



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

Gdańsk, 14 March 2016

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1. GOOD PERFORMANCE IN ALL ENERGA GROUP SEGMENTS



ENERGA GROUP AFTER 2015

THE THIRD LARGEST INTEGRATED DISTRIBUTION SYSTEM OPERATOR IN TERMS OF THE VOLUME OF ENERGY SUPPLY, WITH THE HIGHEST NUMBER OF INSTALLED SMART METERS AND ONE OF THE MARKET LEADERS IN TERMS OF RELIABILITY OF ELECTRICITY SUPPLY

FIRST PLACE IN THE POLISH MARKET IN CONNECTED RENEWABLE ENERGY SOURCES AND LEADING POSITION IN OWN RES PRODUCTION

THIRD BIGGEST SELLER OF ELECTRICITY TO END USERS

RESULTS 2015



PLN 2,196 m EBITDA
PLN 840 m of net profit

KEY RESOURCES



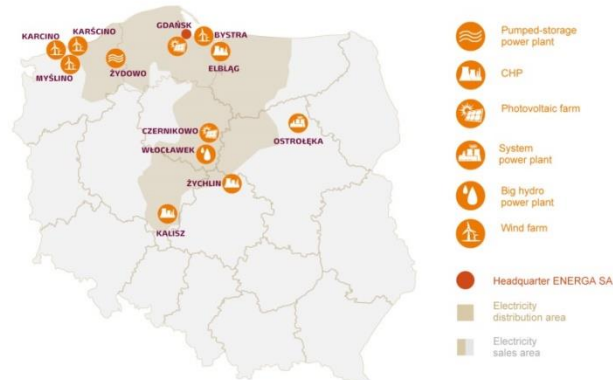
Distribution network with the length of over
182* thous. km



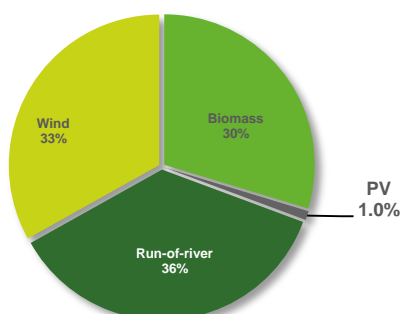
Installed capacity
1.37 GWe
of which **41%** are RES



8.5 thousand employees



RENEWABLE ENERGY SOURCES



Installed capacity
559 MWe
42% of gross electricity production comes from RES

Commissioning of the photovoltaic farm in Czernikowo with the approximate capacity of 4 MWe.

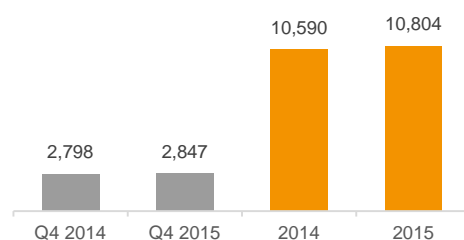
* Decrease by 2 thousand km in relation to the end of 2014 is the result of restatement of the length following network passporting.

OPERATIONAL DATA

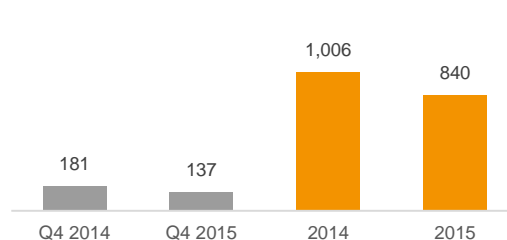
	Q4 2014	Q4 2015	2014	2015
Volume of electricity supplied (GWh)	5,417	5,452	20,923	21,486
Gross electricity produced (GWh)	1,296	964	5,103	4,136
- incl. RES (GWh)	418	426	1,808	1,743
Electricity sold (GWh)	6,799	6,848	26,084	25,658
- incl. retail sales (GWh)	4,277	4,423	16,364	16,767

CONSOLIDATED FINANCIAL HIGHLIGHTS

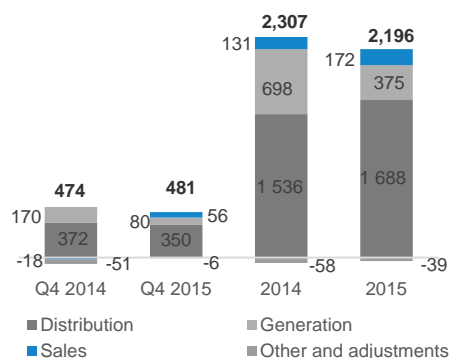
Revenues (PLN m)



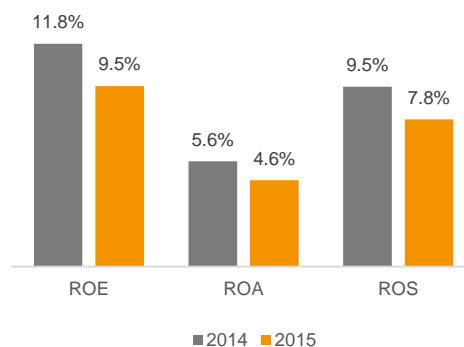
Net profit (PLN m)



EBITDA (PLN m)



Profitability ratios



Investment projects in the ENERGA Group

In 2015 ENERGA completed investment projects in the Distribution Segment for over **PLN 1.1 bn**, with the total Group expenditures in the amount of **PLN 1.6 bn**. The projects in the Distribution Segment included expansion of the grid to connect new clients and producers as well as modernization, which is aimed at improving the reliability of electricity supply. Expenditures were also made for innovative grid technologies and solutions.

As a result of these capital expenditures, **30 thousand new clients** were connected, **4,383 thousand km** of medium and low voltage lines were built and modernized and **937 MW of new renewable energy sources** (including **757 microinstallations**) were connected to the grid.

In addition, the ENERGA Group completed the construction of Poland's biggest **photovoltaic farm** in Czernikowo with the approximate **capacity of 4 MWe**.

ENERGA SA
AT THE WSE

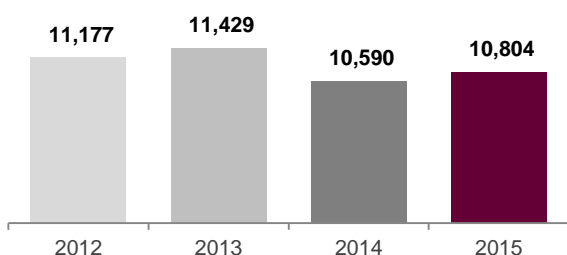
Capitalization: PLN 5.2 bn*

Indices: WIG20, WIG30, MSCI Poland, WIG Energia, WIG, WIGdiv, FTSE All World, RESPECT Index, MSCI Global Sustainability Indexes.

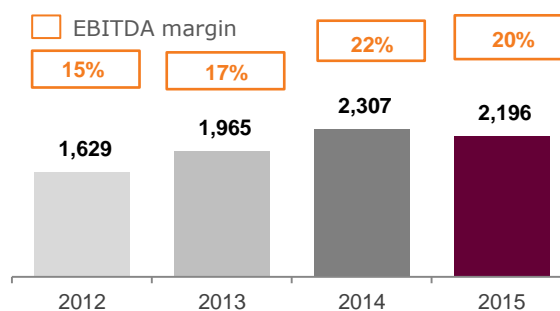
* According to share price as at closing on 30 December 2015

FINANCIAL AND OPERATIONAL HIGHLIGHTS FOR 2012-2015

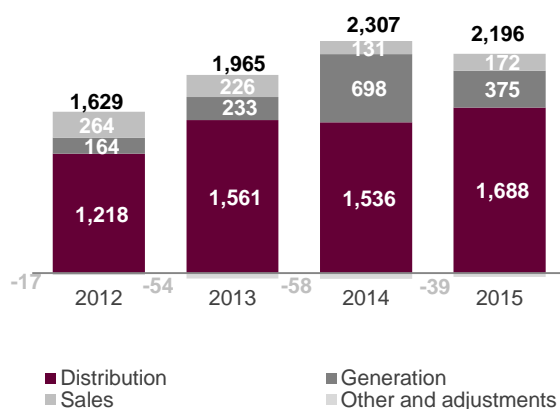
Revenues (PLN m)



