# Key information about the Company



# 1. KEY INFORMATION ON THE COMPANY AND THE ENERGA GROUP

## 1.1. Role of ENERGA SA in the Group

ENERGA SA (Company, ENERGA) is a parent company of the ENERGA Group (Group, ENERGA Group). It was established on 6 December 2006 as part of the Power Sector Program by the State Treasury, Koncern Energetyczny ENERGA SA (currently: ENERGA-Operator SA) and Zespół Elektrowni Ostrołęka SA (currently: ENERGA Elektrownie Ostrołęka SA). The company was registered in the National Court Register (KRS) on 8 January 2007 under file number 0000271591. Since 2013, the principal document of the ENERGA Group defining general principles of its governance has been the ENERGA Group Corporate Governance.

## 1.2. Activities of the ENERGA Group

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

**Distribution Segment** - key operating segment for the Group's operating profitability, involving distribution of electricity which is in Poland a regulated activity, conducted on the basis of tariffs approved by the President of the Energy Regulatory Office (ERO). The ENERGA Group has a natural monopoly position in the northern and central part of Poland, where its distribution assets are located, through which it supplies electricity to over 2.9 million customers, approx. 2.8 million of which are customers with comprehensive agreements and 185 thousand are TPA customers. A breakdown of ENERGA-OPERATOR SA's customer by energy group is presented in the *Key operational data* section. As at 31 December 2015, the total length of the power lines was over 182 thousand km<sup>1</sup> and covered almost 75 thousand km<sup>2</sup>, i.e. about 24% of the country's landmass. ENERGA-OPERATOR SA acts as the leader of this Segment.

**Generation Segment** operates on the basis of four business lines: the Ostrołęka Power Plant, Hydro, Wind and Other (including cogeneration – CHP). At the end of 2015, the total installed generation capacity in the Group's power plants was approximately 1.4 GW.

The Group's gross electricity production was 1.0 TWh in Q4 2015 and 4.1 TWh in 2015. The installed capacity in the Group's power plants relies on diverse energy sources, such as hard coal, hydropower, wind, biomass and photovoltaics. In Q4 2015, 54% of the Group's gross energy production originated from hard coal, 16% from hydro, 16% from biomass and 14% from wind. After 12 months of 2015 the Group generated 57% of its gross energy from hard coal, 17% from hydro, 15% from biomass and 10% from wind. The Segment Leader is ENERGA Wytwarzanie SA.

**Sales Segment**, with ENERGA-OBRÓT SA as its leader, conducts sale of electricity, gas and additional services both as separate products and in packages to all customer segments – from industry, through big, medium-sized and small business, to households. At the end of 2015, the ENERGA Group supplied 2.9 million customers, out of which over 2.6 million were G tariff customers and the remainder were customers from tariff groups: C, B and A, in a decreasing order.

## 1.3. Key changes in the Group's structure and organization

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

In managing the Group, it is ENERGA SA that determines the Segments and defines their objectives. The leader manages the Segment, defines the objectives of the Segment Companies and evaluates

<sup>1</sup> Decrease by 2 thousand km in relation to the end of 2014 is the result of restatement of the length following network passporting.



their attainment, is responsible for the Segment’s performance and the Segment’s capability to generate dividends.

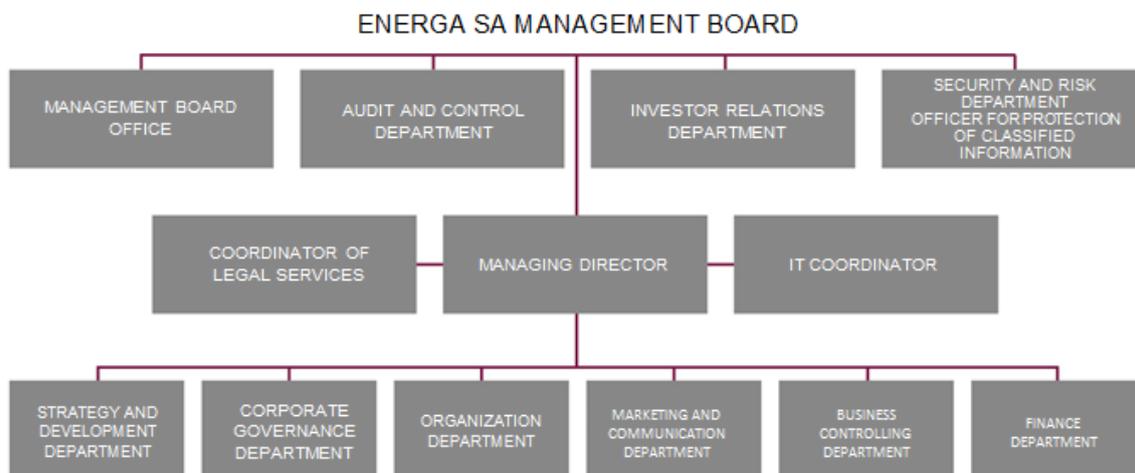
The leader is obligated to cooperate with other Segments and ENERGA SA in the areas in which the Group may reduce costs and improve efficiency.

In 2015 the Group implemented a new organizational structure, making the following assumptions in its design:

- (1) the role of ENERGA SA increases, the importance and scope of activities of business and corporate oversight increases – they will constitute an important element analyzing and recommending actions in the business area of the ENERGA Group Companies and coordinating the restructuring processes executed in the Companies/Segments,
- (2) inter-segment projects are a new quality – they are appointed to develop products / solutions that are beneficial from the standpoint of the ENERGA Group. Such projects will be appointed and coordinated by ENERGA SA,
- (3) the changes comprise also the area of investments and development, which will to a larger extent perform coordination and control functions in the area of executed investments and designed actions in the research and development area.

The chart below shows the structure of ENERGA SA up to the level of organizational units directly reporting to the Managing Director and Management Board members, as at 31 December 2015.

Figure 1: ENERGA’s organizational structure chart as at 31 December 2015



In its strategic decision-making, ENERGA’s Management Board is supported by standing advisory bodies, including:

- Capital Group Council – in defining the directions of development and rules of the Group’s activities,
- Risk Committee – in the area of corporate risk management,
- Council for Counteracting Mobbing and Discrimination in the ENERGA Group – in coordination of anti-mobbing and anti-discrimination activities,
- Ethics Council – exercises supervision over compliance with the rules laid down in the ENERGA Group’s Code of Ethics and coordinates activities as part of clarification procedures in connection with received notifications of abuse symptoms or abuses.

These bodies are made up by ENERGA Group’s senior level managers. As part of their duties, these bodies prepare recommendations, opinions and positions.

ENERGA's management staff is supported in performance of non-standard tasks, going beyond their scopes of duties and responsibilities by:

- (1) Financial Risk Management Committee – being a body appointed for the needs of implementation of the provisions of ENERGA Group's financial policy;
- (2) IT Coordination Council – as an advisory body supporting the decision-making in key areas regarding the functioning of IT architecture and the role of ENERGA Informatyka i Technologie Sp. z o. o. in the ENERGA Group;
- (3) Program Council – advisory body responsible for the substantive level, directions of development, program assumptions and communication in the "EMISJA" corporate magazine.
- (4) Security and Critical Infrastructure Council – prepares recommendations and best practices related to security management in the Group.

## 1.4. Key events and achievements of Energa

### Distribution of ENERGA SA's net profit for 2014

As stated in Current Report No. 7/2015 of 29 April 2015, the Company announced that the Annual General Meeting of ENERGA SA held on that date adopted a resolution to distribute the net profit for the financial year covering the period from 1 January to 31 December 2014 in the amount of PLN 650,538,620.29, with the following allocation: dividend for shareholders: PLN 596,256,644.16, or PLN 1.44 per share (91.7% of the net profit), and supplementary capital: PLN 54,281,976.13 (8.3% of the net profit). All 414,067,114 shares are entitled to receive the dividend. The record date was set at 7 May and the dividend was paid on 21 May 2015.

### Changes in the ENERGA SA Management Board and Supervisory Board

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

## 1.5. ENERGA Group's Development Strategy for 2013–2020

ENERGA Group's strategy assumes defending the leading position among Polish utilities and further increase of efficiency and quality of the offered services. The strategy is based on 3 main pillars:

Figure 2: Pillars of ENERGA Group's Development Strategy



## 1.6. Research and development

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

### Key projects in ENERGA Group's innovative activity:

**Smart Toruń**, i.e. a pilot implementation of a smart power grid. As part of the project, investment tasks were completed by 4 consortium participants, i.e. ENERGA-OPERATOR SA, ENERGA Wytwarzanie

SA, ENERGA-OBRÓT SA and ENERGA Oświetlenie Sp. z o.o., subsidized by the National Fund for Environmental Protection and Water Management. The Smart Toruń project is a laboratory for pilot implementations of smart grid technologies and devices cooperating with and making up the smart grid, installed also on the part of the participants connected to the grid. The organization of the Smart Toruń area will be aimed at facilitating verification of the solutions and technologies applied and their environmental protection effectiveness (i.e. reduction of CO<sub>2</sub> emissions). The project will be completed in 2017.

**Upgrid Project, i.e. municipal grid of the future** – subsidized by the European Union under the Horizon 2020 program. The project is aimed at analyzing selected technologies in terms of the possibility of improvement of reliability and optimization of the operation of the MV and LV grids on the selected grid area, with special focus on development of new IT solutions and utilization of data from IT systems, in particular the AMI system. The project will be completed in 2017.

**Construction of a local balancing area as an element enhancing security and energy efficiency of the operation of the distribution system** - the project is aimed at developing and implementing the Local Balancing Area technology which, in a specified area of the electrical power system, allows for integrated management of its power resources. Implementation of the solution developed in the project will make it possible to increase the capability of connection to the distributed generation network based on RES, improve the efficiency of the use of electricity, reduce the costs of operation of the electrical power system and improve reliability and security of energy supplies, leading as a result to an environmental effect in the form of reduction of national CO<sub>2</sub> emissions. In August 2015 an agreement on subsidizing the project by Narodowe Centrum Badań i Rozwoju (*National Centre for Research and Development*) under the Gekon Program was signed. The project will be performed until the end of 2017.

**Energy Storage Project** in May 2015, a cooperation agreement on the development of smart power grids in Poland was signed by ENERGA Group companies, i.e. ENERGA-OPERATOR SA and ENERGA Wytwarzanie SA as well as Polskie Sieci Energetyczne S.A. and Hitachi Ltd as a representative of a consortium of Japanese companies. The Agreement provides for preparation of a feasibility study for a project aimed at increasing safety of the power system. The financing of the project is supported by a Japanese government agency, New Energy and Industrial Technology Development Organization (NEDO).

**Energa Living Lab** - the essence of the Energa Living Lab project implemented by Enspirion is to demonstrate the effectiveness and to popularize demand response tools, using the formula of tests in a live laboratory consisting of 300 households in Gdynia. The project is co-financed by the European Commission (50%) and the National Fund for Environmental Protection and Water Management (45%) within the LIFE+ Instrument. The project has been nominated to Eurosymbol 2015 awards in the Innovation category (by "Monitor Rynkowy", "Dziennik Gazeta Prawna" and "Monitor Biznesu" in "Rzeczpospolita") and to the Polish Innovation Award (Polska Nagroda Innowacyjności) (by the Polish Agency for Enterprise Development and editors of "Forum Przedsiębiorczości" w "Dziennik Gazeta Prawna").

**eMobility** – construction of the pilot chain of electric car charging stations has been completed within the framework of the project to gather information on and examine the use of electric cars by Gdańsk, Gdynia and Sopot residents. There are currently five publicly available electric car charging stations run by the ENERGA Group in the Tri-City: three for fast charging, one ordinary charging, and one for semi-fast charging.

### **Cooperation with partners**

For conducted research and development projects, ENERGA cooperates with numerous scientific entities, including among others: the Energy Institute in Gdańsk, the University of Gdańsk, Gdańsk Technical University, Opole Technical University, the Fluid-Flow Machinery Institute of the Polish Academy of Sciences, the University of Warmia and Masuria, the Science and Technology Park in Gdańsk and the Pomeranian Science and Technology Park.

ENERGA SA, as the leader of one of two Partnerships affiliated within the Smart Specialization in Pomerania (Inteligentne Specjalizacje Pomorza, ISP), entitled "Eco-efficient technologies in



production, industry, distribution and consumption of energy and fuels and in construction” signed an agreement on development of ISP with the representatives of the Marshall’s Office.

In addition, as a consortium with the Fluid-Flow Machinery Institute of the Polish Academy of Sciences, ENERGA has completed a research project (research task no. 4), financed by the National Center for Research and Development in Warsaw, with the total of 58 research stages performed. Deliverables of the task was development of integrated technologies for producing liquid fuels and electricity and producing heat from biomass, agricultural waste and other types of waste as well as construction of pilot systems based on these technologies. Within the project, innovative technological solutions were implemented not only for broadly understood business but also science and local governments. In 2015, ENERGA completed a project involving the construction of a Pilot Cogeneration Unit with an ORS Turbine and a biomass boiler located in the heating plant in Żychlin and owned by ENERGA Kogeneracja Spółka z o.o.

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

## Development and strategy implementation prospects in 2016

The overriding aim of the Company is growth of goodwill guaranteeing return on the invested capital for the shareholders. Due to a large share of regulated business activity in its business structure, the Group retains the status of an undertaking with a low-risk profile. As a result, it is relatively immune to unfavorable changes on the electricity market. In response to evolving regulatory and business environment, in 2016, the ENERGA SA Management Board is planning to update the Group’s development directions.

### Distribution Segment

The ENERGA Group consistently attempts to become a leader among distribution system operators by increasing effectiveness and grid reliability in conjunction with the highest quality of customer service. In 2016, in the Distribution Segment, capital expenditures are expected to increase by 4.5% in relation to 2015, i.e. to PLN 1.2 bn. The key directions for investments in 2016 are associated with execution of initiatives contributing to improvement of the SAIDI/SAIFI indicators and implementation of the AMI smart metering system and the TETRA trunked communication system.

2016 will be the first year of application of the “Distribution System Operator Regulation Strategy for 2014-2016”. The new principles introduce far-reaching changes, among others, in calculation of return on employed capital, amount of operating expenses included in the tariff and qualitative regulation. The new rules will have negative impact on the profitability of the Distribution Segment.

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

### Generation Segment

In 2016 the portfolio of ENERGA Wytwarzanie’s generation entities will be supplemented by the Parsówek wind farm. In addition, new projects for RES auctions should be submitted. Continuation of the project involving adjustment of Elektrownia Ostrołęka B to stricter environmental requirements, through construction of nitrogen oxide reduction installation and installation electrostatic precipitators will be also an important project for the Segment.

Significant impact on the activity of the Generation Segment will be also exerted by the changes in the RES support system. The changes will have unfavorable impact on the financial performance of the Włocławek Hydro Power Plant, which has not been obtaining any certificates of origin as of 1 January

2016. On the other hand the new solutions will limit the supply of certificates, which should translate into increase of their market prices, and will create business conditions for investments in new RES sources.

### Sales Segment

From among external factors in 2016, the biggest impact on the activity of the sales segment will be exerted by the regulations pertaining to the “Offtaker of last resort” and increasing competitiveness of the energy market. The most important internal development initiatives comprise development of an offering for end customers and loyalty enhancement and acquisition activities.

The role of the “Offtaker of last resort” discharged by ENERGA-OBRÓT is connected with increased costs of purchasing electricity in view of market conditions, and as a consequence limited possibility of managing the prices for end customers. This results from the fact that a considerable part of the Polish generating capacity from wind sources is found within the area of ENERGA-OPERATOR. The solutions laid down in the RES act (in the part whose entry into force was deferred till 1 July 2016) will limit the burdens following from connection of new RES entities, however the problem of increased prices of purchase of electricity from entities which have already been commissioned, will appear also in the years to come.

It is expected that the competitiveness of the energy market will continue to increase, stimulated both by competition between the largest sellers belonging to vertically integrated capital groups as well as by new smaller entities entering the market.