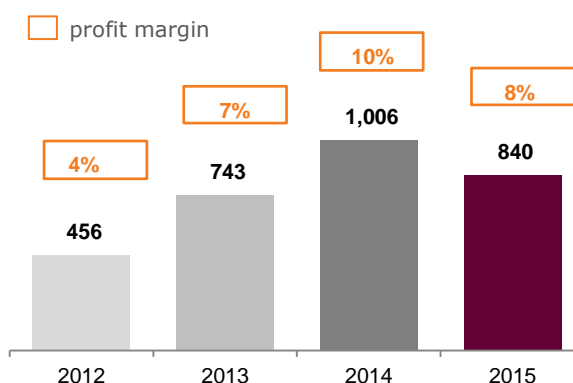
EBITDA (PLN m)



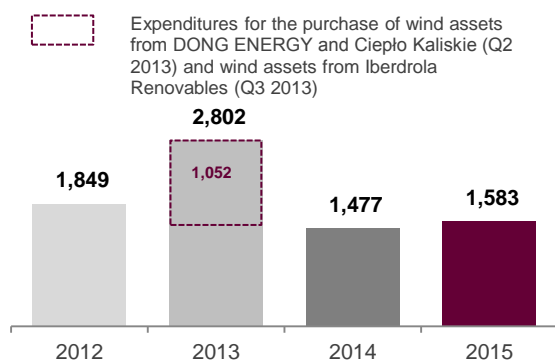
EBITDA by segment (PLN m)



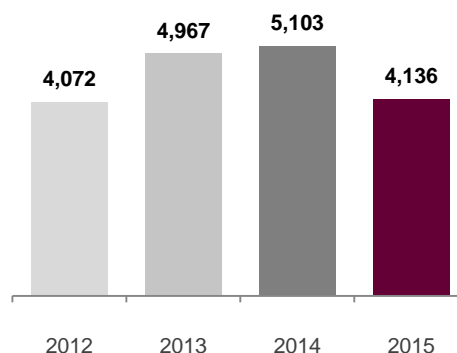
Net profit (PLN m)



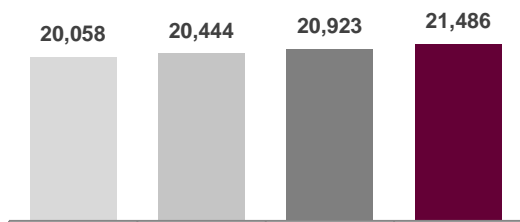
CAPEX (PLN m)



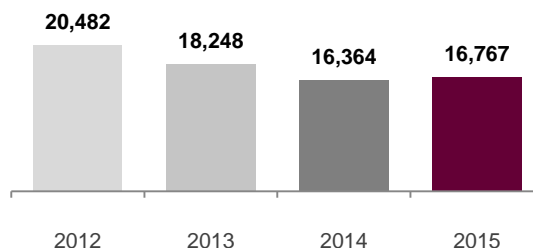
Gross electricity produced (GWh)



Distribution of electricity (GWh)

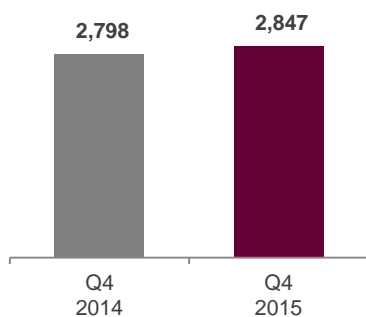


Retail sales of electricity (GWh)

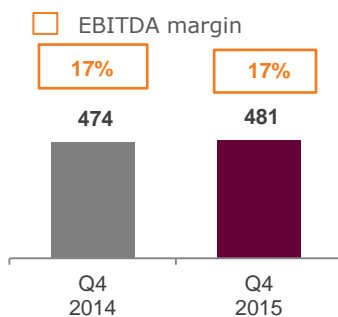


FINANCIAL AND OPERATIONAL HIGHLIGHTS for Q4 2015

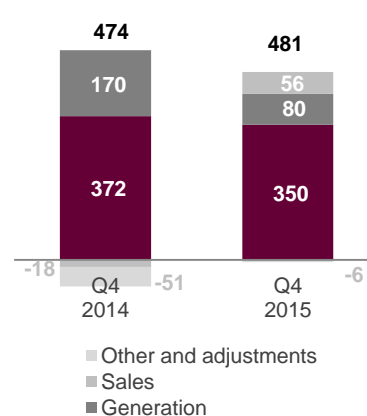
Revenues (PLN m)



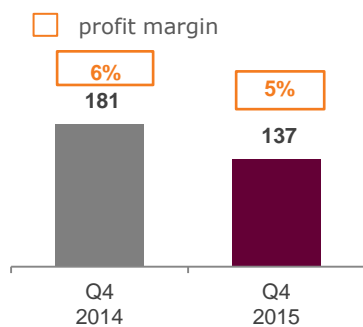
EBITDA (PLN m)



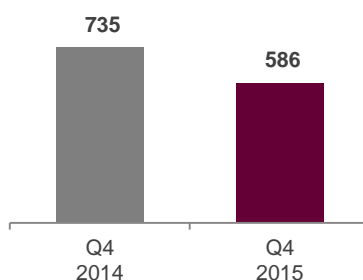
EBITDA by segment (PLN m)



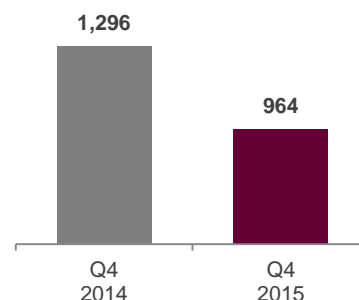
Net profit (PLN m)



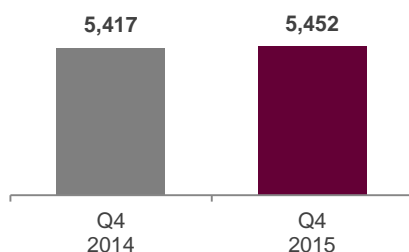
CAPEX (PLN m)



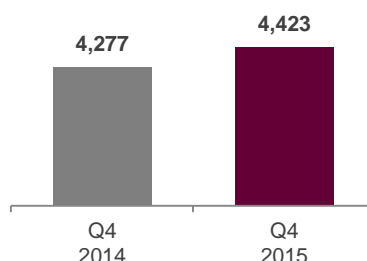
Gross electricity produced (GWh)



Volume of electricity supplied (GWh)



Retail sales of electricity (GWh)



Key information about the Group



2. KEY INFORMATION ABOUT THE GROUP

2.1. Key events and achievements of the ENERGA Group

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.

Commissioning of Poland's biggest photovoltaic farm

The ENERGA Group commissioned Poland's biggest photovoltaic farm in the Czernikowo township near Toruń, with the capacity of nearly 4 MW. The investment is an element of the Smart Toruń project described in chapter 2.5 *Research and development* of this Report. The total costs of the project was PLN 81.6 m (in 2015, PLN 13.5 m were allocated), of which over PLN 19.5 m comes from subsidies from the National Fund for Environmental Protection and Water Management (NFOŚiGW). Thanks to completion of the next RES project, the Group follows the global trend of development of innovative environment-friendly technologies.

Installation of AMI meters

In 2015 ENERGA-OPERATOR SA continued to implement stage III of AMI (the first deliveries and installations of stage III started in November 2014). This stage involves installation of 450 thousand meters. From the beginning of the implementation to the end of 2015 the company installed, in stages I-III, approx. 802 thousand smart meters, which is approx. 27% of all municipal meters. For the sake of comparison, in 2014, 340 thousand meters were installed. ENERGA-OPERATOR SA is planning to continue the AMI program.

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

Others

Additional details are provided in note 37 to the Consolidated financial statements: *Other information significantly affecting the assessment of assets, financial position and the financial result of the Group*.

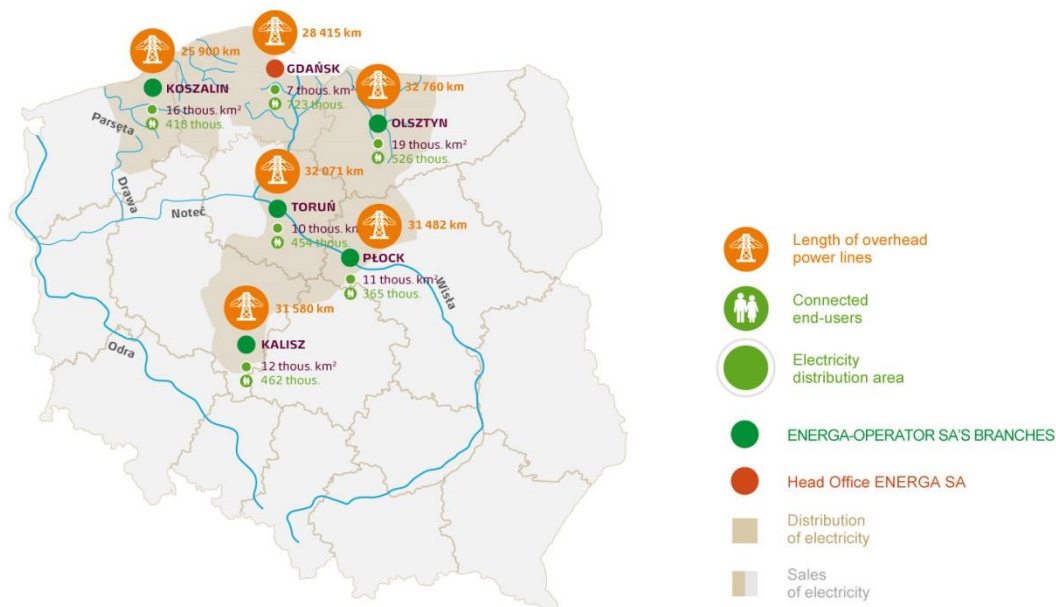
2.2. Activities of the ENERGA Group

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

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 km¹ and covered almost 75 thousand km², i.e. about 24% of the country's landmass. ENERGA-OPERATOR SA acts as the leader of this Segment.

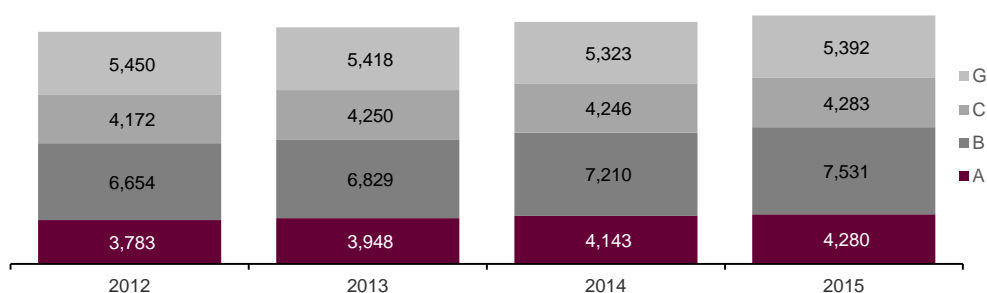
Figure 1: Electricity distribution area served by ENERGA-OPERATOR SA



In 2015, revenues of the sale of distribution services by ENERGA-OPERATOR SA to end users were 6% higher than the year before. The biggest growth of revenues was recorded in the industrial groups A and B, in total by over 8%.

The volume of supplied energy increased annually by 3%, mainly thanks to higher (by 4%) sales in industrial groups.

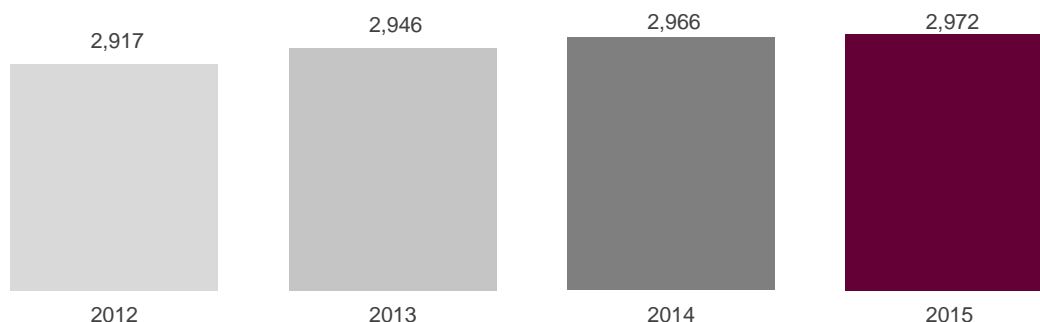
Figure 2: Volume of electricity distribution by tariff (GWh) (invoiced sales)*



* In the case of the 2015 data (for tariffs C and G), the data on invoiced sales were increased by the volume of supplied electricity (on the basis of readouts) which has not been invoiced due to postponement of invoicing in connection with data migration to new billing systems.

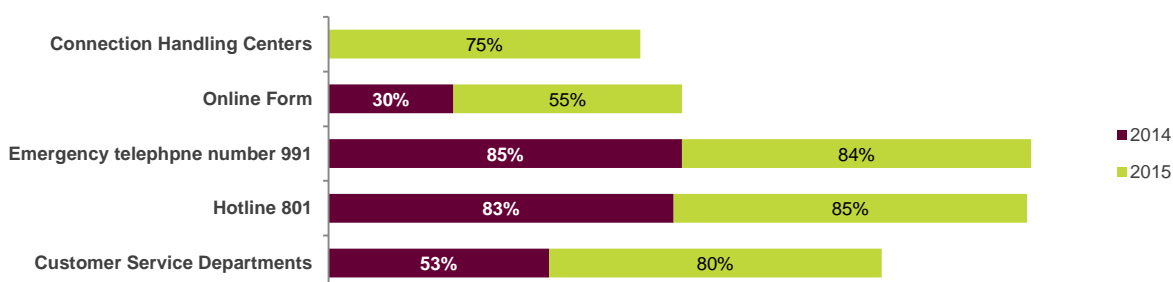
¹ Decrease by 2 thousand km in relation to the end of 2014 is the result of restatement of the length following network passporting.

Figure 3: Number of ENERGA-OPERATOR SA's customers (thousands)



In 2015, caring for the highest quality of service and customer satisfaction, ENERGA-OPERATOR continued the probe tests started in 2014. They were carried out by the TNS Research Agency within the framework of the team at the Polish Association for Electricity Transmission and Distribution (Polskie Towarzystwo Przesyłu i Rozdziału Energii Elektrycznej, PTPIREE). All Distribution System Operators in Poland took part in them. In addition, an internal document entitled “Customer Service Model in ENERGA OPERATOR SA” has been drafted. It became the basis for preparation and implementation of long-term efforts to increase service quality. To verify and assess the impact of these efforts, the research executed by the PBS Social Survey Laboratory were continued. The results, compared to 2014, confirm that the actions taken have translated into improvement of the quality of customer service.