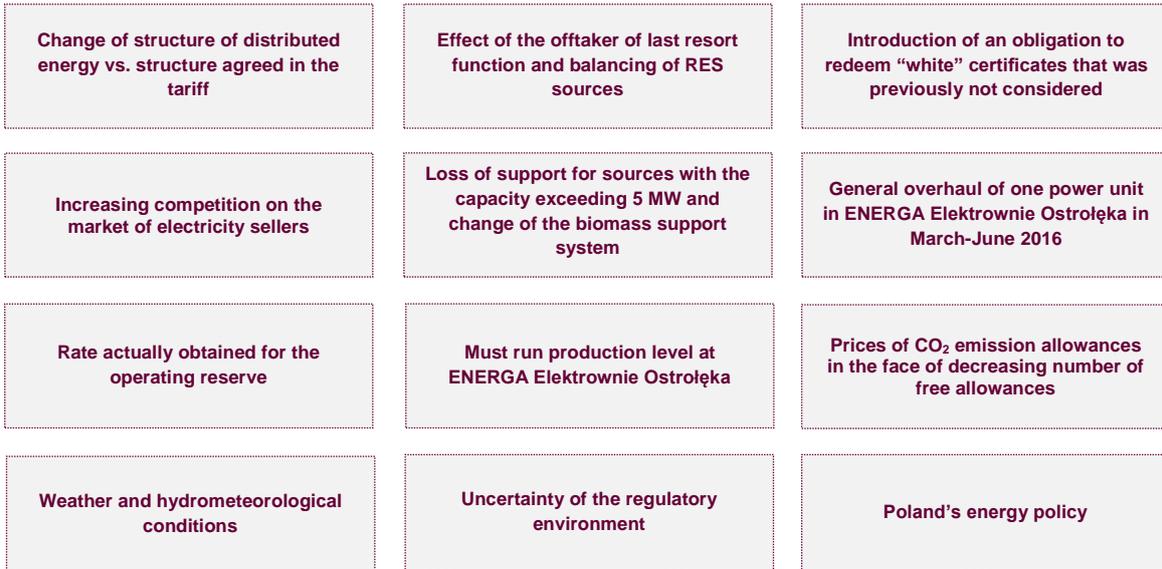
ENERGA-OBRÓT SA, as the leader of the Sales Segment in the ENERGA Group, takes actions aimed at constant increase of the profit levels and increase of the number of customers in the portfolio. Construction of the customer portfolio is based both on acquisition activities outside the ENERGA DSO and loyalty-enhancing actions protecting the existing customer base against competitors. The offering prepared for the existing and prospective customers is based on precise understanding of its needs, simplicity of solutions and innovative pro-customer and environmental solutions. At the same time improvements are implemented to increase the effectiveness of sales activities and improvement of the quality of customer service, guaranteeing satisfaction of the main customer expectations at the lowest possible cost. Efficient data management and digitization and appropriate selection of service/sales channels make it possible to ensure the required effectiveness of loyalty-enhancement actions and acquisition.

In 2015, mechanisms and actions improving the sales dynamics of the dual-fuel offering based on electricity and gas were introduced. Analytical work is conducted to introduce further utilities into the Segment's offering. In 2016, the Company plans to launch the sale of financial products supporting customers in payment of the amounts due to consumed utilities, services and products offered by the Company. Analyses are consistently carried out to identify new niche markets whose exploration will allow to increase profits and maintain the competitive position of the Segment.

### Material factors relating to the Company's development

In the opinion of the ENERGA SA's Management Board, a factor material to the Company's development is the possibility of collecting dividends from subsidiaries, whose performance and activity in the perspective of at least 2015 will be affected by the following:

Figure 3: Material factors relating to development of the Group at least for 2016



## 1.7. Risk management in the Company

### Integrated Risk Management System in the ENERGA Group

The aim of risk management in the ENERGA Group is to identify potential opportunities and threats which may influence the organization, to keep the risk within the prescribed limits, and to support the achievement of business objectives. Hence this is an on-going process resulting from the evolving economic environment, the activity of the Group Companies, and changes of the impact of individual risks on the adopted strategic and operational objectives.

The Integrated Risk Management System (ERM) in place in the ENERGA Group was prepared on the basis of commonly used risk management standards, such as COSO II, FERMA and ISO 31000. It ensures efficient and comprehensive risk management in the whole Group. The system consists of: the Risk Management Policy in the ENERGA Group, the Risk Management Methodology in the ENERGA Group, and the risk management process presented in the chart below:

Figure 4: Risk-management process



In 2015, an update of the Risk Management Methodology in the ENERGA Group was carried out; the new methodology was distributed among participants of the autumn workshops devoted to update of the existing and identification of new risks.

In accordance with the updated documents constituting the basis of the ERM, the organizational structure of the risk management process in ENERGA SA comprises the following roles and responsibilities:

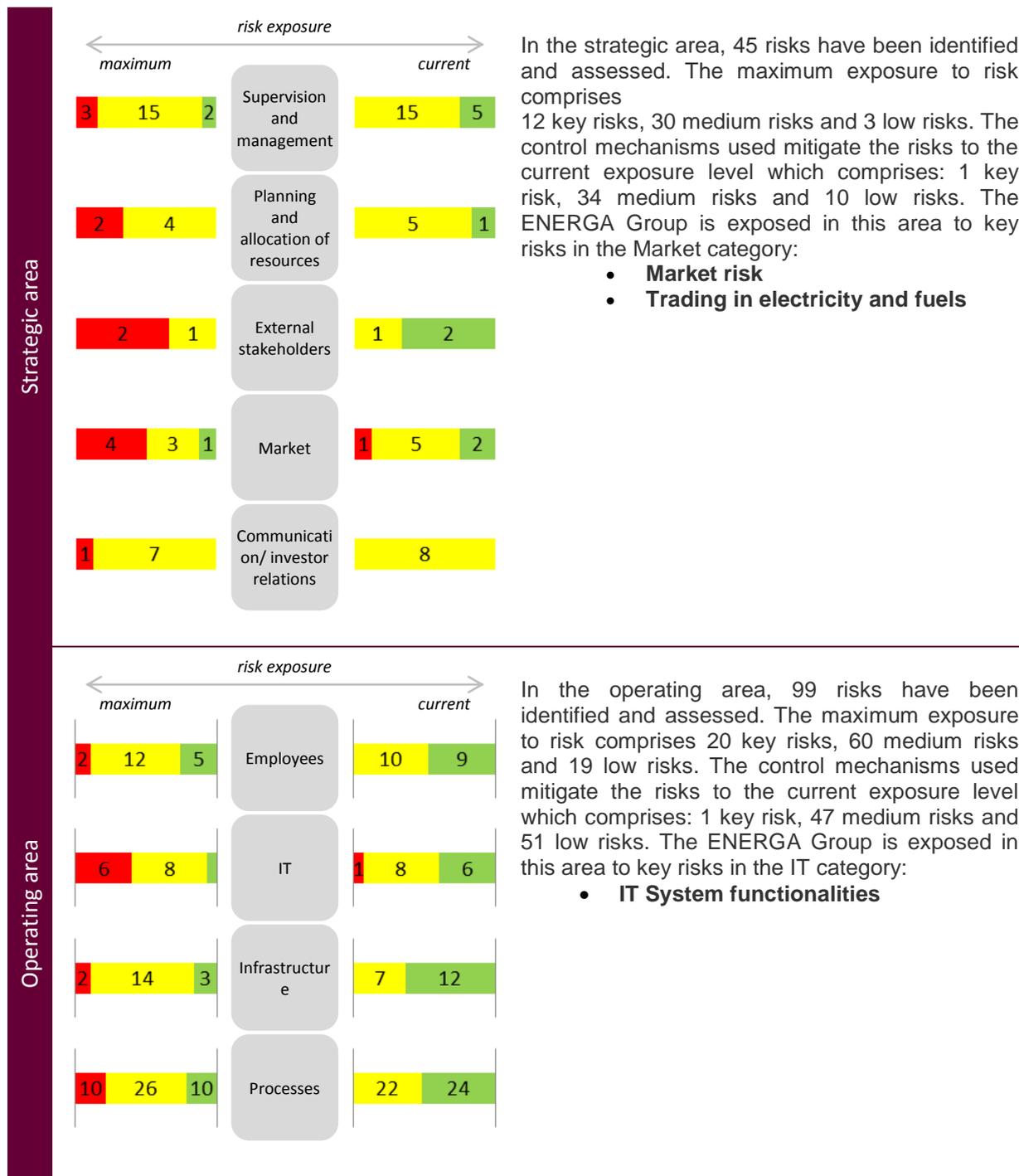
**Figure 5: Roles and responsibilities in the organizational structure of the risk management process in ENERGA SA**

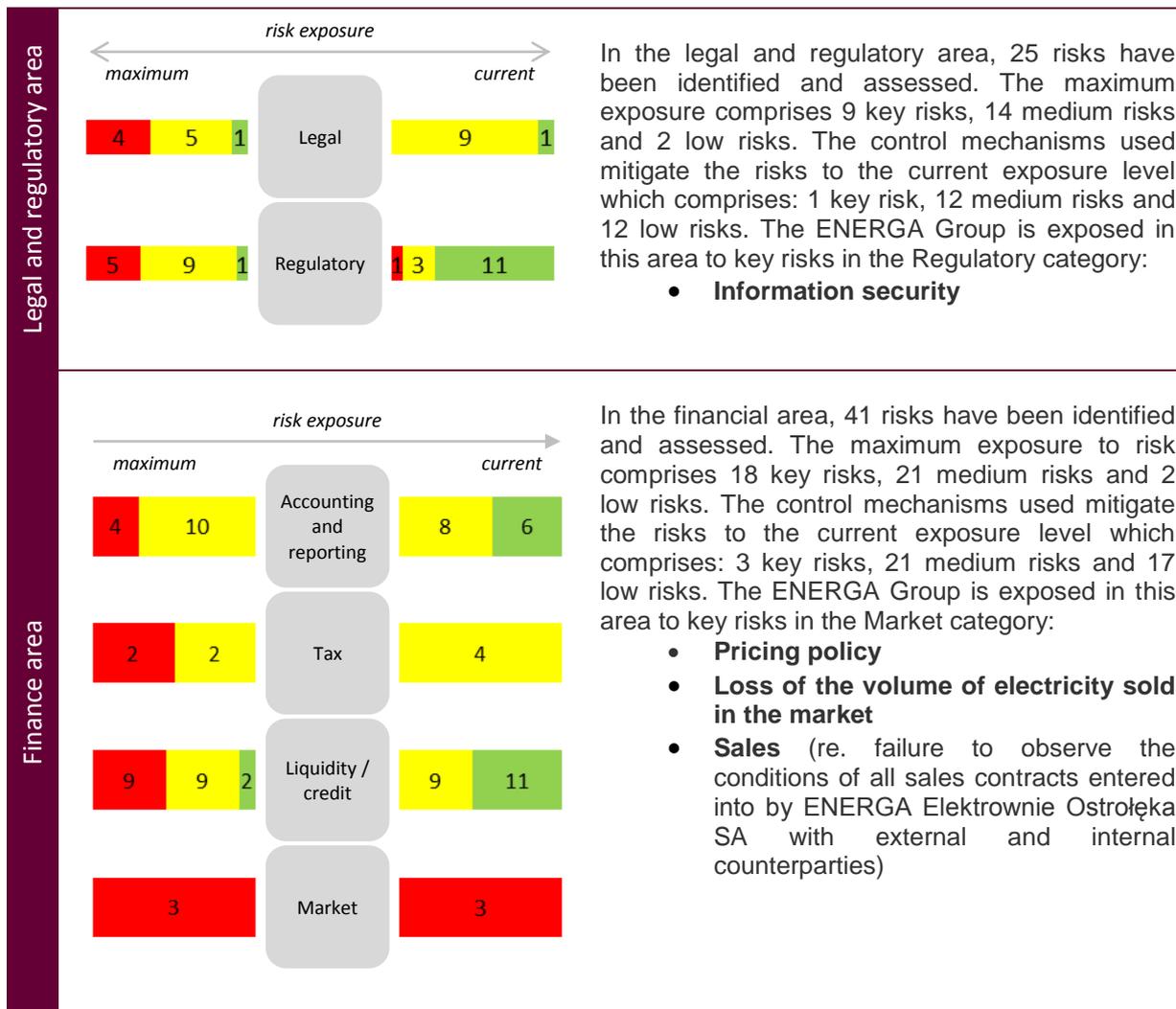


Risk review in the ENERGA Group is carried out using the “bottom-up” method, which means that it starts in the subsidiaries in the Segments, then is carried out in Segment Leader Companies and at the end in ENERGA SA, as the company discharging the management role in the Group.

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

**Figure 6: Individual risk model areas together with the maximum and current risk exposure in the category**





Legend:



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

### Strategic area

#### Distribution Segment

In the Distribution Segment, selection of a suboptimal direction of development of the distribution network is an important risk affecting achievement of strategic objectives. Incorrect prioritisation of investment projects, incorrect estimation of the investment value or suboptimal decisions regarding the choice of the technology used may lead to increased costs on account of network losses, financial claims from generators or reduced security of the operation of the network. Risk management in the area of high voltage grid development planning is on a high level (regular implementation of the HV Grid Development Concept and rolling investment portfolio management mechanism introduced through the HV Grid Development Program). Risk management in the medium voltage grid development planning has been recently improved (MNV Grid Development Concept has been prepared and rolling investment portfolio management mechanism has been introduced through the MV Grid Development Program). In the case of low voltage grid development planning, a tool for multi-criteria analysis of development scenarios has been devised.

## Generation Segment

The key issue for the Generation Segment is the planning of the method of future operation of ENERGA Elektrownie Ostrołęka and ensuring resources for implementation of the selected strategy. Failure to adapt to the evolving market conditions and legal and regulatory environment may result in financial losses, threat to continuity and quality of supplies, services and loss of possible benefits. Lack of a long-term strategy for the power sector on the national level affects the probability of materialization of the risk. The applied control mechanisms and optimization projects are characterized by high effectiveness. The quantitative measures of this risk comprise, among others, implementation of actions and indicators following from the adopted objectives, EBITDA, return on invested capital (ROIC), availability factor (AF), failure rate (FOR), increase of capacity in relation to the base period, efficiency of generation or level of fixed costs excluding amortization and overhaul costs per 1 MW of installed capacity.

Also the question of optimum prioritization of tasks regarding investments and overhauls impacts the continuity of deliveries to customers and sales revenues. The existing safeguards in this respect are subject to permanent improvement and are monitored on an ongoing basis primarily from the standpoint of deviations from schedules and budgets. Execution of framework agreements with most suppliers and inclusion of more specific wordings in the connection agreements with new heat buyers regarding increase of fees for the ordered capacity will limit the risk exposure.

## Sales Segment

The market risk factors associated with trading in electricity and fuels, such as: unexpected price volatility, lack of sufficient liquidity in the forward and spot market, volatility of RES generation, mismatch of the electricity and gas contracting strategy, or forecasts of the buyers demand for electricity and gas fuel, impact the Sales Segment strategic objective associated with high financial efficiency. Materialization of this risk may lead to increase of operating expenses, because large volatility of wind generation, combined with the purchase obligation under the "Offtaker of last resort" mechanism, is negatively correlated with the price of electricity. The control mechanisms used in this respect comprise primarily all internal policies, rules and processes which are aimed at management of global risk through its measurement and limitation of the value at risk (VaR). The quantitative measures used include primarily: financial and economic indicators, market ratios, VaR level, or levels of contracting for the needs of end buyers. With the existing safeguards, materialization of the risk is limited to the extent to which the Company has influence on them.

Another risk present in the Sales Segment is associated with the demand for energy among retail customers and in the wholesale market and implementation of the adopted property rights contracting policy to the extent envisaged by the prevailing provisions of law. Price changes in the area of property rights, their oversupply or lack of liquidity, impact the Group's financial result. Due to the limited possibility of passing on the costs of purchase of the property rights (both those purchased in the market and following from long-term contracts with buyers), the Company regularly monitors the VaR level, which applies the level of the current exposure to risk to the assumed financial result for the given year. The property rights market is strongly dependent on the legal regulations which are subject to frequent changes. The impact of these regulations is significant due to the necessity of appropriate valuation of the costs of purchase of the property rights in the offer for the end customers. Calculation of the maximum loss limit and rules for optimization of trading in property rights impacts the probability of materialization of the risk.