Figure 4: ENERGA-OPERATOR SA customer satisfaction with the service channels

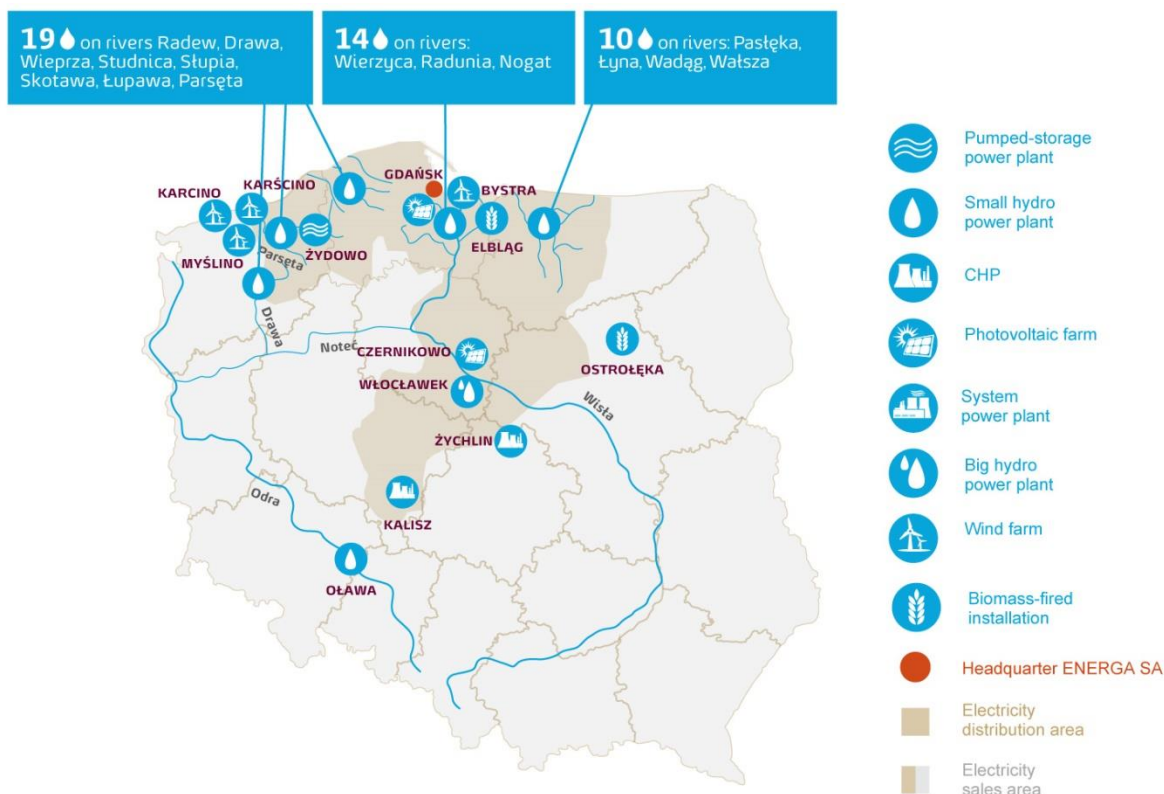


Increase of the quality of service and customer satisfaction has been achieved thanks to introduction of internal quality monitoring in the form of numerous tests and audits. The Segment carries out regular meetings with the employees responsible for customer service, aimed at constant improvement of the service level.

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.

Figure 5: Distribution of the main generation assets of the ENERGA Group



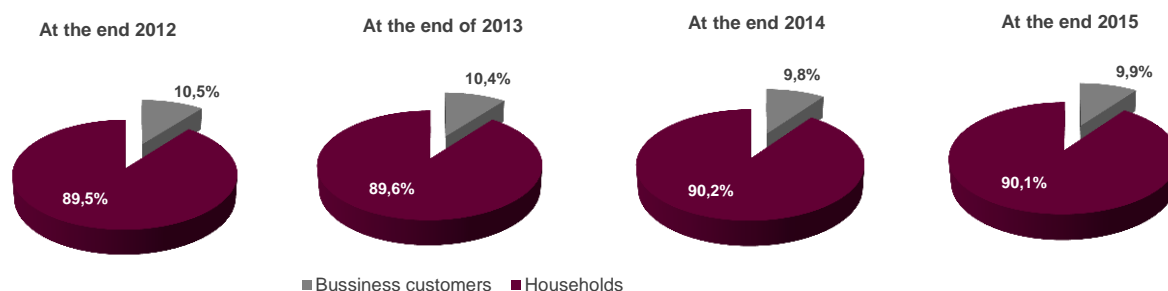
The ENERGA Group owes its leading position in terms of the percentage of electricity from renewable energy sources in the total energy generated, primarily to the generation of energy in hydro power plants, wind power plants, and from biomass. Green energy is produced in 46 hydro power plants, 4 wind farms and in biomass-fired installations (mainly in ENERGA Elektrownie Ostrołęka SA) and in photovoltaic installations.

At the end of 2015, the Group had the installed capacity of 0.56 GW in renewable energy sources, with a gross production of 426 GWh of electricity in the fourth quarter of 2015 and 1.7 TWh in the whole 2015.

Hard coal and biomass were the main fuels used by the ENERGA Group for electricity and heat production. In 2015 the Group's generation units consumed 1,157 thousand tons of hard coal and 406 thousand tons of biomass. The Group was supplied with hard coal on the basis of framework agreement between ENERGA Elektrownie Ostrołęka SA and Lubelski Węgiel "Bogdanka" S.A. (described in chapter 2.7. *Information on material agreements and transactions* of this Report). Small supplementary amounts of coal were also supplied by, among others, Jastrzębska Spółka Węglowa S.A. and Kompania Węglowa S.A. The coal from the supplementary sources was also supplied to ENERGA Kogeneracja Sp. z o.o. in Elbląg. The fuel supplied by Lubelski Węgiel "Bogdanka" S.A. covers the demand of the Generation Segment in 77%. Purchases of biomass were made directly by ENERGA Elektrownie Ostrołęka and ENERGA Kogeneracja from numerous suppliers in the local market.

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.

Figure 6: Structure of ENERGA-OBRÓT's end buyers by customer type

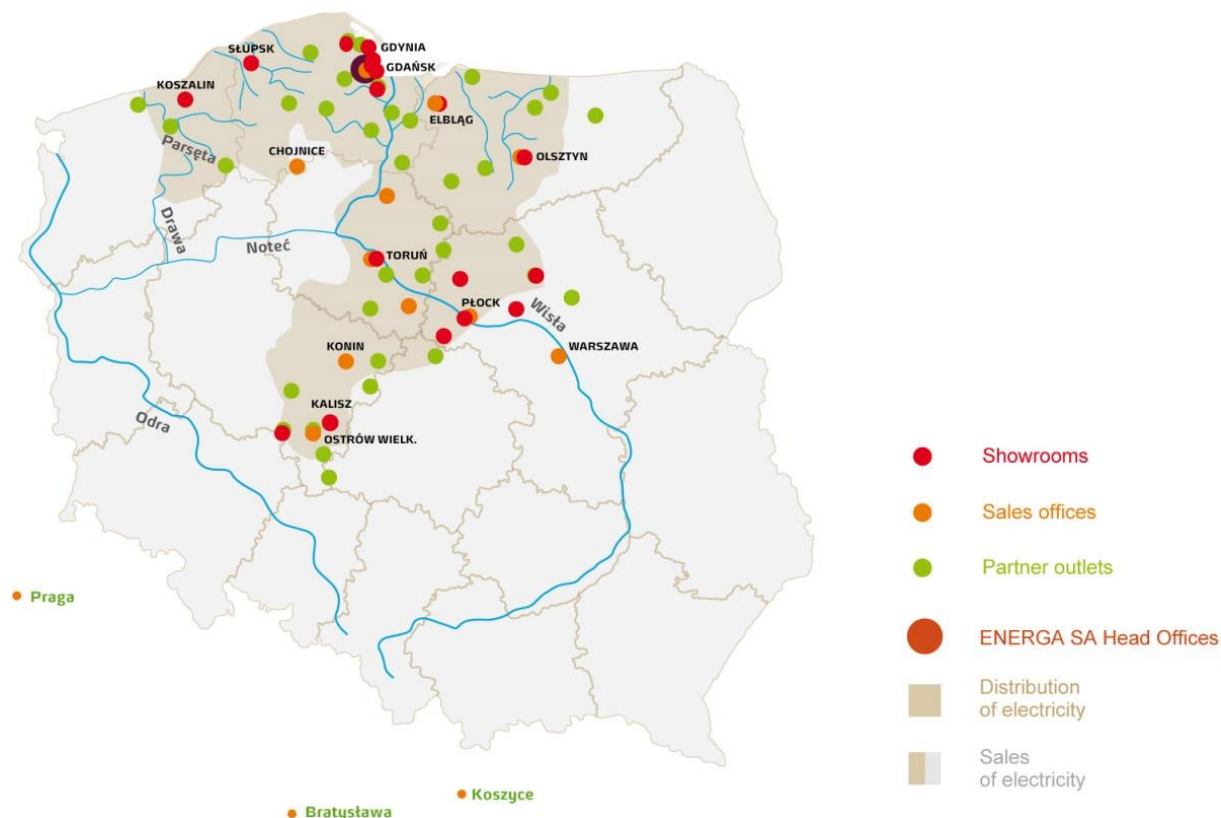


The Sales Segment concentrates on the quality of services in all contact channels and on implementation of solutions improving the efficiency of service processes and tools. This allows for increase of customer satisfaction while optimizing costs.

In 2015 we continued the development of the Sales Network, which comprises 62 locations and is composed of 9 Proprietary Showrooms and 53 Partner Outlets. The sales network is developing on the basis of cooperation with external partners who offer the Segment's services

and products in sales outlets operated throughout Poland (in Partner Outlets) and Sales Outlets in shopping centers).

Figure 7: Location of ENERGA-OBRÓT SA's Showrooms and Partnership Outlets



Remote contact channels comprised:

- a) Telephone Customer Service Department with singled out competence centers for service of individual customers and small businesses (the so-called SOHO),
- b) Electronic Customer Service Department, based on internet channels, available also in the form of a mobile application for smartphones. As a result of modernization the data loading time has been reduced and the quality of self-service activities improved,
- c) The website www.energa.pl adapted to sell the latest product offers where purchase can be made from the level of all devices and through an internet form. In 2015 the website was visited over 4 million times by 1.9 million customers, out of which 29% were mobile users (in 2014 they accounted only for 9%). Consequently a dedicated service for this user group m.energa.pl has been developed.

A tool for contact monitoring and service and sales standards for individual channels have been implemented.



The Sales Segment's product portfolio was enriched by new products in 2015. Retail customers were offered a product under the name Super Energa, in which two insurance options are available, and for business customers, a "Make a Difference" [*Oferta Różnicowa*] offer has been prepared – allowing for reduction of the capacity on demand and the resulting benefit in the form of a substitution fee.

In addition to the electricity market, ENERGA-OBRÓT also operates on the gas market. It constantly verifies and responds to diversified needs of business customers associated with, among others, the uniqueness of activity and size of the enterprise. The gas sales offer has been prepared for customers who want to reduce the costs associated with purchase of high-methane natural gas.

Settlement products, such as "Real Settlements" [*Rozliczenia Rzeczywiste*] or "Pre-Paid Settlements" [*Rozliczenia Pre-Paid*], are regularly on offer for retail customers. Customers can also take advantage of the benefits provided by the PAYBACK bonus program. The Segment also offers a product under the name "Cheaper after hours" [*Taniej po Godzinach*], which offers significant savings by shifting electricity consumption to specified hours when electricity is cheaper.

Key changes in the Group's structure and organization

As at 31 December 2015, the ENERGA Group was composed of the parent company ENERGA SA and 48 subsidiaries. The Group companies are grouped in 3 business segments managed by ENERGA SA's direct subsidiaries which are Segment Leaders. The fourth group comprises the so-called Other Companies, ENERGA SA's direct subsidiaries providing shared services for the Group and performing tasks for ENERGA SA.

Figure 8: Simplified organizational structure chart of the ENERGA Group

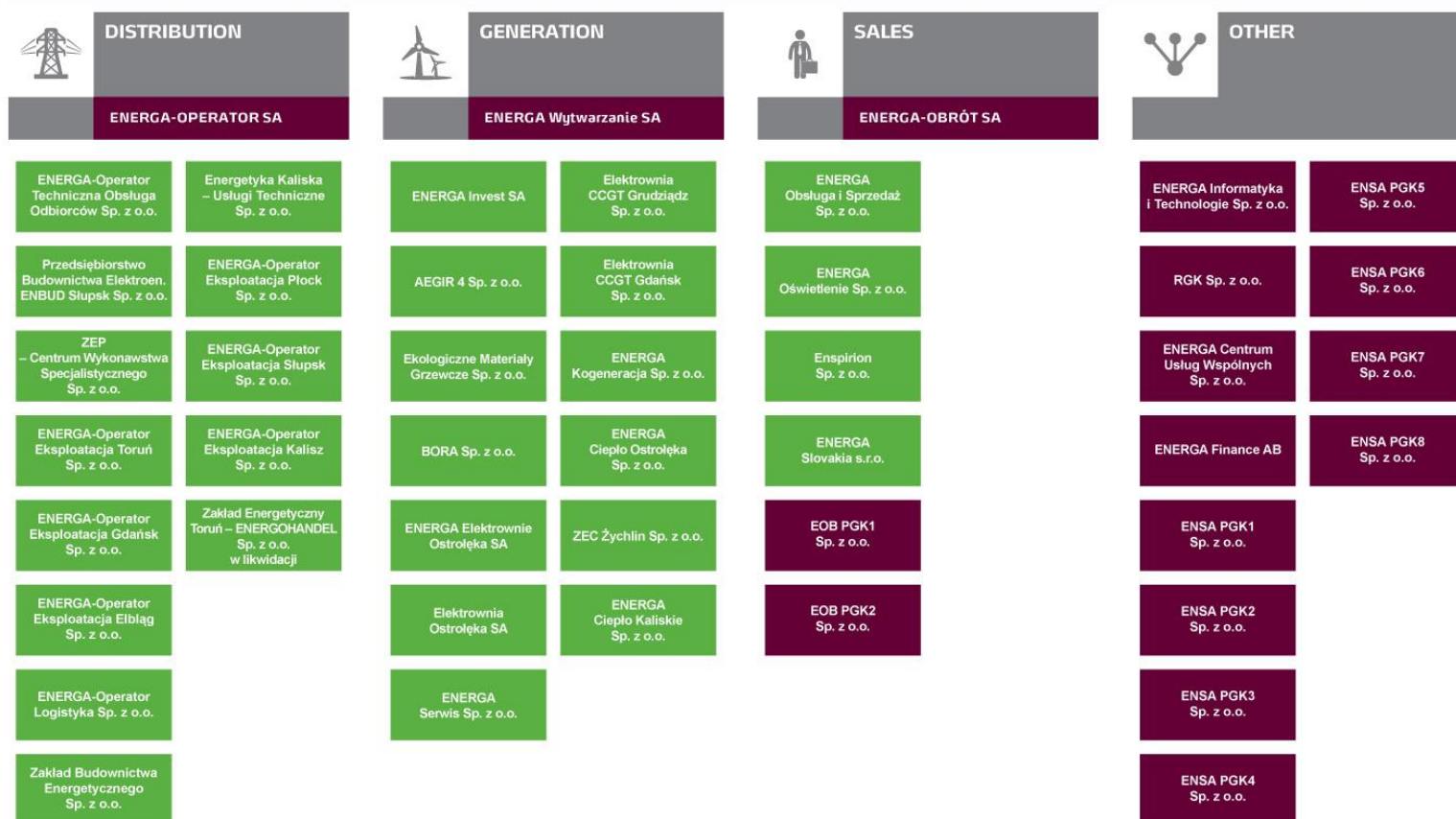
STRUCTURE OF THE ENERGA CAPITAL GROUP

AS AT 31 DECEMBER 2015

Direct subsidiary
of ENERGA SA

Indirect subsidiary
of ENERGA SA

ENERGA SA



Optimization of the structure

The core process of optimization of the ENERGA Group structure within Distribution and Sales Segments was completed in 2014. In 2015 most of the restructuring activities pertained to the Generation Segment.

Sorting and simplification of the structure of the ENERGA Group is an on-going process, aimed at optimization of the number of companies, streamlining the operations and reduction of the Group's costs. The sale or liquidation of companies whose processes were not related to the business model, merger and transformation of entities resulted from consolidation of individual operating segments and establishment of new companies was dictated by specific business needs.

Table 1: Number of companies in the ENERGA Group (as at the end of the year)

Type	2012	2013	2014	2015
Parent company (ENERGA SA)	1	1	1	1
Subsidiaries	58	56	49	47
Affiliates	4	2	0	0
TOTAL	63	59	50	48

All Group companies are subject to consolidation.

Mergers and splits of companies

In 2015, 3 merger and demerger processes were carried out. Two of them were completed in 2015 and one at the beginning of 2016.

Generation Segment

- (1) In December 2014 the management boards of Ekologiczne Materiały Grzewcze Sp. z o.o. (split company) and ENERGA Elektrownie Ostrołęka SA (acquiring company) signed a split-up plan for EMG Sp. z o.o. In January 2015, Extraordinary General Meeting of EMG Sp. z o.o. adopted a resolution on splitting the company leading to spin-off and transfer of part of the assets associated with the production activity of the company being split to the acquiring company, in return for the shares of the acquiring company which were granted to the shareholder of the company being split, i.e. ENERGA Wytwarzanie SA. In April 2015 the demerger of EMG Sp. z o.o. was registered in the National Court Register.
- (2) In April 2015, the National Court Register registered the merger of BREVA Sp. z o.o. (acquired company) and ENERGA Wytwarzanie SA (acquiring company).
- (3) In February 2016, the National Court Register registered the merger of ZEC Żychlin Sp. z o.o. (acquired company) and Energa Kogeneracja Sp. z o.o. (acquiring company).

Liquidation

In 2015 two company liquidation processes were under way. One completed in 2015 and the other one at the beginning of 2016.

Distribution Segment

In January 2015 the Extraordinary General Meeting of Zakład Energetyczny Toruń-Energohandel Sp. z o.o. adopted a resolution on dissolution and commencement of the process of the company's liquidation. In January 2016 the liquidation of the company was completed through its deletion from the National Court Register.