Another risk that may reduce the financial result of trading in electricity is adoption of an incorrect forecast of the volume of the Local Market. The probability of materialization of the risk is high due to the dynamic increase of the sources and volume of electricity in this market and its results may be associated with increase of the costs and increase of the volume in the Balancing Market, where the prices are difficult to estimate. To secure against the risk, the Group prepares forecasts using analytical tools. Daily forecasts are prepared independently by several team members and then averaged out. Significant deviations from the average are discussed by experts. The control mechanisms in place are highly evaluated as they have been worked out on the basis of many years of analytical work on the effectiveness assessment model. Depending on the type of the source, the percentage forecast errors are determined in the Sales Segment's internal regulations.

## ENERGA Group

At the ENERGA Group level, material risks in the strategic area pertain to: research and development and innovation activity, customer service quality management model, corporate governance system, and effectiveness of the management by objectives system.

If the risks associated with the Group's research and development and innovation activity materializes, its results may translate into materialization of the liquidity risk, in the form of lost profits and incurred expenditures and image risk. through loss of competitive position and negative perception of the Group by the stakeholders. The measures of this risk follow from the Group Strategy and pertain, among others, to percentage involvement of the gross expenditures in this area of activity, in relation to total costs of the project.

The risk associated with the customer service quality management model in the ENERGA Group pertains to development of the standard of such service, complaint processing procedures, oversight over customer service quality and setting qualitative objectives in this respect for the Group Companies. The number and structure of serviced customers, product offering, organisation and structure of sales service points, or operation of the IT systems (including in particular billing systems) have direct impact on the customer satisfaction level. The ongoing work on changes to the Group's IT systems and the related transitional problems with issue of invoices translate into high assessed probability of materialisation of this risk.

Another risk pertains to the corporate approval process in the ENERGA Group and acquisition of information about material activities undertaken by the Group Companies. Materialization of the risk in this respect impacts the effectiveness of operation of the Segments and the Group, and formal errors or delays may result in legal ineffectiveness of the decisions made and the possibility of suing them by the shareholders. The control mechanisms in place define the scopes of responsibilities in the corporate governance area, ensure compliance with the formal and legal requirements and make it possible to archive the basic information about the Companies. Timeliness of execution of corporate decisions, completeness and up-to-dateness of basic information about the Companies and materiality of formal defects in the corporate decisions made are monitored on an ongoing basis.

The risk associated with efficiency of operation of the objective management system comprises determining, contracting, updating, monitoring and evaluating of attainment of objectives in the ENERGA Group. Measurement of this risk comprises the impact on the financial result (deviation from the assumed, updated values), after taking into account adjustments for, among others, market changes. Currently work is under way to increase the effectiveness of the system through implementation of an IT tool for communication (inter alia, connection of the systems between ENERGA SA and Segment Leaders), tying objective attainment with an incentive bonus, or update of the internal regulation entitled "Rules for setting and monitoring objectives in the ENERGA Group".

## Legal and regulatory area

Since the State Treasury is the majority shareholder of the Company ENERGA, the decisions taken by the Polish authorities and administrative bodies may have a material impact on the operations of the entire Group. The plan of consolidation and involvement of the power sector in mining may change the shareholders' perception of the ENERGA Group's investment profile and consequently cause changes to the shareholding structure. Additionally, a significant increase of the investment or acquisition plans in the face of decreasing energy prices and increasing CO<sub>2</sub> prices may impact the perception of the Group by shareholders.

Political decisions taken by the state and EU administrative bodies shape also the amendments of legal regulations. Unstable legal environment constituting the basis for the operation of the power sector is a material threat to the ENERGA Group. Adoption of regulations by legislative bodies at the domestic and EU level that materially change the thus far energy policy or introduction of changes to the tariff system, in Poland's climate policy and other regulations related to environmental protection for generation entities, may have negative impact on the activity of individual Group Companies and result in suspension of financing of the investments by banks and the necessity to reformulate the investment plans. The new legal regulation pertaining to investments in wind power plants may impact

the profitability of this area of operations due to the additional costs of operation. The arbitrariness of the rules and elements shaping the DSO tariff by the ERO President is associated with the threat of failure to take into account all actual costs. The ENERGA Group has a leading position in Poland in terms of the share of electricity from renewable sources in total generated energy, hence changes to the interpretation of the RES Act by the ERO President or Ministry of Economy in matters associated with supporting and operation of RES in Poland may lead to decline of the rates of return on executed investments. The involvement of ENERGA SA and Segments in the legislative process for the legal acts and work of industry organizations is a security mechanism in this respect. A qualitative analysis of the proposed changes to the law is carried out on an ongoing basis and their impact on the Group's financial result is measured.

Another risk is the question of disclosure of information and materials subject to legal protection, e.g. subject to corporate secret, customers' or employees' personal data, strategies, prices, or transaction volumes. Such actions may lead to reduction of the competitive advantage in the market, loss of data and entitlements, and even suspension of the possibility of processing of the personal data file by GIODO, which entails discontinuation of the activity of the Sales Segment. Increased interest of external entities in the power sector leads to high probability of materialization of the risk. Actions taken to avoid this risk include physical safeguards securing access to information, disk and e-mail encryption, specialized IT solutions improving security of IT systems and developing employees' awareness in the area of security, including ICT security. To respond to newly occurring threats, new control mechanisms in this respect are implemented on an ongoing basis. A specialized IT company (ENERGA Informatyka i Technologie Sp. z o.o.) operates within the ENERGA Group, monitoring IT applications and infrastructure on an ongoing basis. On ENERGA SA's initiative, work is carried out to appoint CERT ENERGA, i.e. a team responding to computer incidents in the ENERGA Group.

The unsettled legal status of real properties used for the electric infrastructure is another element of legal risk. The factual status of court and out-of-court claims addressed to the distribution companies on account of erection of network installations without a legal title increases each year. On the other hand, attempts are made to enter into comprehensive agreements with bigger entities, e.g. the State Forest Enterprise, which lead to comprehensive settlement of the rights to the real properties under the power lines in the form of transmission easements, with an entry to land and mortgage registers. In addition, work is under way on the urban and construction code, whose draft envisages regulation of the rights to real properties by network enterprises. Coordination of court, arbitration and administrative proceedings at the Group level, monitoring and reporting of values of subjects of litigation as well as other actions taken by ENERGA SA and the companies which are part to such proceedings, are aimed at mitigation of risk and resolving any potential court disputes in a manner required by the Group.

## Operating area

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

Failures of generation facilities and auxiliary installations also impact the investment execution and new technology implementation process. The consequences of materialization of this risk include, among others: failure to attain the assumed strategic objectives, failure to obtain the expected financial parameters of the investment or implementation of an inefficient technology. To avoid this risk, the process uses tested technologies and tested contractors, and the full control of the investor on the execution of the work reduces additional labor costs in old facilities. In addition, contractual clauses providing for high penalties for breaching execution deadlines are used.

In turn, lack of continuity of activities and errors in settlements with customers affect the completeness of revenues and customer satisfaction levels. The most important consequences of this risk include: liquidity problems, loss of margins caused by selection of a different seller by dissatisfied customers, additional costs caused by the necessity to increase the number of employees required to service increased numbers of customer complaints. Execution of a project regarding development and implementation of a sales service system in the ENERGA Group, comprising a billing system and CRM, necessitates integration of IT systems and migration of a large number of customers, which increases the probability of materialization of this risk. With a large number of factors that may cause occurrence of the risk and links to numerous operating processes, the impact of the risk on the operations of the sales company is significant. In order to measure the risk, financial, economic and market ratios are used.

Another risk pertains to the areas of functionalities, integration and data in the IT systems in the ENERGA Group. Decentralization of the IT area in the Group has caused reduction of the effectiveness of control mechanisms. To secure against the risk the Group has taken actions to improve their effectiveness. In 2015 a review of the IT area in the ENERGA Group was carried out on the basis of which material aspects of IT operations that restrict the effectiveness of attainment of the Group's business objectives were identified. A recommendation has been prepared for the target IT operating model making it possible to increase the Group's value and synergy effects in the long run through defining the required long-term changes. In addition, an update of internal regulations on the corporate IT architecture has been carried out.

In connection with the volume and a diversity of procurement needs of individual Group companies, the procurement process is an important risk-generating factor as it affects performance of capital expenditure programs and operating expenses. Improper or inefficient performance of the process may affect the quality of services provided, acquisition of products of incorrect technical or quality parameters, as well as lead to the obligation to pay contractual penalties or costs of litigation. The Group companies have implemented relevant internal regulations setting out procurement procedure standards in order to avoid materialization of this risk. A Pre-Qualification Model is in place in respect to electricity materials. In order to transfer risk, contracts executed with contractors always include clauses on their obligation, among others, to hold appropriate insurance.

## Finance area

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

Correct calculation of sales prices translates directly into the results attained by ENERGA-OBRÓT SA. As a result of the obligation to obtain the ERO President's approval for the tariff rates, in the event a negative decision is issued and the procedure closed, customers cannot be invoiced for the completed sales and, as a consequence, no revenues are earned. As far as this risk is concerned, there may be a situation where the rates approved by the ERO President in the tariff will not guarantee profitable sales. The risk control mechanism has the form of a current market benchmark, however the possibilities regarding objective assessment are very limited due to the complexity of the factors impacting the competitiveness of the given offering. The risk measures applied include, among others, the number of accepted offers, financial and economic ratios, including the level of contracted margins, and market ratios such as market value, market share or market growth.

Loss of electricity sales volume and loss of the market share are the next key risks for the Sales Segment. Higher customer awareness and increased competition may impair the revenue levels. To measure to risk the Group analyzes the churn of existing customers and the number of new customers acquired. The current control mechanisms make it possible to mitigate the risk however constant market monitoring and further improvement of the solutions in place is required. Marketing and product projects are being executed to retain customers.

The product price levels (electricity, property rights, CO<sub>2</sub>) also has decisive influence on the Generation Segment. The significant fluctuations observed in the market may translate into high deviations from the planned revenues. To secure against the risk, the Group constantly monitors the price levels in the market and transaction execution is planned in such a way as to avoid accumulation of negative trends of price changes of all products at the same time.

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

#### Interest rate risk

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

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

According to the interest rate risk policy, risk of variation in interest rates is mitigated by maintaining a portion of debt with fixed interest rate. As part of those assumptions, in Q2 2014, 2-year IRS transactions were concluded to hedge the risk of the WIBOR 3M interest rate, which is used as the base for the company's debts in PLN.

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

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

#### Foreign exchange risk

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

#### Credit risk

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

In this respect, the ratings of financial institutions with which the ENERGA Group cooperates are monitored on a regular basis to minimize credit risk. Credit risk is also incurred in the case of funds involved in participation units in the ENERGA Trading SFIO fund dedicated to the ENERGA Group. According to the adopted investment policy, the fund invests in assets such as treasury bills and bonds and commercial debt instruments. Credit risk associated with investments in treasury bills and bonds is referred to the solvency risk of the State Treasury. Credit risk associated with investments in

commercial debt instruments is mitigated through the fund's properly defined investment policy. The fund may invest its monies only in assets characterized by an investment rating awarded by rating agencies or internally by the fund manager.

#### Liquidity risk

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

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

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

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

## 1.8. Information on material agreements and transactions

### Material contracts

A contract is recognized as material if its value exceeds 10% of the ENERGA's equity.

In 2015, ENERGA SA did not enter into any material agreements.

### Agreements for loans and borrowings

#### Loan agreements with multilateral financial institutions

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

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

- with the European Investment Bank (EIB) with the limit of PLN 1,050 m;
- with the European Bank for Reconstruction and Development (EBRD) with the limit of PLN 800 m;
- with the Nordic Investment Bank (NIB) with the limit of PLN 200 m.

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

- EIB – PLN 805.7 m with final maturity of 15 December 2025,
- EBRD – PLN 523.2 m with final maturity of 18 December 2024,
- NIB – PLN 140.5 m with final maturity of 15 June 2022.

On 13 November 2014, ENERGA SA, ENERGA-OPERATOR SA and EBRD introduced the following amendments to the loan agreement with of 29 April 2010, among others increase of the available loan amount by PLN 275,8 m (as at 31 December 2015, the additional financing amount has not been committed) to be used to finance capital expenditures of ENERGA-OPERATOR SA from 2014 on, with the possible commitment of funds by the end of 2015. On 15 December 2015, extension of availability of these funds till the end of 2016 was agreed with EBRD.

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

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

- with EBRD with a limit of PLN 800 m – as at 31 December 2015, PLN 340.0 m of the loan has been utilized. PLN 460.0 m remains available and the final maturity of the loan is 18 December 2024,
- with EIB with a limit of PLN 1,000 m – as at 31 December 2015, PLN 800.0 m of the loan had been utilized. PLN 200.0 m remains available and the final maturity of the loan is 15 March 2030.

Unused funds under the aforementioned agreements are available for ENERGA until December 2016.

*Nordic Investment Bank*

On 23 October 2014, ENERGA SA signed a loan agreement with a limit of PLN 67.5 m with the Nordic Investment Bank to finance a wind farm construction project in Myślino. On 2 January 2015, the full amount of the loan was disbursed. The final maturity of the loan is 15 September 2026.

**Loans granted**

No loans were granted in the ENERGA Group in 2015. Only two loans from 2013 for a total amount of EUR 499 m were continued; they were granted to ENERGA by the Group’s special purpose vehicle, ENERGA Finance AB (publ), using the funds raised under an Eurobond (EMTN) issue carried out in March 2013.

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

Acting on the basis of the Financial Policy adopted by the ENERGA Group and under the terms and conditions of internal bond issue facilities, in 2015 ENERGA purchased bonds issued by Group companies. The main purpose of the issues was for the issuers, ENERGA Group companies, to raise funds to execute their capital expenditure programs. The utilisation of the funds raised in the issue is described in chapter 3.6. *Financial results by operating segments* of this Report.

The table below presents the nominal value of bonds subscribed by ENERGA and outstanding, broken down into individual issuers from the ENERGA Group, as at 31 December 2015.

**Table 1: Nominal value of bonds subscribed by ENERGA SA and outstanding, by issuer, as at 31 December 2015**

No.	Company name	Nominal value of subscribed bonds (PLN 000s)
1.	ENERGA-OPERATOR SA	3,736,640.5
2.	ENERGA Wytwarzanie SA	1,218,000.0
3.	ENERGA Kogeneracja Sp. z o.o.	93,350.0
4.	ENERGA Elektrownie Ostrołęka SA	138,000.0
5.	ENERGA OBRÓT SA	250,000.0
<b>TOTAL</b>		<b>5,435,990.5</b>

## Domestic bond issue program

No changes were made in the domestic bond issue program established in September 2012, in which the first issue of PLN 1,000 m was executed in October of that year.

## Insurance contracts

The Group has in place a joint insurance policy, which ensures insurance cover for the companies and their activities against risks, with sums insured at levels typical for the profile of energy sector companies in Poland. In cooperation with insurance brokers, a joint property and liability insurance scheme has been concluded for the period from 1 July 2014 to 30 June 2017. The Scheme allows for a standardized insurance cover for relevant risks with customized extensions negotiated for unique needs of individual companies.