Generation Segment

In December 2015, ENERGA Elektrociepłownia Kalisz SA in liquidation, ENERGA Kogeneracja Sp. z o.o.'s subsidiary was deleted from the National Court Register, which ended the liquidation

process. Upon Liquidation of the company, its assets in the form of shares in ENERGA Ciepło Kaliskie Sp. z o.o. were transferred to Energa Kogeneracja Sp. z o.o.

Other changes

Sales Segment

In January 2015 the change of the company's business name from ENERGA Innowacje Sp. z o.o. (ENERGA – OBRÓT SA's subsidiary) to Enspirion Sp. z o.o. was registered.

Generation Segment

In November 2015 change of the business names of the following companies was registered: EOPEC Sp. z o.o. to ENERGA Ciepło Ostrołęka Sp. z o.o. and Ciepło Kaliskie Sp. z o.o. to ENERGA Ciepło Kaliskie Sp. z o.o.

Distribution Segment

- (1) In February 2015, an increase of the share capital of Zakład Budownictwa Energetycznego Sp. z o.o. from PLN 508.5 thousand to PLN 1 m by increasing the nominal value of the share PLN 500 to PLN 1 thousand was registered.
- (2) Also in February 2015, an increase of the share capital of ENERGA-OPERATOR Eksploatacja Płock Sp. z o.o. from PLN 909.5 thousand to PLN 1,817 m, by increasing the nominal value of the share from PLN 500 to PLN 1 thousand, was registered.

Other

To ensure further operational and capital optimization of the Group, in December 2014, ENERGA SA established 10 limited liability companies seated in Gdańsk, with the share capital of PLN 10 thousand each: ENSA PGK1 Sp. z o.o., ENSA PGK2 Sp. z o.o., ENSA PGK3 Sp. z o.o., ENSA PGK4 Sp. z o.o., ENSA PGK5 Sp. z o.o., ENSA PGK6 Sp. z o.o., ENSA PGK7 Sp. z o.o., ENSA PGK8 Sp. z o.o., EOB PGK1 Sp. z o.o., EOB PGK2 Sp. z o.o. All these companies were registered in the National Court Register in January 2015.

In 2015 no material equity investments were made.

2.3. ENERGA Group's management model

Starting from 2013, the basic document in the ENERGA Group defining general principles of its management has been the ENERGA Group Corporate Governance. The document is subject to regular updates, following from the changing regulatory and economic environment and the Group's internal needs. In 2015 a new Group management model was developed on the basis of the cooperation between ENERGA SA and its subsidiaries and the effort to achieve synergies improving efficiency on the Group level. The role of ENERGA SA as an entity discharging not only strategic and supervisory functions but also control and coordinating functions, has been strengthened.

Ethics is an important element of the new Group Management Model. The emphasis on the role and weight of the ethical sphere follows from the fact that the Group is an organism built on the basis of values, relations with employees and occupational safety. One should highlight the implementation of the anti-mobbing and anti-discrimination policy, which adds new quality to the Group's management. The new sets of rules support the managers of the Group and individual Segments in maximising the Group's value.

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 managers the Segment, defines the objectives of the Segment Companies and evaluates their attainment, is responsible for the Segment's performance and the Segment's capability to generate dividends.

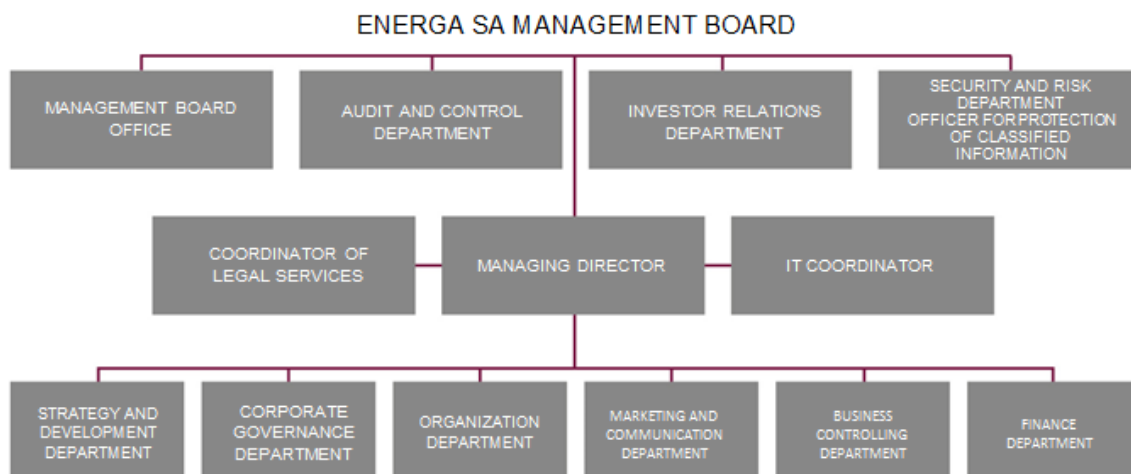
The leader is obligated to cooperate with other Segments and ENERGA SA in the areas in which the Group may reduce costs and improve efficiency.

Designing the new organizational structure, the following assumptions were made:

- (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 9: 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 senior level managers of the ENERGA Group. 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.

2.4. 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 10: Pillars of ENERGA Group’s Development Strategy



Execution of the strategy in 2015

In 2015, the consolidated capital expenditures in the ENERGA Group were PLN 1,583 m, of which investments in the Distribution Segment consumed PLN 1,123 m.

The projects in the Distribution Segment included expansion of the grid to connect new clients and producers as well as modernization, which is aimed at improving the reliability of electricity supply. Expenditures were also made for innovative grid technologies and network solutions, among others, implementation of smart grids and AMI metering.

The Generation Segment completed the core construction works associated with the Parsówek wind farm (26 MW) and the photovoltaic power plant Czernikowo was commissioned (4 MW). Work related to the achievement of compliance of the Ostrołęka Power Plant with environmental requirements constitutes an important part of the Segment’s capital expenditures.

Table 2: Implementation status of the investment program on 31 December 2015

Description of the project	Location	Capital expenditures (PLN m)	Execution stage
GENERATION SEGMENT			
Construction of the Parsówek Wind Farm with the capacity of 26 MW.	Parsówek	108.3	In progress
Construction of a NOx emission reduction installation at the Ostrołęka B Power Plant.	Ostrołęka	55.9	In progress
General overhaul of the unit in Ostrołęka combined with work on increase of its efficiency	Ostrołęka	51.8	In progress
Construction of a heat source for the city of Ostrołęka. The installation was launched in April.	Ostrołęka	34.0	Completed
Modernization of electrostatic precipitators for boilers at the Ostrołęka Power Plant B. Installation work is in progress.	Ostrołęka	30.1	In progress
Modernization of the heating sources i grids in the CHP business line	Elbląg, Kalisz, Ostrołęka, Żychlin	26.4	-

Modernization of hydro power plants	Włocławek, Żydowo, other (small hydro power plants)	15.3	-
Construction of a photovoltaic power plant with the capacity of approx. 4 MWe under the Smart Toruń project.	Czernikowo Kujawsko-Pomorskie Voivodship	13.5	Completed
Other and adjustments	-	56.9	-

DISTRIBUTION SEGMENT

Grid development related to connection of new customers.	Distribution areas	385.4	In progress continuously
Grid development and modernization related to connection of RES plants.	Distribution areas	41.0	In progress continuously
Distribution grid modernization to improve reliability of supply.	Distribution areas	492.4	In progress continuously
Smart meters and other elements implementing the smart grid concept, including AMI.	Distribution areas	108.6	In progress continuously
Other capital expenditures.	Distribution areas and Distribution Segment companies	95.6	In progress continuously

2.5. 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.

From the ENERGA Group's perspective, the most prospective directions of development are associated with the smart grid, smart city, energy storage, electrical mobility areas, or new technologies in generation sources (including RES). In the aforementioned areas, projects associated with, among others, AMI, Demand Side Response (DSR), energy storage, eMobility or improving the effectiveness of energy conversion processes, were continued in 2015. In 2015, the ENERGA Group allocated in total PLN 265.2 m, i.e. approx. 2.75% of its consolidated operating expenses, for research and development and implementation of innovative solutions.