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

## Guarantees and sureties given

Table 2: Information on sureties and guarantees extended by ENERGA as at 31 December 2015

No.	Extension date of the surety or guarantee	Term of the surety or guarantee	Entity for which the surety or guarantee was granted	Entity in favor of which the surety or guarantee was granted	Form of the surety or guarantee	Surety or guarantee amount (PLN m)	Amount of liability secured by the surety or guarantee as at 31 December 2015 (PLN m)
1	2012-11-15	2024-12-31	ENERGA Finance AB	bondholders	surety agreement*	5,326.9	2,098.6
2	2015-04-03	2019-05-02	ENERGA Invest SA	PKO BP SA	surety** - agreement to extend a guarantee	89.4	89.4
3	2015-01-08	2024-12-31	ENERGA Wytwarzanie SA	WFOŚiGW Gdańsk	surety - loan agreement	15.0	10.5
4			Other ENERGA Group Companies		surety** - agreement to extend a guarantee	27.1	13.0
<b>TOTAL</b>						<b>5,458.3</b>	<b>2,211.5</b>

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

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

The value of other contingent liabilities (guarantees granted at the request of Group Companies) and sureties granted as at 31 December 2015 amounted to PLN 176 m. They comprised mainly:

- bank guarantees of PLN 150.6 m granted by PeKaO SA and ING Bank Śląski SA to ENERGA-OBRÓT SA,
- bank guarantee of PLN 17 m granted by PKO BP SA to ENERGA OPERATOR SA,
- surety of PLN 3.8 m granted by ENERGA-OBRÓT SA to ENERGA Slovakia s.r.o.

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

All the transactions within the ENERGA Group are made on the basis of the market prices of goods, products or services based on their manufacturing costs. Detailed information on this subject is presented in Note 24 to the Company's financial statements for the twelve-month period ended 31 December 2015.

## Evaluation of financial resources management

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

The Company monitors the liquidity risk using a periodic liquidity planning tool. The tool takes into account the payment due/maturity dates both for investment liabilities and financial assets and liabilities and projected cash flows from operating activity.

The objective is to maintain balance between continuity and flexibility of financing through the use of various sources of financing, such as current account overdrafts, working capital loans, investment loans, local bonds and Eurobonds.

To improve the quality of management of the financial surpluses of the Group companies as of 4 January 2016 the zero-balancing cash pooling service was implemented. It is a tool for optimum utilization of the surpluses generated by the ENERGA Group to fund the current activities of the companies in the structure.

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

At the end of the reporting period, ENERGA SA was a party, as the defendant, to one court proceedings, with the value of the subject matter of the litigation of approx. PLN 132 thousand.

None of the aforementioned proceedings pertaining to the Issuer's liabilities or receivables exceeded the minimum of 10% of the Issuer's equity.

### 1.10. HR and payroll situation

#### Headcount in the ENERGA Group

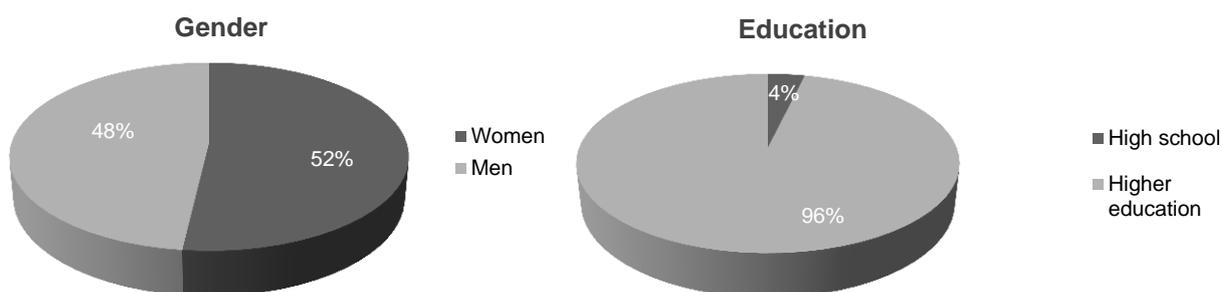
Table 3: Headcount in ENERGA SA as at 31 December 2015\*

Headcount as at 31 December 2013	Headcount as at 31 December 2014	Headcount as at 31 December 2015	Average headcount in 2013	Average headcount in 2014	Average headcount in 2015
persons	persons	persons	FTEs	FTEs	FTEs
135	104	108	137.24	114.8	100.18

\* Average headcount including persons on unpaid leaves, parental leaves and rehabilitation leaves.

The headcount changed because of the reorganization of the Company, which was carried out to adjust its structure and staffing to the new tasks defined in the Organizational Bylaws of the Company introduced in September 2015.

Figure 7: Headcount structure in ENERGA SA as at 31 December 2015



## Remuneration systems

The Company's remuneration system is described in the Rules for remunerating ENERGA SA employees approved by Resolution No. 46/I/2007 adopted by the ENERGA SA Management Board on 25 July 2007. In September 2015, an amendment letter to the Remuneration Rules was signed, introducing a new classification table of positions and base salary rates in ENERGA SA.

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

- 1) Multi-Company Collective Bargaining Agreement for Employees of the Utilities Sector,
- 2) Remuneration Rules of ENERGA-OPERATOR SA,
- 3) Company Collective Bargaining Agreement of ENERGA-OPERATOR SA Branch in Gdańsk,
- 4) Company Collective Bargaining Agreement of ENERGA Kogeneracja Sp. z o.o.

As at 31 December 2015, the Company's Management Board (3 people), Managing Director and 9 other managers were employed on the basis of management contract and their compensation is no longer part of the payroll fund.

## Important information affecting the HR and payroll situation

### Employee benefits

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

- (1) Annual bonus constituting 8.5% of the annual payroll fund from last year, paid out pro rata to the length of employment,
- (2) 'Employee tariff' for electricity, available to employees with one year of professional experience in the utilities sector,
- (3) Holidays gift certificates issued to employees for the Easter Holiday, the Power Industry Employee's Day and Christmas,
- (4) The employer remits funds to the Employee Pension Plan in the amount of 7% of employees' remuneration,
- (5) Cash equivalent of coal allowance,
- (6) Benefit for work in hazardous conditions,
- (7) Addition to basic remuneration depends on seniority,
- (8) Jubilee awards,
- (9) Additional Medical Care Program under the agreement concluded with AXA Życie Towarzystwo Ubezpieczeń SA. All employees are eligible for additional medical benefits under the Guaranteed Package funded by the employer,

- (10) The company social benefits fund authorizing charges in the amount three times higher than the basic charge defined in the Act on Company Social Benefits Fund (ZFŚS).

The Company offers its employees training packages and other forms of development to prepare the employees to perform their duties, improve their knowledge and increase their efficiency, motivation and commitment to work. Training activities executed in 2015 were focused mainly on increasing the employees' qualifications in specialized areas. The employees developed their management skills and their personal efficiency, improved their English skills and took parts in conferences and science symposia related to the energy sector. Additionally, the company delivered training courses on Code of Ethics and Mobbing and Discrimination Counteracting Policy.

#### Changes of the terms of remuneration

In 2015, there were no significant changes in the prevailing terms of remuneration.

#### Group layoffs

The Company did not carry out any group layoffs in 2015

#### Collective disputes

As at 31 December 2015, union membership in the Company was above 19.8%. The following three union organizations operate in the Company:

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

On 12 June 2015, the trade unions demanded that the employer determine a salary increase in 2015 and guarantee entitlements to all employees on a level that is not lower than following from the provisions of industry's collective bargaining agreement. As a result of the negotiations, on 7 September 2015, the parties entered into a Collective Agreement ending the collective dispute concerning the remuneration demands.

### 1.11. Corporate social responsibility of the ENERGA Group

For years the ENERGA Group has acted consistently and comprehensively for the environment by meeting the needs of the various stakeholder groups. Every year, the Group publishes information about all the activities associated with corporate social responsibility in reports presenting non-financial data. In 2015 we decided for the first time not only to present the data but additionally measure the impact of the CSR activities taken by the Group companies on the society, environment and economy. Analysis of the direct effects of the ENERGA Group's activities and indirect effects pertaining to customers, employees, market environment, other entities from the supply chain and other stakeholders, enabled us to obtain a clearer picture of the value of the actions taken. The results of the analysis are presented in the "Our responsibility 2015" report. This is the fifth annual publication in the Group's history summarizing the actions taken in the area of CSR. The report has been prepared on the basis of the guidelines from Global Reporting Initiative G4.0 at the CORE level, giving consideration to ratios in the supplement for utility sector companies. Like in previous years, the document has been reviewed by an independent certifying entity. Reporting of non-financial data enables the Group to verify to what extent its Sustainable Development Strategy for 2014-2020 is implemented. The report takes into account the expectations of external and internal stakeholders (employees) and the Group's business priorities. It also helps investors, counterparties and business partners to assess the business risk and the development potential of the company and enables the Group to be more transparent and credible in the market.

Corporate social responsibility in the ENERGA Group translates also into the approach to environmental protection, constituting one of the pillars of the strategy in the sustainable development area. Since 2014, in the main companies from the Group's value chain, an environmental management system compliant with the EMAS Regulation has been in place. The ENERGA Group's Environmental Policy is a key element of the system obligating us to maintain compliance with all legal regulations, continuously improve the effects of our operations and limit the adverse effect on the environment. In 2015 an independent certifying entity carried out an external verification of the implemented management system. In October 2015, key Group companies received the ISO 14001:2004 certificate. For more information about this topic see the "Our Responsibility 2015" report.

## 1.12. Awards and recognitions for the Company and the ENERGA Group

Table 4: Awards received in 2015

2015
<b>19 October 2015</b> Two distinctions for ENERGA SA in the "The Best Annual Report 2014" competition organized by IRiP: the first one was awarded by Centralny Dom Maklerski Pekao S.A. for big progress in the quality of the activity report, and the other honored the Company's efforts in preparation of the Internet marketing report.
<b>18 October 2015</b> "Nowy Impuls 2015" distinction for Enspirion Sp. z o.o. for implementation of an innovative KSE power balancing concept awarded by the editorial board of "Monitor Biznesu" and "Monitor Rynkowy"
<b>6 October 2015</b> Bureau Veritas Certification organisation dealing with audit and certification of management systems has confirmed that the Environmental Management System introduced and applied in the ENERGA Group satisfies the requirements of the ISO 14001:2004 standard.
<b>17 September 2016</b> Title of the Best Company of the Year awarded by CEE Capital Markets Awards
<b>27 May 2015</b> ENERGA Group received the CSR Golden Leaf in this year's ranking run by the Polityka weekly. The prize is awarded to the largest companies operating in Poland in recognition of their contribution to sustainable economic and social development.
<b>21 April 2015</b> ENERGA OBRÓT received the Certificate of Reliable Energy Seller which is awarded by the Association of Energy Trading to companies embracing good sales practices.
<b>20 April 2015</b> ENERGA SA selected as the winner of the "Bulls and Bears" competition organized by the Parkiet Stock Exchange Newspaper in the category of companies from the mWIG40 index, which is comprised of 40 medium-sized companies listed on the WSE that have the highest liquidity.
<b>30 March 2015</b> Certificate of compliance with the ISO 22301:2012 standard issued for the development of a Business Continuity System by Lloyds Register Quality Assurance to ENERGA OPERATOR SA.

# Analysis of the financial situation and assets



## 2. ANALYSIS OF THE FINANCIAL STANDING AND ASSETS

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

The financial statements of ENERGA SA for the twelve-month period ended 31 December 2015 were prepared:

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

To the extent not regulated by the EU IFRS standards, ENERGA SA keeps its accounting ledgers in accordance with the accounting policy (principles) defined by the Accountancy Act of 29 September 1994 (Journal of Laws of 2013 No. 47, Item 330, as amended) and the regulations issued on its basis ("accountancy act", "Polish accounting standards", "PAS").

The accounting (policy) principles used to prepare the annual financial statements are presented in Note 8 to the financial statements of ENERGA SA for the twelve-month period ended 31 December 2015.

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

Table 5: Statement of profit or loss

in PLN m	2014	2015	Change	Change (%)
<b>Sales revenues</b>	<b>46</b>	<b>60</b>	<b>14</b>	<b>30%</b>
Cost of sales	(56)	(55)	1	2%
<b>Gross profit on sales</b>	<b>(10)</b>	<b>5</b>	<b>15</b>	<b>&gt; 100%</b>
Other operating income	11	13	2	18%
General and administrative expenses	(74)	(86)	(12)	-16%
Other operating expenses	(5)	(8)	(3)	-60%
Financial income	1,033	1,147	114	11%
Financial costs	(309)	(263)	46	15%
<b>Profit before tax</b>	<b>646</b>	<b>808</b>	<b>162</b>	<b>25%</b>
Income tax	4	33	29	> 100%
<b>Net profit for the period</b>	<b>650</b>	<b>841</b>	<b>191</b>	<b>29%</b>

ENERGA SA's operating income is largely related to the services, which the Company provides to other Group companies. The decrease in revenue in 2015 resulted primarily from increasing revenue on marketing fees charged from the Group companies.

General and administrative expenses increased by 16%, which is related to higher costs of marketing activity.

In 2015, as in 2014, the main source of the Company's financial income was dividend income, which went up by PLN 173 m compared to the previous year. Interest income dropped by PLN 50 m, accompanied by decrease of interest expense by PLN 37 m, which was caused mainly by the interest rate drops compared to 2014.

Accordingly, the net result of ENERGA SA reached PLN 841 m, which was 29% more than the net profit earned in 2014. In addition to the aforementioned factors, the net result was significantly affected by change of income tax, which was associated with creation of the ENERGA Tax Group.

**Table 6: Statement of financial position**

in PLN m	Balance as at 31 December 2014	Balance as at 31 December 2015	Change	Change (%)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	37	58	21	57%
Shares in subsidiaries and associates	5,980	5,996	16	0%
Bonds	4,633	4,621	(12)	0%
Deferred tax assets	10	24	14	> 100%
Derivative financial instruments	51	48	(3)	-6%
Other non-current assets	147	118	(29)	-20%
	<b>10,858</b>	<b>10,865</b>	<b>7</b>	<b>0%</b>
<b>Current assets</b>				
Trade receivables and other financial receivables	32	34	2	6%
Bonds	284	781	497	> 100%
Current tax receivables	-	37	37	100%
Investments in the financial assets portfolio	626	314	(312)	-50%
Cash and cash equivalents	280	474	194	69%
Other current assets	35	38	3	9%
Assets classified as held for sale	2	-	(2)	-100%
	<b>1,259</b>	<b>1,678</b>	<b>419</b>	<b>33%</b>
<b>TOTAL ASSETS</b>	<b>12,117</b>	<b>12,543</b>	<b>426</b>	<b>4%</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders</b>				
Share capital	4,522	4,522	-	0%
Reserve capital	447	447	-	0%
Supplementary capital	606	661	55	9%
Cash flow hedge reserve	-	10	10	100%
Retained earnings	695	885	190	27%

	<b>6,270</b>	<b>6,525</b>	<b>255</b>	<b>4%</b>
<b>Non-current liabilities</b>				
Loans and borrowings	4,505	4,582	77	2%
Bonds issued	1,000	1,000	-	0%
Non-current provisions	1	2	1	100%
Deferred income and non-current grants	86	111	25	29%
Derivative financial instruments	23	8	(15)	-65%
	<b>5,615</b>	<b>5,703</b>	<b>88</b>	<b>2%</b>
<b>Current liabilities</b>				
Trade and other financial liabilities	18	22	4	22%
Current loans and borrowings	169	207	38	22%
Bonds issued	14	16	2	14%
Deferred income and government grants	18	27	9	50%
Accruals	10	9	(1)	-10%
Other current liabilities	3	34	31	> 100%
	<b>232</b>	<b>315</b>	<b>83</b>	<b>36%</b>
<b>Total liabilities</b>	<b>5,847</b>	<b>6,018</b>	<b>171</b>	<b>3%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>12,117</b>	<b>12,543</b>	<b>426</b>	<b>4%</b>

As at 31 December 2015, total assets of ENERGA SA reached PLN 12,543 m and were PLN 426 m (4%) higher than on 31 December 2014. The most important change pertained to increase of the investments in bonds of subsidiary companies. At the same time the value of investments in the financial assets portfolios decreased.

The increase of liabilities on account of loans and borrowings was associated with the drawdown of the financing from EIB and NIB in an aggregate amount of PLN 268 m in 2015, which was partly compensated by repayment of the liabilities incurred in previous years.

The most significant change in equity is related to changes in the net profit. The Company earmarked the net profit for 2014 for dividend for shareholders in the amount of PLN 596 m and increase of the supplementary capital (PLN 54 m). As at 31 December 2015, equity covered 52.0% of the Company's assets, compared to 51.7% at the end of 2014. The Company's net debt dropped by PLN 77 m to PLN 5,331 m.

**Table 7: Statement of cash flows**

in PLN m	2014	2015	Change	Change (%)
Net cash flow from operating activities	(86)	(26)	60	70%
Net cash flow from investing activities	254	933	679	> 100%
Net cash flow from financing activities	(231)	(709)	(478)	> -100%
Net increase / (decrease) in cash	(63)	198	261	> 100%

Cash and cash equivalents at the end of the period	277	475	198	71%
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The balance of ENERGA SA's cash as at 31 December 2015 was PLN 475 m, up by PLN 198 m, or 71%, from the same period of the previous year.

The total net cash flows from the Company's operating, investing and financing activities in 2015 were positive at PLN 198 m, compared to the negative cash flows of PLN 63 m in 2014.

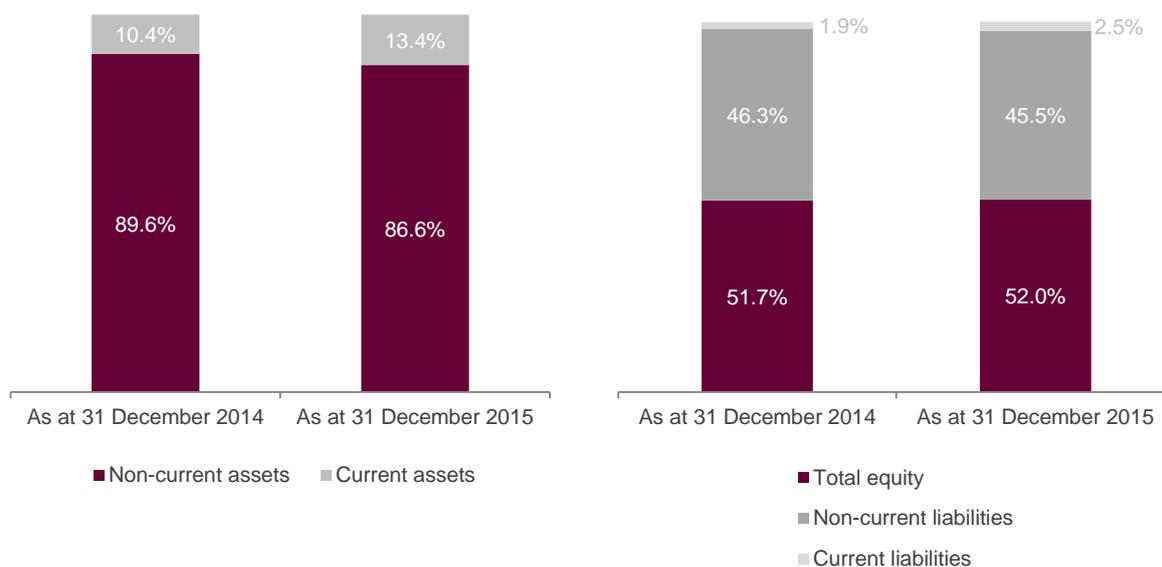
The cash flow on operating activity increased by PLN 60 m, primarily in connection with joint settlement of the income tax in the ENERGA Tax Group.

The increase of the Company's net cash flow on investing activity resulted mainly from the inflows from disposal of participation units in ENERGA Trading SFIO fund and higher dividend proceeds.

The higher net proceeds from financing activities were associated mainly with the lower receipts associated with drawn down financing and higher expenditures for dividend payout.

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

Figure 8: Asset and liability structure



The structure of assets has not changed materially compared to the previous year. As at 31 December 2015, non-current assets represented 86.6% of total assets and current assets represented 13.4% of total assets. As at 31 December 2015, equity represented 52% of all liabilities equity, remaining flat from the end of 2014. The remaining part of liabilities and equity was comprised of liabilities, with the highest portion in financial liabilities, which accounted for 46% and 47% of total assets at the end of 2015 and 2014, respectively.

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

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

## 2.5. Projected financial results

The Management Board of ENERGA SA has not published projections of financial results or consolidated financial results for the financial year 2015.

## 2.6. Ratings

On 27 November 2015, Fitch Ratings affirmed the Company's long-term ratings at the previous level of BBB: the Company's long-term rating in local and foreign currencies and the rating for the Company's junior unsecured debt in the local and foreign currencies. The rating outlook remained stable.

The Agency stated that the affirmation of the Company's ratings reflected the high share of the regulated Distribution Segment's business in EBITDA, which contributed to lower business risk and cash flow predictability. The Agency did not exclude that maintenance of a leading position of the distribution segment and elimination of certain regulatory weaknesses regarding, inter alia, the rules for setting the tariffs by the Distribution System Operators or obligation to purchase energy from Renewable Energy Sources effected as an obligation of an offtaker of last resort, might have a positive impact on the rating. At the same time, the Agency emphasized that a material deterioration of the debt level in relation to cash flow on operating activity resulting from performance of an investment plan that would be too extensive or an adverse change in the Group's business profile might result in the rating worsening.

On 21 December 2015, the Moody's Investors Service rating agency affirmed the Company's ratings at Baa: the Company's long-term rating in domestic currency and rating for junior unsecured debt in domestic currency extended to the EMTN Facility of the subsidiary ENERGA Finance AB (publ) with a total value of EUR 1 bn guaranteed by ENERGA. The rating outlook remained stable.

The Agency stated that the rating was affirmed because of the ENERGA Group's strong financial condition and maintenance of a significant share of the regulated distribution business in the results, even in spite of the expected negative impact of changes in regulations applicable to DSOs in the tariff period from 2016 to 2020. At the same time, the Agency admitted that the factors that restricted the rating included a higher risk profile in the sales and generation segments, low scale of production of energy affecting maintenance of a short position in the generation segment, adverse impact of changes in the support mechanism for renewable energy in Poland as well as possible deterioration of the debt ratios in the case of a full implementation of the investment plan.

Considering the fact that the State Treasury is the majority shareholder (rating for Poland at A2 level with stable outlook), Moody's takes into consideration slight possibility of government's support in the situation of financial threat to the Company's rating. Accordingly, Baa1 rating takes into account a one-point improvement of the Company's credit rating expressed by Moody's in its basic credit assessment at the baa2 level. Maintenance of the stable outlook also reflects the agency's expectation that the Company will continue to manage its financial profile in accordance with the guidelines determined for the current ratings.

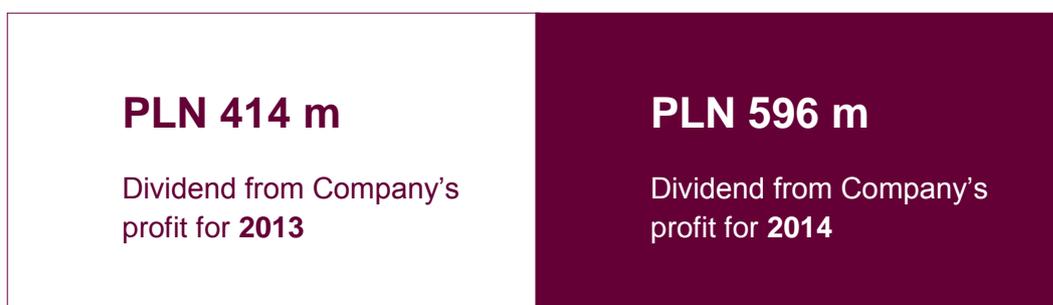
**Table 8: Ratings awarded to ENERGA**

	Moody's	Fitch
Company's long-term rating	Baa1	BBB
Rating outlook	Stable	Stable

Rating date	23 December 2011	19 January 2012
Most recent change of ratings	-	12 October 2012
Most recent affirmation of ratings	21 December 2015	27 November 2015

## 2.7. Dividend

On 29 April 2015, the Annual General Meeting of the parent entity adopted a resolution on distribution of net profit for the financial year covering the period from 1 January to 31 December 2014 in the amount of PLN 650,539 thousand, with the following allocation: dividend for the Company shareholders – PLN 596,257 thousand, i.e. PLN 1.44 per share, and for supplementary capital – PLN 54,282 thousand. The dividend date was set at 7 May 2015 and the dividend payment date at 21 May 2015.



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

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

The agreement between ENERGA and PwC was concluded on 3 February 2015 and pertained to audit of the Company's financial statements and the consolidated financial statements for 2015 and to review of the financial statements for H1 2015.

The entity authorized to audit the Financial Statements of ENERGA SA and the ENERGA Group for the year 2014 was KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa ("KPMG").

**Table 9: Auditor's fee for services provided to the Company (PLN 000s)**

PLN 000s	Year ended 31 December 2014	Year ended 31 December 2015
Audit of the annual financial statements	41	59
Other assurance services, including a review of financial statements	239	74
Tax consulting services	-	-
Other services	-	225
<b>Total</b>	<b>280</b>	<b>358</b>

# Shares and shareholding structure



### 3. SHARES AND SHAREHOLDING STRUCTURE

#### 3.1. ENERGA's shareholding structure

Table 10: Issuer's shares by series and types

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

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

Table 11: Shareholding structure of ENERGA as at 31 December 2015 and the date of preparing these financial statements

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

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

Figure 9: Shareholding structure of ENERGA as at 31 December 2015 and the date of preparing these financial statements



The State Treasury is the Company's majority shareholder. As at the end of 2015, Open-End Pension Funds (OFEs) held 31,130,836 shares, which constituted 7.52% of the share capital. In relation to the last day of December of the year before, OFE's share increased by 1.89%.

Almost 73% of shares in free float were held by international shareholders, mostly from the United States (30%), UK (16%) and Germany (8%).

Figure 10: Share of ENERGA shareholders holding shares in free float by country of origin in 2015



Source: Proprietary materials

### 3.2. Other information on shares and shareholding structure of ENERGA SA

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

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

The Company does not have employee stock ownership programs.

In 2015, the Company and subsidiaries did not purchase any treasury stock of ENERGA. As at 31 December 2015, the Company and subsidiaries did not hold shares in ENERGA.

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

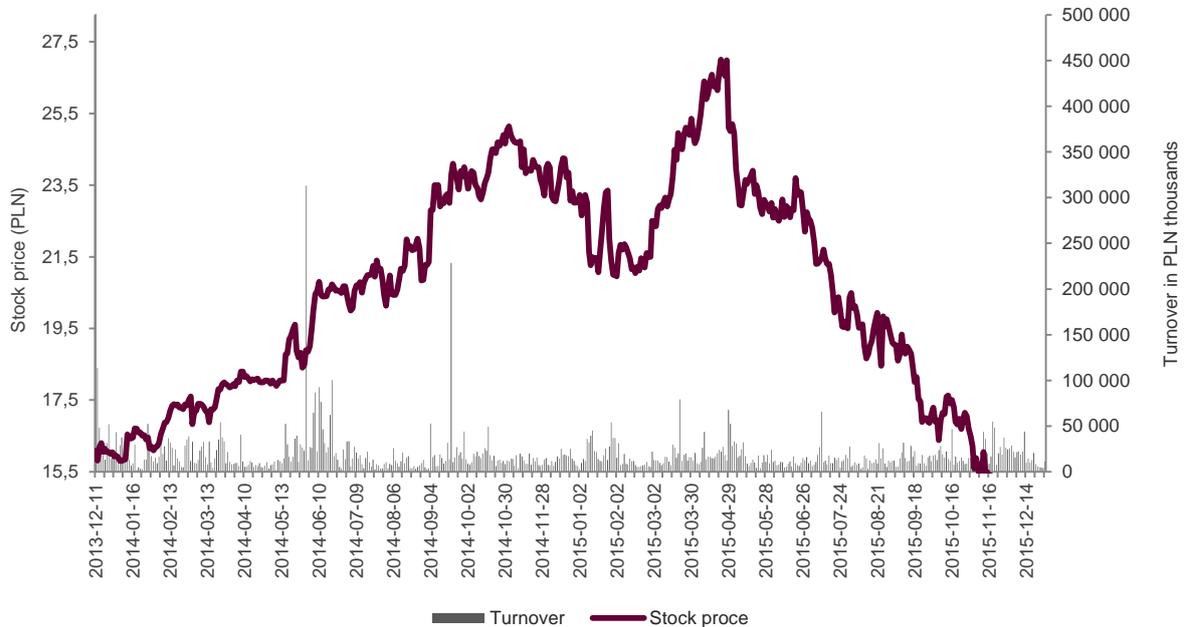
Table 12: Data for ENERGA shares as at 31 December 2015

Data	Value
Issue price	PLN 17.00
Number of shares	414,067,114
Stock price at the end of the period	PLN 12.64
Capitalization at the end of the period	PLN 5.2 bn
Minimum at closing in Q4	PLN 11.00
Maximum at closing in Q4	PLN 17.63
Minimum at closing in 2015	PLN 11.00
Maximum at closing in 2015	PLN 27.00
Minimum in 2015	PLN 10.82
Maximum in 2015	PLN 27.70
Average trading value	PLN 16.6 m
Average trading volume	860 thousands of units
Average number of trades	1,906

Source: Proprietary material based on data from [www.gpwinfostrefa.pl](http://www.gpwinfostrefa.pl)

In the period from 1 January to 31 December 2015, the ENERGA SA stock price decreased by ca. 46%, i.e. from PLN 23.22 to PLN 12.64. The maximum price of Company's shares at session closing was PLN 27.00 on 23 April 2015, and the minimum price of PLN 11.00 was recorded on 8 December 2015. During Q4 of this year, the price decreased from PLN 17.10 to PLN 12.64 at the end of the period, i.e. by ca. 26%. At the same time, in 2015, the WIG index dropped by approx. 10%, WIG20 by 19% and WIG-Energia sectoral index by 32%.

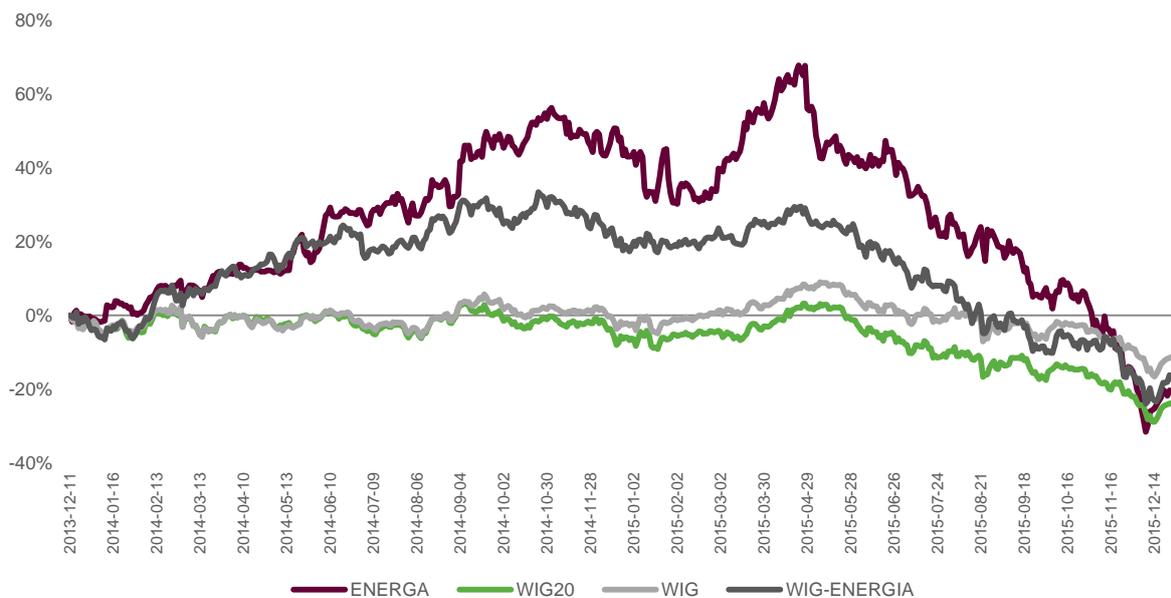
Figure 11: ENERGA SA stock price, in the period from IPO (i.e. 11 December 2013) to 31 December 2015



Source: Proprietary material based on data from gpwinfostrafa.pl

As at 31 December 2015, total shareholder return for shareholders that acquired ENERGA SA shares at issue price was -11%.