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 CO₂ 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 CO₂ 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, the ENERGA Group 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 a 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 2016-2020". 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 development of the ENERGA Group

In the opinion of the ENERGA SA Management Board, the following factors will have impact on the results and activity of the Company and the ENERGA Group at least for 2016:

Figure 11: Material factors relating to development of the ENERGA Group at least for 2016

Change of structure of distributed energy vs. structure agreed in the tariff	Effect of the offtaker of last resort function and balancing of RES sources	Introduction of an obligation to redeem "white" certificates that was previously not considered
Increasing competition on the market of electricity sellers	Loss of support for sources with the capacity exceeding 5 MW and change of the biomass support system	General overhaul of one power unit in ENERGA Elektrownie Ostrołęka in March-June 2016
Rate actually obtained for the operating reserve	Must run production level at ENERGA Elektrownie Ostrołęka	Prices of CO ₂ emission allowances in the face of decreasing number of free allowances
Weather and hydrometeorological conditions	Uncertainty of the regulatory environment	Poland's energy policy

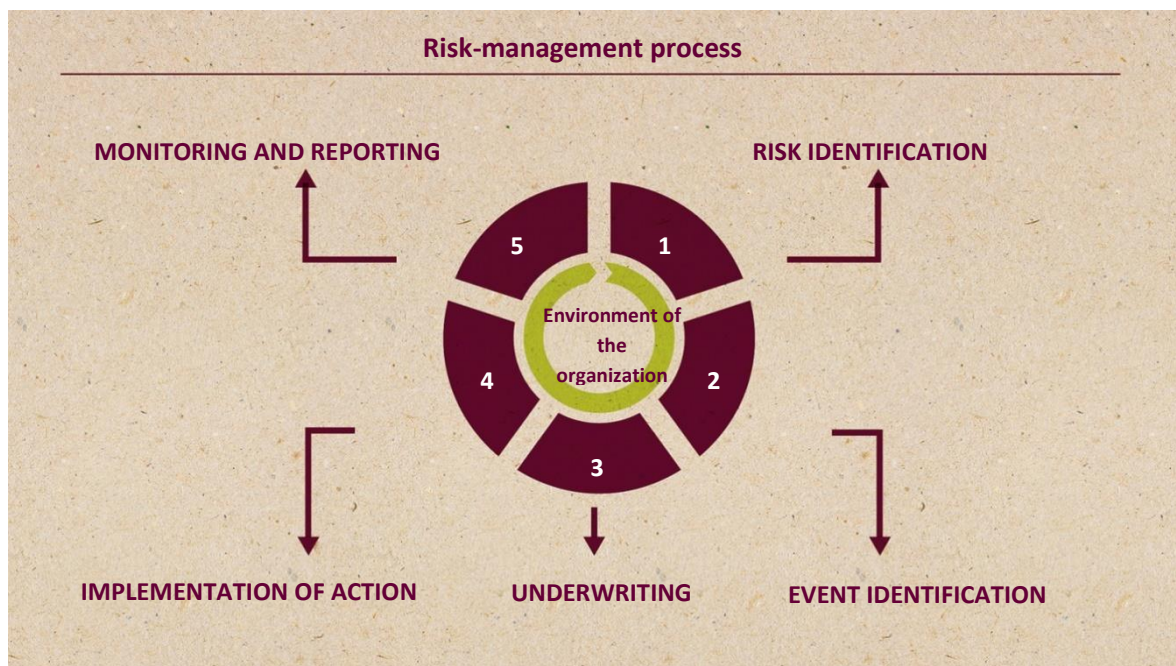
2.6. Risk management in the ENERGA Group

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:

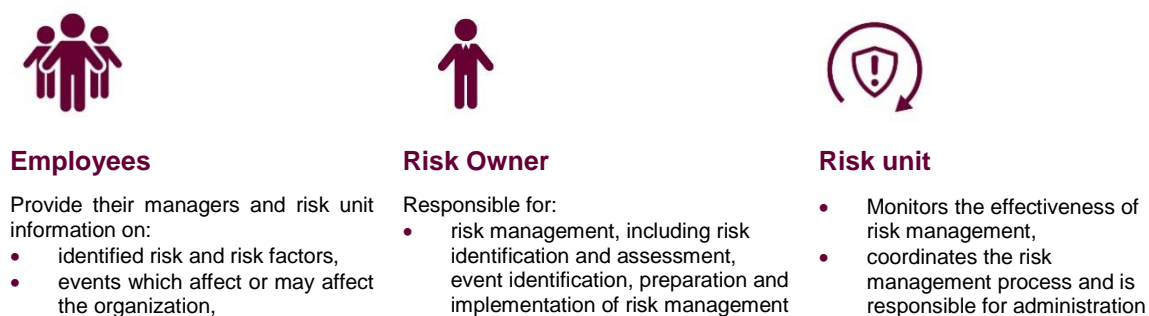
Figure 12: Risk management process



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 13: Roles and responsibilities in the organizational structure of the risk management process in ENERGA SA



- inefficiencies of implemented control mechanisms.

- strategies,
- communicating information on risk measures to the risk unit,
- risk analysis with respect to the current situation and the pessimistic scenario,
- maintaining risk within specified tolerance levels,
- monitoring risk factors and consequences, risk materiality and effectiveness of used control mechanisms,
- provision of information about risk and events, on an ongoing basis and periodically, to the risk unit.

- of ERM,
- coordinates the process of analysis of the action plans related to the risk associated with the activity of the Group,
- prepares periodical reports for the Management Board, presenting the up-to-date risk profile and assessment of control mechanisms used at present, with recommendations about risk appetite,
- provides Risk Owners with periodic reports together with the Management Board's decision on the risk appetite.
- maintains a Risk Register and Event Register,
- responsible for development and update of ERM.



Risk Committee

- Provides support for the ENERGA SA Management Board as regards risk management through provision of independent and objective information and opinions facilitating strategic and business decision-making in the ENERGA Group,
- its duties are determined depending on the current needs.

Management

Management Board

- Oversees risk management,
- accepts risk management assumptions and defines risk management directions,
- specifies risk appetite level and accepts tolerance level for individual risks,
- accepts the key risk management strategy and accepts the results of risk identification and assessment.

Audit Committee

- Monitors the effectiveness of the existing internal control and risk management systems.