Figure 12: Changes in ENERGA quotations in comparison with changes in WIG and WIG-ENERGIA indices



Source: Proprietary material based on data from gpwinfostrafa.pl

As at 31 December 2015, the Company was included in the following stock market indices:

**WIG** – an index comprised of all companies listed on the Main Market of the Warsaw Stock Exchange, which meet the base criteria for participation in the indices. The Company's share in the index was 1.57%.



**WIG20** – is a price index (meaning that only prices of concluded transactions are taken into account in its calculation) grouping 20 largest and most liquid companies from WSE's Main Market. ENERGA SA's share in the index is: 2.29%.



**WIG30** – price index launched on 23 September 2013, comprising (30) companies with the highest position in the ranking determined on the basis of the data after the last session of January, April, July and October. The ranking is calculated on the basis of the trading volume for the past 12 months and the value of shares in free float as at the ranking date. ENERGA SA's share in the index is: 2.14%.



**WIG-Energia** – a sectoral index, which is comprised of companies which participate in the WIG index and are at the same time categorized as "power sector" companies with ENERGA's share in the index of 15.50%.



**WIGdiv** – index calculated since 2010, comprising up to 30 companies which in the index ranking were in a position not lower than 150 and are characterised by the highest dividend rate at the end of November each year and over the past 5 financial years paid out dividends at least 3 times. ENERGA SA's share in the index: 4.11%.



**WIG-Poland** – an index comprised only of shares of domestic companies listed on the Main Market of WSE, which meet the base criteria for participation in the indices. ENERGA SA's share in the index: 1.57%.



**RESPECT Index** – index bringing together companies with the highest corporate social responsibility standards. It has existed on WSE since 2009 and is the only index of this type in Central European countries. ENERGA SA's share in the index: 4.46%.



**FTSE All World** – international index, comprised of shares of medium and large companies from the FTSE Global Equity Index Series. It is calculated for mature and emerging markets and forms the basis for investment products such as e.g. derivatives and the tracking passive fund portfolios. In addition to MSCI-Poland, this index is also an important measure for foreign funds investing in Polish equities. ENERGA SA's share in the index: 0.01%.



**MSCI-Poland** – an index which is an important factor for foreign funds investing in Polish equities. Equities of a company may be eligible for the index if they have the required market capitalization and adequate liquidity. ENERGA SA's share in the index was 2.11%.



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



### 3.4. Investor relations in ENERGA SA

In connection with yet another year ENERGA SA stock being listed, the Investor Relations Department performed a number of activities to improve efficient communication with the capital market. As far periodic studies and tasks are concerned, 4 periodic reports and 31 current reports were prepared, more than 200 individual meetings were held with institutional investors (investor conferences or non-deal roadshows), 4 performance conferences were organized with online broadcast, interactive [Annual Report 2014](#) was published, and the website dedicated to individual investors was updated on an ongoing basis. The Department continues ongoing communication with analysts issuing

recommendations on companies – in 2015, 19 brokerage houses monitored the Group’s performance on an ongoing basis. In September 2015, the Company organized study tour in Gdańsk for the group of analysts and institutional investors to better familiarize them with the ENERGA Group’s business model by providing them with information on distribution assets and holding a meeting with representatives of management boards of the Group companies and the company experts.

In 2015, the Department organized an action that received particular attention named “Stock Investing is Women’s Business”. The idea of the event was to increase the knowledge on investing on the stock market and to improve self-confidence of enterprising Polish women. Over 400 women participated in the training sessions held in 5 cities. The kickoff of the program organized in cooperation with the Ministry of the State Treasury was in the Warsaw Stock Exchange’s Trading Room, and the sessions were delivered by female capital market experts. The Investor Relations Department participated actively in the conferences for investors, such as the Wall Street conference which is the largest meeting organized for individual investors and one of the largest events focusing on the capital market in Poland. The investors had the opportunity to learn about the Company’s business and interesting discussions regarding the Group and the power sector were held at a special counter.

The actions taken last year by the Investor Relations Department earned prizes and distinctions, including, among other things, two distinctions in the Best Annual Report contest evaluating the annual reports of listed companies, or the “Best Company of 2014” prize awarded as part of the CEE Capital Market Awards.

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

### 3.5. Recommendations for the Company’s stock

In 2015, the analysts of brokerage houses and investment banks issued 27 recommendations for ENERGA SA shares. A list of the recommendations can be found at [the Company’s Investor Relations website](#).

Figure 13: Recommendations issued for ENERGA’s shares in 2015



# Representation on the application of Corporate governance principles



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

In 2015, the Company and its authorities were subject to corporate governance rules, which are described

in the set adopted by Resolution No. 19/1307/2012 of the WSE Supervisory Board on 21 November 2012 as “Code of Best Practices for Warsaw Stock Exchange Listed Companies” (“Best Practices”, “DPSN”) and were posted on [WSE's website](#) and the Company's website in the "Investor Relations" tab. The Company has not adopted other corporate governance rules than those indicated above.

In connection with the entering into effect, as of 1 January 2016, of the “Code of Best Practices for Warsaw Stock Exchange Listed Companies in 2016”, which constitute Attachment to Resolution No. 26/1413/2015 adopted on 13 October 2015 by the Supervisory Board of the Warsaw Stock Exchange, the Management Board of ENERGA SA has accepted and will apply the corporate governance principles set forth in that document, with the exception of:

- 1) Detailed principles I.Z.1.16. and IV.Z.2 pertaining to real-time broadcasts of the General Meetings,
- 2) Principle I.Z.1.20. concerning posting of audio or video recordings of the General Meetings on the corporate website,
- 3) Principle III.Z.3 in respect to the organizational independence regarding appointment and dismissal of an Internal Audit Head and approval and changes of his/her remuneration,
- 4) Detailed principle I.Z.1.10. on publishing financial projections.

Additionally, the Company is currently analyzing the following principles: I.Z.1.14, II.Z.1 (jointly with I.Z.1.3), II.Z.10.3, II.Z.10.4, V.Z.6, VI.Z.1, VI.Z.4. Once completed, the Company will update its standpoint on the application of the above principles. Information on non-application of certain principles of the “Code of Best Practices for Warsaw Stock Exchange Listed Companies in 2016” was provided by the Company in the EIB Report on corporate governance on 5 January 2016.

### 4.1. Corporate governance rules not used in the Company

In 2015, the Company did not employ the rules set forth in Chapter II item 1 sub-item 9a and Chapter IV item 10 of the Best Practices.

Pursuant to

- 1) Chapter II item I sub-item 9a of DPSN, the Company should post the audio or video recording of the General Meeting on the corporate website,
- 2) Chapter IV item 10 of the Best Practices, the Company should enable its shareholders to participate in a General Meeting using electronic communication means through:
  - a) real-time broadcast of General Meetings,
  - b) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the meeting venue,

The provisions of [the Company's Articles of Association](#) and the [General Meeting Bylaws](#) of ENERGA SA currently in effect do not envisage the use of the means of electronic communication during general meetings, and a decision whether or not to use them is conditional upon such a request being made by a larger group of ENERGA SA's shareholders.

The Company submitted to the General Meeting of ENERGA SA a proposal regarding introduction of appropriate provisions in the Company's Articles of Association and the General Meeting Bylaws so as to allow, inter alia, for:

- 1) participation in the General Meeting using the means of electronic communication,
- 2) real-time broadcasts of General Meetings,
- 3) publication of recordings of the meetings on the Company's website, in the Investor Relations tab,

The foregoing matters were examined by the Extraordinary General Meeting convoked for 15 December 2014, however the resolutions with this respect were not passed.

The Company implemented the recommendations of the WSE included in part I of Good Practices. The recommendation for an equal representation of women and men in the Management Board and the Supervisory Board (Chapter I.9 of DPSN) was not applied. Supervisory Board members are appointed in accordance with the provisions of the Articles of Association by the General Meeting and the State Treasury within its personal rights, while Management Board Members - by the Supervisory Board. The rules applicable in this respect do not introduce any limitations on the eligibility to participate in the Company's governing bodies or in pre-qualification proceedings based on gender. In 2015, the ENERGA SA Management Board was composed of three persons, and in the period from 29 April to 7 December 2015, Ms. Jolanta Szydłowska was Vice-President of the Management Board for Corporate Affairs. As far as the ENERGA SA Supervisory Board is concerned, Ms. Paula Ziemięcka-Księżak has been the member since 2015.

Irrespective of the above, the Company makes every effort to maintain equal representation of women and men in management reporting directly to the Company's Management Board. In 2015, the percentage of women among the management staff was 41.7%.

## 4.2. Significant shareholders

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- 1) resolutions adopted by the General Meeting (which also require amendments to the Articles of Association) on the following subjects:
  - a) introduction of shares of various types, establishment of shares of a new type,
  - b) change of the preference of shares,
  - c) split-up of the Company, except for split-up through spinning-off,
  - d) moving of the Company's registered office,
  - e) transformation of the Company,
  - f) reduction of share capital through redemption of part of shares unless the reduction takes place simultaneously with increase of share capital, require the majority of four fifth of the votes cast.

- 2) a General Meeting resolution on a significant change of the Company's line of business may be adopted without buying up shares held by shareholders who oppose such change.

In 2015, there were no amendments to the Company's Articles of Association.

## 4.7. Company's corporate bodies

### General Meeting

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

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

### Manner of convening the General Meeting

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

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

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

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

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

### Course of the General Meeting

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

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

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

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

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

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

## Powers of the General Meeting

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

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

One General Meeting of the Company was held in 2015 on 29 April 2015. The resolutions adopted at this Annual General Meeting were published in Current Report no. 8/2015 of 29 April 2015.

## Supervisory Board

### Composition

In the 2015 financial year and until the date of this Report the ENERGA SA Supervisory Board consisted of the following persons:

- 1) in the period from 1 January to 28 July 2015:
  - a) Bogusław Nadolnik - Supervisory Board Chairman,
  - b) Marian Gawrylczyk - Supervisory Board Deputy Chairman,
  - c) Paula Ziemiecka-Księżak - Supervisory Board Secretary,
  - d) Jarosław Mioduszeński - Supervisory Board Member,
  - e) Mirosław Szreder - Supervisory Board Member,
  - f) Zbigniew Wtulich - Supervisory Board Member,
  - g) Jakub Żołyński - Supervisory Board Member.
- 2) in the period from 28 July to 1 October 2015:
  - a) Bogusław Nadolnik - Supervisory Board Chairman,

- b) Zbigniew Wtulich - Supervisory Board Deputy Chairman,
  - c) Paula Ziemiecka-Księżak - Supervisory Board Secretary,
  - d) Jarosław Mioduszewski - Supervisory Board Member,
  - e) Mirosław Szreder - Supervisory Board Member,
  - f) Jakub Żołyński - Supervisory Board Member.
- 3) in the period from 1 October to 9 November 2015:
- a) Bogusław Nadolnik - Supervisory Board Chairman,
  - b) Zbigniew Wtulich - Supervisory Board Deputy Chairman,
  - c) Paula Ziemiecka-Księżak - Supervisory Board Secretary,
  - d) Jarosław Mioduszewski - Supervisory Board Member,
  - e) Mirosław Szreder - Supervisory Board Member,
  - f) Waldemar Kamrat - Supervisory Board member,
- 4) in the period from 9 November to 12 November 2015:
- a) Zbigniew Wtulich -Supervisory Board Deputy Chairman,
  - b) Paula Ziemiecka-Księżak - Supervisory Board Secretary,
  - c) Jarosław Mioduszewski - Supervisory Board Member,
  - d) Mirosław Szreder - Supervisory Board Member,
  - e) Waldemar Kamrat - Supervisory Board member,
- 5) in the period from 12 November to 2 December 2015:
- a) Paula Ziemiecka-Księżak - Supervisory Board Chairman,
  - b) Zbigniew Wtulich - Supervisory Board Deputy Chairman,
  - c) Bogdan Skalski - Supervisory Board Secretary,
  - d) Jarosław Mioduszewski - Supervisory Board Member,
  - e) Mirosław Szreder - Supervisory Board Member,
  - f) Waldemar Kamrat - Supervisory Board member,
- 6) in the period from 2 December to 3 January 2016:
- a) Paula Ziemiecka-Księżak - Supervisory Board Chairman,
  - b) Zbigniew Wtulich - Supervisory Board Deputy Chairman,
  - c) Bogdan Skalski - Supervisory Board Secretary,
  - d) Jarosław Mioduszewski - Supervisory Board Member,
  - e) Mirosław Szreder - Supervisory Board Member,
  - f) Roman Pionkowski - Supervisory Board member,
- 7) in the period from 3 January to 7 January 2016:
- a) Paula Ziemiecka-Księżak - Supervisory Board Chairman,
  - b) Zbigniew Wtulich - Supervisory Board Deputy Chairman,
  - c) Bogdan Skalski - Supervisory Board Secretary,
  - d) Jarosław Mioduszewski - Supervisory Board Member,
  - e) Mirosław Szreder - Supervisory Board Member,
- 8) in the period from 7 January 2016 to this date:
- a) Paula Ziemiecka-Księżak - Supervisory Board Chairman,
  - b) Zbigniew Wtulich - Supervisory Board Deputy Chairman,
  - c) Bogdan Skalski - Supervisory Board Secretary,
  - d) Andrzej Powalowski - Supervisory Board member,
  - e) Marek Szczepaniec - Supervisory Board member,
  - f) Maciej Żółtkiewicz - Supervisory Board member.

On 28 July 2015 Mr. Marian Gawrylczyk tendered his resignation from membership in the Company's Supervisory Board and who until that date had acted in the capacity of the Supervisory Board Deputy Chairman of ENERGA SA.

By declaration of the State Treasury Minister, Mr. Jakub Żołyński was dismissed from the Supervisory Board on 1 October 2015 and Mr. Waldemar Kamrat was appointed to Supervisory Board.

On 6 October 2015, ENERGA SA's Supervisory Board delegated Mr. Waldemar Kamrat to discharge temporarily the function of Management Board Member responsible for coordinating the work on the ENERGA Group's strategy for a period of three months from the date of delegation.

On 9 November 2015 Mr. Bogusław Nadolnik tendered his resignation from membership in the Company's Supervisory Board and who had acted in the capacity of Supervisory Board Chairman.

As of 12 November 2015, Mr. Bogdan Skalski was appointed to the Supervisory Board by a declaration of the State Treasury Minister. Simultaneously, pursuant to § 19 sec. 1 of the Company's Articles of Association, the State Treasury Minister tipped Ms. Paula Ziemiecka-Księżak to be the Company's Supervisory Board Chairperson.

On 2 December 2015, the State Treasury Minister presented a representation dismissing Mr. Waldemar Kamrat from the Supervisory Board and appointing Mr. Roman Pionkowski to the Supervisory Board.

On 7 December 2015, Mr. Roman Pionkowski was delegated by the Company's Supervisory Board to discharge temporarily the function of Management Board Member responsible for managing the Company for a period of up to three months from the date of delegation. Then, in connection with his appointment to the Company's Management Board, Mr. Roman Pionkowski tendered his resignation from membership in the Supervisory Board as of 3 January 2016.

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

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

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

**Paula Ziemiecka-Księżak** graduated from the Leon Koźmiński Entrepreneurship and Management College. Since 1996 employed in the Ministry of the Treasury. She has worked in the oversight departments for State Treasury-owned companies. She has overseen companies in the following sectors: vehicle transportation, construction, marine transport and the publishing sector as well as companies such as Mennica Polska S.A. and KGHM Polska Miedź S.A. At present, she is an employee in the newly-formed Ministry of Energy. She has been acting in the capacity of the Company's Supervisory Board Chairperson since 12 November 2016.

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

**Bogdan Skalski** graduated from the Warsaw University of Technology. Since 1998 he has been employed in the Ministry of the Treasury. He has worked in the oversight departments for State

Treasury-owned companies. He has overseen affairs related to the restructuring of State Treasury-owned companies (metallurgical industry), he supervised entities from the metallurgical industry (e.g. Huta Częstochowa S.A., PHS S.A.), the power industry (e.g. companies belonging to the PGE S.A. Group, ENEA S.A.), he participated in work to create 4 energy groups, the separation of the Transmission System Operator, the creation of Distribution System Operators, he participated in work on PGE S.A.'s IPO. In addition, he has gained experience involved in overseeing the operations of State Treasury-owned companies by sitting in supervisory boards of companies since 1998. He acts in the capacity of Secretary in the Company's Supervisory Board.

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

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

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

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

### Supervisory Board's powers

The Supervisory Board's powers include in particular:

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

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

### Operation of the Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In the period from 1 January to 31 December 2015 the ENERGA SA Supervisory Board held 15 meetings and adopted 148 resolutions. Five Supervisory Board meetings were held in 2015 with not all members in attendance.

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

The most important matters handled by the Supervisory Board in the 2015 financial year included, among others:

- 1) conducting executive search procedures for ENERGA SA Management Board members and determining the rules for and amount of compensation for ENERGA SA Management Board members,

- 2) consenting to buy shares in PKP Energetyka SA,
- 3) approving the Organizational Bylaws of ENERGA SA,
- 4) delegating Supervisory Board members to perform temporarily the duties of Management Board members and to determine their compensation,
- 5) analyzing the current economic and financial position of the Company and the Group and the execution and return on the investments conducted in the ENERGA Group.

In addition, in 2015 the Supervisory Board specified how to vote at general meetings of subsidiaries in the scope resulting from the Company's Articles of Association, approved the physical and financial plans of ENERGA SA and the ENERGA Group, evaluated the financial statements and consolidated financial statements for the 2014 financial year with the motion to distribute profit and it monitored the Management Board's execution of the sponsoring activity plan.

### **Audit Committee**

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

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

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

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

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

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

The Audit Committee is composed of at least three Supervisory Board members, including at least one member who satisfies the independence criteria specified by the legal regulations and holds accounting or financial audit qualifications within the meaning of the Act on Auditors. According to the Articles of Association, this person should satisfy the requirements envisaged for independent Supervisory Board members within the meaning of the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC), including the requirements following from the Code of Best Practices for Warsaw Stock Exchange Listed Companies.

In the 2015 financial year, the Audit Committee operated in the following composition:

- 1) in the period from 1 January to 28 July 2015:
  - a) Mirosław Szreder - Committee Chairman,
  - b) Marian Gawrylczyk,
  - c) Jarosław Mioduszewski,
  - d) Zbigniew Wtulich,
- 2) in the period from 28 July 2015 to 7 January 2016:
  - a) Mirosław Szreder - Committee Chairman,
  - b) Jarosław Mioduszewski,
  - c) Zbigniew Wtulich,

- 3) in the period from 7 January to 22 January 2016 - in connection with the dismissal from the Supervisory Board of Mr. Mirosław Szreder and Mr. Jarosław Mioduszewski, only Mr. Zbigniew Wtulich was in the Audit Committee,
- 4) in the period from 22 January 2016 to this date:
  - a) Zbigniew Wtulich,
  - b) Marek Szczepaniec,
  - c) Andrzej Powalowski.

In connection with the resignation of Mr. Marian Gawrylczyk from membership in the Company's Supervisory Board, the Audit Committee operated with a three person composition as of 28 July 2015.

As a result of changes to the composition of the Supervisory Board effected by the Company's General Meeting on 7 January 2016, i.e. the dismissal of Mr. Jarosław Mioduszewski and Mr. Mirosław Szreder, Mr. Zbigniew Wtulich remained in the Audit Committee.

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

In 2015, Mr. Mirosław Szreder was the Audit Committee Chairman.

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

In 2015, the Audit Committee held 5 meetings, including 4 with all members in attendance.

### **Nomination and Compensation Committee**

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

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

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

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

In the 2015 financial year, the Nomination and Compensation Committee operated in the following composition:

- 1) in the period from 27 February to 28 July 2015:
  - a) Bogusław Nadolnik,
  - b) Marian Gawrylczyk,
  - c) Paula Ziemiecka-Księżak,

- d) Jakub Żołyński,
- 2) in the period from 28 July to 1 October 2015:
  - a) Paula Ziemecka-Księżak - Committee Chairwoman,
  - b) Bogusław Nadolnik,
  - c) Jakub Żołyński,
- 3) in the period from 1 October to 6 October 2015:
  - d) Paula Ziemecka-Księżak - Committee Chairwoman,
  - a) Bogusław Nadolnik,
- 4) in the period from 6 October to 9 November 2015:
  - a) Paula Ziemecka-Księżak,
  - b) Bogusław Nadolnik,
  - c) Zbigniew Wtulich,
- 5) in the period from 9 November to 7 December 2015:
  - a) Paula Ziemecka-Księżak - Committee Chairwoman,
  - b) Zbigniew Wtulich,
- 6) from 7 December to the present date:
  - a) Paula Ziemecka-Księżak - Committee Chairwoman,
  - b) Bogdan Skalski,
  - c) Zbigniew Wtulich.

Seven Nomination and Compensation Committee meetings were held in 2015 – all of them with all members in attendance.

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

## Management Board

### Rules for appointing and dismissing Management Board Members

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

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

A Management Board Member may be also:

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

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

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

### Composition

In 2015 and until the present moment, the Company's Management Board operated with the following composition:

- 1) in the period from 1 January to 29 April 2015:
  - a) Mirosław Bieliński - President of the Management Board,
  - b) Roman Szyszko - Executive Vice-President of the Management Board, Chief Financial Officer,
  - c) Wojciech Topolnicki - Executive Vice-President of the Management Board, Strategy and Investments,

- 2) in the period from 29 April to 6 October 2015:
  - a) Andrzej Tersa - President of the Management Board,
  - b) Seweryn Kędra - Executive Vice-President of the Management Board, Chief Financial Officer,
  - c) Jolanta Szydłowska - Vice-President of the Management Board for Corporate Affairs,
- 3) in the period from 6 October to 2 December 2015:
  - a) Andrzej Tersa - President of the Management Board,
  - b) Seweryn Kędra - Executive Vice-President of the Management Board, Chief Financial Officer,
  - c) Jolanta Szydłowska - Vice-President of the Management Board for Corporate Affairs,
  - d) Waldemar Kamrat - ENERGA SA Supervisory Board member delegated to perform temporarily the duties of a Management Board member acting in the capacity of Executive Vice-President of the Management Board for Development Strategy,
- 4) in the period from 2 December to 7 December 2015:
  - a) Andrzej Tersa - President of the Management Board,
  - b) Seweryn Kędra - Executive Vice-President of the Management Board, Chief Financial Officer,
  - c) Jolanta Szydłowska - Vice-President of the Management Board for Corporate Affairs,
- 5) in the period from 7 December 2015 to 3 January 2016:
  - a) Roman Pionkowski - ENERGA SA Supervisory Board member delegated to perform temporarily the duties of a Management Board member acting in the capacity of President of the Management Board,
  - b) Seweryn Kędra - Executive Vice-President of the Management Board, Chief Financial Officer,
- 6) in the period from 4 January 2016 to 1 February 2016:
  - a) Dariusz Kaśków - President of the Management Board,
  - b) Roman Pionkowski - Executive Vice-President of the Management Board for Development Strategy,
  - c) Mariusz Rędaszka - Executive Vice-President of the Management Board, Chief Financial Officer,
- 7) in the period from 1 February 2016 to 26 February 2016:
  - a) Dariusz Kaśków - President of the Management Board,
  - b) Grzegorz Ksepko - Executive Vice-President of the Management Board for Corporate Affairs,
  - c) Roman Pionkowski - Executive Vice-President of the Management Board for Development Strategy,
  - d) Mariusz Rędaszka - Executive Vice-President of the Management Board, Chief Financial Officer,
- 8) In the period from 26 February until the date of preparing this Report:
  - a) Dariusz Kaśków - President of the Management Board,
  - b) Grzegorz Ksepko - Executive Vice-President of the Management Board for Corporate Affairs,
  - c) Mariusz Rędaszka - Executive Vice-President of the Management Board, Chief Financial Officer.

In connection with the elapse on 31 May 2015 of the third joint term of office of the Company's Management Board, on 27 February 2015 the ENERGA SA Supervisory Board decided that the Company's Management Board would consist of four persons and it launched an executive search to recruit the Company's Management Board members for its fourth term of office, i.e.:

- 1) President of the Management Board,
- 2) Executive Vice-President of the Management Board, Chief Financial Officer,
- 3) Executive Vice-President of the Management Board for Development Strategy,

4) Executive Vice-President of the Management Board for Corporate Affairs.

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

As a result of the executive search procedure, the ENERGA SA Supervisory Board chose the following persons as the best candidates and then appointed them to the Management Board in its fourth term of office:

- 1) President of the Management Board - Mr. Andrzej Tersa,
- 2) Executive Vice-President of the Management Board, Chief Financial Officer - Mr. Seweryn Kędra,
- 3) Executive Vice-President of the Management Board for Corporate Affairs - Mrs. Jolanta Szydłowska.

The procedure to select the Executive Vice-President of the Management Board for Development Strategy was completed without selecting the best candidate.

On account of the vacancy in the position of Executive Vice-President of the Management Board for Development Strategy, on 6 October 2015 the ENERGA SA Supervisory Board delegated a Supervisory Board member, namely Mr. Waldemar Kamrat, to act temporarily as the Company's Management Board Member responsible for coordinating work on the ENERGA Group's development strategy and entrusted him with the function of Executive Vice-President of the Management Board for Development Strategy for a period of up to three months from the date of delegation and at the same time it launched an executive search for this position.

The ENERGA SA Supervisory Board completed this procedure on 7 December 2015 without selecting the best candidate and it made changes to the Company's Management Board, i.e.:

- 1) it dismissed:
  - a) Mr. Andrzej Tersa serving as President of the Company's Management Board,
  - b) Mrs. Jolanta Szydłowska, serving as Executive Vice-President of the Management Board for Corporate Affairs,
- 2) it delegated Mr. Roman Pionkowski, Supervisory Board member to act temporarily as a Management Board member entrusting him with serving as the President of the Management Board, for a period up to three months from the date of delegation.

At the same time, on 7 December 2015, the Supervisory Board, having regard for the Management Board of the fourth term of office being composed of four persons, adopted a decision to launch an executive search for the Company's Management Board members, i.e. for the following positions:

- 1) President of the Management Board,
- 2) Executive Vice-President of the Management Board, Chief Financial Officer,
- 3) Executive Vice-President of the Management Board for Development Strategy,
- 4) Executive Vice-President of the Management Board for Corporate Affairs.

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

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

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

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

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

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

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

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



**Dariusz Kaśków – President of the Management Board**

Graduated from the Faculty of Law and Administration at the University of Silesia (1989). He started his professional career in the Voivodship Prosecutor's Office in Opole. In 1991-1994 he served as deputy mayor and then, until 1998, as mayor of Głubczyce. From January to April 2000, Dariusz Kaśków was the president of SKOK Krapkowice and from May 2000 to November 2006 he served as the Superintendent of Głubczyce. From January 2007 he has been associated with the ENERGA Group, initially discharging the function of Director General of the ENERGA Spółka Akcyjna Kalisz Branch and general proxy in Koncern Energetyczny ENERGA Spółka Akcyjna (subsequently ENERGA-OPERATOR Spółka Akcyjna). From July 2007 to November 2007 he was the Vice-President of the Management Board of ENERGA-OPERATOR Spółka Akcyjna. From November 2007 to January 2008 – he was the Vice-President of the Management Board of KGHM Polska Miedź Spółka Akcyjna. Until December 2015 he discharged the function of director of Zakładu Aktywności Zawodowej im. Jana Pawła II (John Paul II Professional Activity Center) at Stowarzyszenie Na Rzecz Osób Niepełnosprawnych (Association for the Disabled) in Branice. In addition, Dariusz Kaśków was a member of different supervisory bodies in the period from 1992 to 2002 – Supervisory Board member of Agencja Rozwoju Opolszczyzny Spółka Akcyjna (Opole Regional Development Agency) and from August 2007 to November 2007 – Supervisory Board member of Zakład Energetyczny Płock – Dystrybucja Zachód.



**Mariusz Rędaszka – Executive Vice-President of the Management Board, Chief Financial Officer**

Graduated from the Foreign Trade Department of the Warsaw School of Economics and MBA Studies at the Calgary University. He has completed a number of training courses, including Valuation of Enterprises, Mergers and Acquisitions, Investment Financing and Strategic Leadership. Manager with over 20 years of professional experience in strategic and finance management. Specializes in restructuring projects, profitability management, structure and process management, mergers and acquisitions. In the first years of his career he was involved in investment banking – he worked in Creditanstalt Investment Bank (currently Unicredit Group), where he specialized in energy market matters, including privatization, investment finance and services for Polish and foreign investors. In 1998 – 2000 he discharged the function of the manager responsible for development and finance in the Polish representation office of a UK energy group, Eastern, member of Texas Utilities (USA). In 2000-2011 he discharged the function of Financial Director, Management Board Member in Polish companies of international organizations: initially in the structures of Lafarge, and then in Pernod Ricard / Wyborowa S.A. He also worked in Morpol ASA and Eurolot S.A (as CFO) and in PL.2012+ sp. z o.o. (as Operations Director). Recently he has conducted activity in the area of strategic and financial advise.



**Grzegorz Ksepko – Executive Vice-President of the Management Board for Corporate Affairs**

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

**Management Board's powers**

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

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

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

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

1. Functional oversight over the following areas of the Company's business to the President of the Management Board:
  - 1) support for the Company's corporate bodies,
  - 2) the Company's legal support, coordination of legal support in the ENERGA Group,
  - 3) audit and control,
  - 4) security management,
  - 5) marketing and sponsoring activity,
  - 6) conducting social dialog.
2. Functional oversight over the following areas of the Company's business to the Executive Vice-President of the Management Board for Corporate Affairs:
  - 1) project and program management,
  - 2) the Group's strategic risk management,
  - 3) corporate and ownership governance in the ENERGA Group,

- 4) institutional, social and customer relations,
  - 5) organizational management, the ENERGA Group's Organizational Governance and management of the values and standards of conduct in the Group,
  - 6) management by objectives,
  - 7) CSR management and environmental management,
  - 8) the Group's personnel policy.
3. Functional oversight over the following areas of the Company's business to the Executive Vice-President of the Management Board, Chief Financial Officer:
- 1) strategic investment management,
  - 2) market analyses and the Group's development,
  - 3) research and development and innovations as well as the legal regulatory area,
  - 4) processes involving mergers and acquisitions,
  - 5) investor relations,
  - 6) planning, controlling and financial analyses,
  - 7) financial policy,
  - 8) reporting and consolidation,
  - 9) ENERGA Group's Strategy,
  - 10) IT.

### Manner of the Management Board's functioning

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

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

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

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

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

In 2015 the ENERGA SA Management Board held 56 meetings and adopted 240 resolutions.

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

- 1) implementing for application the next edition of the ENERGA Group's Organizational Governance, introducing material changes to the operation of the ENERGA Group, whose main tenet is cooperation and identification with the Group and high ethical standards,
- 2) implementing for application a Policy to counteract mobbing and discrimination in the ENERGA Group as an instrument serving to prevent and react effectively to undesirable actions in the work place,
- 3) implementing for application the ENERGA Group's Code of Ethics introducing the major rules of conduct laying down the boundaries the ENERGA Group does not want to exceed and will not exceed,
- 4) implementing the Efficiency Enhancement Program in the ENERGA Group's operation whose purpose is to assess the ENERGA Group's restructuring potential and select the areas for efficiency enhancement. This program will be executed thanks to quality, revenue and cost-related initiatives,
- 5) establishment of the ENERGA Tax Group including 17 companies belonging to the ENERGA Group,
- 6) continuing the execution of the Sales Service System (SOS) Business Model project in the ENERGA Group encompassing the billing system and the CRM system in the ENERGA Group.

#### **4.8. Level of compensation for persons discharging executive and supervisory functions**

##### **Management Board**

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

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

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

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

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

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

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

Agreements concluded between the Company and its managers provide for:

- 1) if the management contract expires because of the elapse of the term of office, the right to compensation for a period of three months of the date of the elapse of the term of office, with

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

In the 2015 financial year, the Supervisory Board reduced the amount of compensation for the Company's Management Board members of the fourth term as compared to the compensation granted to the Management Board members of the third term.

The compensation paid individually to each of the Company's Management Board members in 2015 is presented in the table below.

**Table 13: Compensation paid to the persons in the ENERGA SA Management Board in the period from**

Full name	In office	Compensation	Other benefits	Total
Mirosław Bieliński	from 1 January to 29 April 2015	317	884	1,201
Roman Szyszko	from 1 January to 29 April 2015	298	829	1,127
Wojciech Topolnicki	from 1 January to 29 April 2015	298	850	1,147
Andrzej Tersa	from 29 April to 7 December 2015	565	0	565
Jolanta Szydłowska	from 29 April to 7 December 2015	566	12	578
Seweryn Kędra	from 29 April to 3 January 2016	524	33	557
Waldemar Kamrat	from 6 October to 2 December 2015	42	1	43
Roman Pionkowski	from 7 December to 31 December 2015	17	0	17
<b>TOTAL</b>		<b>2,627</b>	<b>2,609</b>	<b>5,236</b>

## Supervisory Board

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

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

The compensation will not be due for the month in which the Supervisory Board member did not attend any of the formally convened meetings and failed to provide any formal justification. The table below presents the compensation of ENERGA SA's Supervisory Board members in 2015.

**Table 14: Compensation paid to the persons sitting in the ENERGA SA Supervisory Board in the period**

Full name	Period in office in 2015	Compensation	Other benefits	Total
Bogusław Nadolnik	from 16 January to 9 November	35.6	0	35.6
Marian Gawrylczyk	from 1 January to 28 July	24.2	0	24.2

Full name	Period in office in 2015	Compensation	Other benefits	Total
Paula Ziemiecka-Książak	from 1 January to 31 December	41.5	0	41.5
Jarosław Mioduszewski	from 1 January to 31 December	41.5	0	41.5
Mirosław Szreder	from 1 January to 31 December	41.5	0	41.5
Zbigniew Wtulich	from 1 January to 31 December	41.5	0	41.5
Jakub Żołyniak	from 1 January to 1 October	31.2	0	31.2
Waldemar Kamrat	from 1 October to 2 December	0.6	0	0.6
Bogdan Skalski	from 12 November to 31 December	5.6	0	5.6
Roman Pionkowski	from 2 December to 31 December	0.6	0	0.6
<b>TOTAL</b>				<b>263.6</b>

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

As at 31 December 2015 and as at the date of preparing this Report, the persons discharging management and supervisory functions in the Company held the following number of shares in the Company and participations in the Company's related companies:

Table 15: Number of Company shares and shares in related entities held by executive personnel

No.	Full name	ENERGA shares		Shares in entities related to ENERGA	
		Number of shares	Par value in PLN	Number of shares	Par value in PLN
as at 31 December 2015					
1.	Dariusz Kaśków	0	0	0	0
2.	Grzegorz Ksepko	0	0	0	0
3.	Roman Pionkowski	4,097	44,739.24	0	0
4.	Mariusz Rędaszka	0	0	0	0

No member of ENERGA SA's Supervisory Board held shares in the Company as at 31 December 2015.

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

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

The purpose of an effective internal control system in the financial reporting process is to ensure adequacy and correctness of financial information contained in periodic reports.

To ensure adequacy and correctness of financial information contained in periodic reports, the Company has designed and implemented control matrices of the financial reporting process. In 2015, selected audit activities of the above process were assessed by an external advisor. The assessment was conducted on the basis of tests of operating effectiveness for key control mechanisms. The audit showed correctness of the designed control mechanisms but, to improve them further, it was proposed to take specific actions, such as to set formal thresholds that deviations with respect to them require formal explanation, describing selected control mechanisms in greater detail and correcting the documentation of completing control procedures.

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

The financial reporting and the management reporting of the Company and the ENERGA Group are carried out on the basis of the Accounting Policy (according to International Financial Reporting Standards), which is adopted by a resolution of the Company's Management Board and updated as needed. The current editions of the Group's and Company's Policies were approved and introduced into usage in November 2014.

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

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

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

ENERGA SA also meets the requirements of the "Corporate governance principles for companies with a State Treasury shareholding" (Directive no. 19 issued by the State Treasury Minister on 19 March 2010), concerning the selection of an independent and unbiased auditor to audit the financial statements of the companies with a State Treasury shareholding. The entire auditor selection procedure is conducted by the Supervisory Board's Audit Committee, and it encompasses determining the auditor selection criteria, conducting the selection procedure and authorizing the Management Board to conclude with it an agreement to audit the financial statements. The Supervisory Board selects the proposal for auditing the financial statements after carrying out the procedure whose aim is to select an independent auditor and the proposal whose price that takes into account the auditor's efforts, the auditor's position on the market of auditing services, and knowledge of the industry in which the Company operates.

In 2014, the Company's Supervisory Board (current report no. 42/2014 of 6 November 2014), having examined the recommendation of the Audit Committee, selected the authorized entity PriceWaterhouseCoopers Sp. z o.o. in Warsaw, to be the chartered accountant to audit the financial statements and consolidated financial statements of ENERGA SA and the ENERGA Group and to

provide other affirmation services for the annual periods ended on 31 December 2015, 31 December 2016 and 31 December 2017, respectively.

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

The Company's Management Board plays the key role in the risk management process executed in the ENERGA Group within the framework of the Integrated Risk Management System, by overseeing its course and accepting the assumptions for management of corporate risk in the Group.

ENERGA SA manages the classified risk according to the adopted Risk Model in the four areas: strategic, operational, financial, and regulatory and legal. The risks of tax settlements and the risk of management reporting and management information managed by the Director of the Finance and Corporate Governance Center, which were identified in the financial area, are subject to strong control mechanisms allowing to keep those risks at a safe and acceptable level. The control mechanisms addressing the reporting and management information risk in the Company and in the Group's key companies were additionally formalized in 2014, through development of appropriate procedures and control matrices, which will be monitored and subjected to regular effectiveness checks in subsequent periods.

The risks affecting the achievement of business objectives are analyzed on a continuous basis. According to the Risk Management Policy adopted by the ENERGA SA Management Board, periodic risk reviews are carried out twice a year. The results of the analyses are reported to the Management Board, which determines the risk management strategy on the basis of the Risk Division's recommendations. Changes in the Company's and the ENERGA Group's exposure to risk and the decisions concerning the direct risk mitigation activities are reported to the Supervisory Board via the Audit Committee. Such reporting procedures in the ENERGA Group support the achievement of the Group's business objectives.

# Management board's representation



## 5. MANAGEMENT BOARD'S REPRESENTATION

The ENERGA SA Management Board hereby represents that:

- (1) according to the best knowledge, the annual financial statements and the comparative data were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of ENERGA SA and its financial result. The Management Board report on the activity of ENERGA SA contains a true presentation of developments, achievements and situation of the Company, including a description of key risks and threats;
- (2) PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością, an entity authorized to audit the financial statements, which audited the financial statements of ENERGA SA for the financial year ended 31 December 2015, was selected in accordance with the applicable regulations. That entity as well as the auditors who audited the aforementioned financial statements satisfied the conditions for expressing an unbiased and independent opinion about the audit of the financial statements as required by the binding regulations and professional norms.

### Signatures of ENERGA SA Management Board Members

Dariusz Kaśków  
President of the ENERGA SA Management Board

Mariusz Rędaszka  
Executive Vice-President of the ENERGA SA Management Board, Chief Financial Officer

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

Gdańsk, 14 March 2016

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## Glossary of terms and abbreviations

AMI, Advanced Metering Infrastructure	Integrated set of elements: intelligent electricity meters, communication modules and systems providing the possibility to collect data regarding electricity consumption by specific customers.
Billing	Itemized bill, statement of all fees for added services which a subscriber uses in a given billing period
Biomass	Solid or liquid, biodegradable substances of plant or animal origin, originating from products, waste and remnants of agricultural and forestry production, the industry processing their products, and also a portion of other biodegradable waste, and especially agricultural raw materials
CAPEX	Capital expenditures
Certificate of origin	Certificate of origin from renewable sources and certificate of origin from co-generation
Certificate of origin from co-generation	Document issued by the ERO President pursuant to art. 9I of the Energy Law

	confirming the generation of electricity in highly-efficient co-generation generated in: (i) a co-generation unit fired with gaseous fuels or with the total installed electrical capacity at source being under 1 MW (known as a yellow certificate), (ii) a co-generation unit fired with methane released and drained in the course of underground mining activity in hard coal mines that are active, that are being shut down or that have been shut down or with gas obtained by processing biomass (known as a purple certificate), or (iii) some other co-generation unit (known as a red certificate)
Certificate of origin from renewable energy sources, green certificate	Document issued by the ERO President pursuant to art. 9e of the Energy Law confirming the generation of electricity in a renewable energy source (known as a green certificate)
CIRS, CCIRS	Currency Interest Rate Swap, Cross-Currency Interest Rate Swap; Currency Interest Rate Swap transactions, as part of which payments will be made in two different currencies (CIRS) or more currencies (CCIRS) on the basis of variable interest rates for the set period of time and in the set frequency
CO <sub>2</sub>	Carbon dioxide
Co-firing	Generation of electricity or heat using a process of simultaneous and joint combustion of biomass or biogas with other fuels in a single device; a portion of the energy generated in this manner may be deemed to be energy generated in a renewable energy source
Cogeneration, CHP	Technological process of simultaneous combustion of heat and electricity or mechanical energy in the course of the very same technological process
Covenants	Contractual clauses providing safeguards, primarily in loan agreements
CRM	Customer Relationship Management; System to manage customer relationships
DSO, Distribution System Operator	Utility dealing with the distribution of gaseous fuels or electricity, responsible for grid operation in the gaseous distribution system or in the electrical energy distribution system, the current and long-term operational safety of this system, the operation, maintenance, refurbishment and required expansion of the distribution grid, including connections with other gaseous systems or other electrical power systems
EBITDA ( <i>Earnings Before Interest, Taxes, Depreciation and Amortization</i> )	ENERGA SA defines EBITDA as operating profit /(loss) (calculated as the net profit /(loss) on continuing operations for the financial period/year, adjusted by (i) income tax, (ii) share of profit of the associate, (iii) financial income and (iv) financial costs, adjusted by amortization and depreciation (posted to the profit and loss account). The Company defines and calculates Adjusted EBITDA as EBITDA adjusted for non-recurring events. Neither EBITDA nor Adjusted EBITDA have been defined in the IFRS and should not be treated as an alternative for measures and categories consistent with IFRS. Additionally, both EBITDA and Adjusted EBITDA do not have a uniform definition. The method of calculating EBITDA and Adjusted EBITDA by other companies may differ materially from the method used by ENERGA SA. As a result, EBITDA and Adjusted EBITDA presented herein as such do not constitute the basis for comparison with EBITDA and Adjusted EBITDA reported by other companies.
EBIT	Operating profit
EBRD	European Bank for Reconstruction and Development
EGM	Extraordinary General Meeting of ENERGA SA
EIB	European Investment Bank
EMTN	Program to issue Euro Medium Term Notes
ENERGA Capital Group, ENERGA Group, Group, ENERGA	Capital Group distributing, selling and generating electricity and heat energy. It also conducts activity related to street lighting, design, procurement of materials, grid-related services, specialized transport, hotel and IT services
ENERGA SA, ENERGA	Parent company in the ENERGA Group
EU	European Union
EU ETS	European Union Greenhouse Gas Emission Trading Scheme The rules governing its operation are stated in ETS Directive.
EUA ( <i>European Union Allowance</i> )	Emission allowances
EUR	Euro, currency used in countries belonging to the European Union's Eurozone
GDP	Gross Domestic Product
GUS	Central Statistical Office of Poland
GW	Gigawatt, unit of power in the International System of Units, 1 GW = 109 W

GWe	Gigawatt of electrical power
GWh	Gigawatt hour
IBnGR	Market Economy Research Institute (Instytut Badań nad Gospodarką Rynkową)
IPO	Initial Public Offering
IRS	An interest rate swap agreement between two parties, under which the parties pay interest on the contractual nominal amount calculated according to a different interest rate.
KNF	Polish Financial Supervision Authority
KRS	National Court Register
kWh	Kilowatt hour, unit of electricity generated or used by equipment with 1 kW of power in an hour; 1 kWh = 3,600,000 J = 3.6 MJ
MEW	Small hydro power plant
MoT	Ministry of Treasury
MW	Unit of power in the International System of Units, 1 MW = 106 W
MWe	Megawatt of electrical power
MWh	Megawatt hour
MWt	Megawatt of thermal power
NBP	National Bank of Poland, central bank in Poland
NCBiR	National Centre for Research and Development (Narodowe Centrum Badań i Rozwoju)
NFOŚiGW	National Fund for Environmental Protection and Water Management
OZEX_A	Volume-weighted average price using all transactions pertaining to the PMOZE_A contract on an exchange session
PGE	PGE Polska Grupa Energetyczna SA
PLN	Polish zloty, national currency
PMOZE_A	Property rights to certificates of origin for electricity generated in RES whose period of generation, as specified in the certificate of origin, commenced after 1 March 2009
Polish Power Exchange, TGE	Polish Power Exchange S.A., a mercantile exchange on which commodities admitted to be traded on the exchange are traded, i.e. electricity, liquid and gaseous fuels, mine gas, pollution emission limits and property rights ensuing from certificates of origin whose price is directly or indirectly dependent on the price of electricity, liquid or gaseous fuels and the quantity of pollution emissions
pp.	Percentage point
Property rights	Negotiable rights constituting a commodity arising from certificates of origin for energy generated from renewable energy sources and co-generation
PSE	Polskie Sieci Elektroenergetyczne Spółka Akcyjna with its registered office in Warsaw, entered in the register of entrepreneurs of the National Court Register under file number KRS 0000197596; company designated by ERO President decision No. DPE-47-58(5)/4988/2007/BT of 24 December 2007 to be the electrical power transmission system operator in the Republic of Poland for the period from 1 January 2008 until 1 July 2014
Renewable Energy Sources, RES	Sources converting the energy of the wind, solar radiation, geothermal energy, waves, currents and marine tides, run of rivers and energy obtained from biomass, garbage dump biogas as well as biogas ensuing from waste removal or treatment processes or the degeneration of stored plant and animal remains to generate electricity.
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SFIO	Specialized Open-end Mutual Funds
Smart Grid	Electrical power system intelligently integrating the actions of all the participants in the processes of generation, transmission, distribution and usage to deliver electricity in an economical, reliable and safe manner. It entails comprehensive energy solutions making it possible to combine, facilitate reciprocal communication and control in an optimum way elements of power grids that have been diverse to date
SPOT	Day-Ahead Market (DAM) – energy market operating in the “day ahead” time interval

	(DA) providing for energy supply on day D
Tariff G	Tariff group for individual customers – households
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
TSO, Transmission System Operator	Power utility involved in the transmission of gaseous fuels or electricity, responsible for network traffic in the gas transmission system or power transmission system, ongoing and long-term security of operation of the system, operation, maintenance, repairs and necessary extension of the transmission network, including connections with other gas systems or other electrical power systems
TWh	Terawatt hour, a multiple unit of electricity in the International System of Units. 1 TWh is 109 kWh
URE	Energy Regulatory Office
Vertically-integrated utility	Utility or group of utilities whose reciprocal relationships are prescribed by Article 3 sec. 2 of the Regulation on the Control of Concentrations, dealing with (i) in respect of gaseous fuels: transmission or distribution, or storage, or condensation and generation or the sale of these fuels, or (ii) in respect of electricity: transmission or distribution and generation or the sale of this energy
WACC	Weighted average cost of capital
WIBOR	Warsaw Interbank Offered Rate
WSE	Warsaw Stock Exchange (Gielda Papierów Wartościowych w Warszawie S.A.)
yoy	Year on year