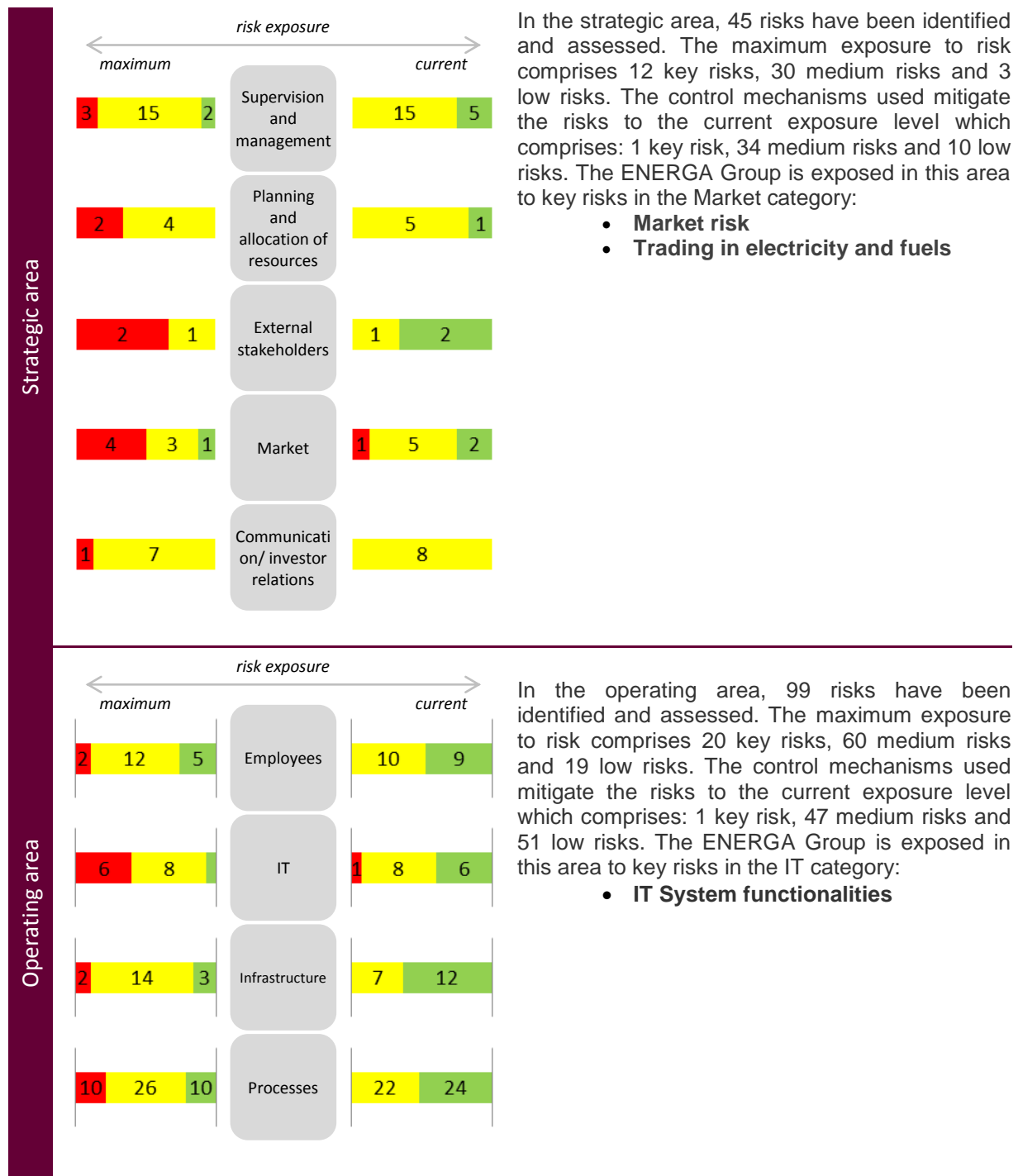
Internal audit

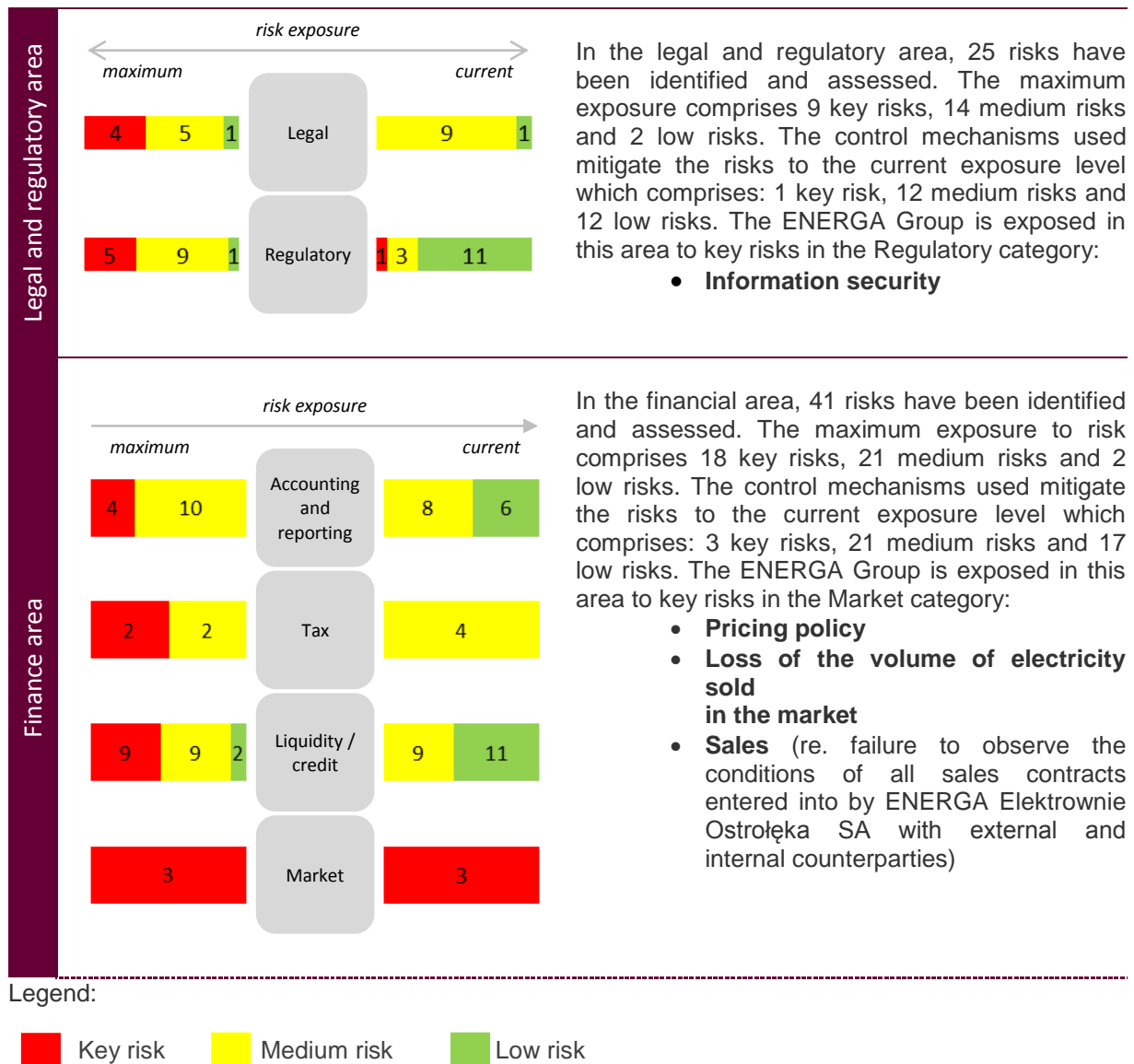
- Performs independent and objective assessment of management control, including the risk management system.

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 14: Individual risk model areas together with the maximum and current risk exposure in the category





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 an 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 CO₂ 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 which monitors 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 the 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, CO₂) 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.

2.7. 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, companies from the ENERGA Group did not enter into any material agreements.

At the same time, in 2015, an amendment letter to a material agreement with LW "Bogdanka" S.A. was concluded, as described below.

On 22 December of the previous year, ENERGA Elektrownie Ostrołęka SA, a direct subsidiary, signed an amendment letter to the Long-term steam coal supply agreement concluded on 14 December 2010 with Lubelski Węgiel "Bogdanka" S.A. (LWB) in which the parties agreed upon the terms and conditions of coal deliveries in 2016. As a result of signing the amendment letter, the net value of the subject matter of the agreement for its entire term increased by 4.36% compared to current report no. 50/2014, reaching PLN 1,191 m. The remaining terms and conditions of the agreement were not changed and do not differ from terms and conditions generally applied in contracts of this type.

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 3: 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
TOTAL		5,435,990.5

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 4: 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
TOTAL						5,458.3	2,211.5

* 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 32 to the annual consolidated 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.

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

At the end of the reporting period, the ENERGA Group was party to 5,753 court proceedings. The Group acted as a plaintiff in 4,035 cases where the aggregated value of the disputed matters was approx. PLN 165 m. The Group was the defendant in 1,679 cases where the aggregated amount of the disputed matters was approx. PLN 398 m.

As at 31 December 2015, the total amount of claims for locating power devices on properties of other parties without the necessary legal title, awarded by final judgments, was approx. PLN 12.7 m in 2,234 cases. There were 2,620 pending court cases and the value of the disputed matters in such pending cases was PLN 285 m. Based on the available data about the value of pending procedures, we assume that the actual amount to be paid after the disputes are resolved may reach nearly PLN 79 m, with a reservation that this amount may change if new court cases related to placement of power devices on third party's real properties without the necessary legal title are launched against ENERGA-OPERATOR SA.

These data do not include the cases in which court and enforcement-based collection is conducted on behalf and for ENERGA-OBRÓT SA as the company pursues amounts due from its customers, with the exception of the case filed by ENERGA-OBRÓT SA against ERGO ENERGY for approx. PLN 13 m. The aggregated amount of all such cases as at 31 December 2015 was about PLN 190 m.

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

Out of the eight proceedings described in the Company's Prospectus approved by the Polish Financial Supervision Authority on 15 November 2013, two of them – one brought by Ergo Energy Sp. z o.o. against ENERGA-OBRÓT SA and the other brought by Boryszewo Wind Invest Sp. z o.o. in Warsaw also against ENERGA-OBRÓT SA remained pending in 2015. In the latter case, both parties appealed against the court judgment of 12 September 2014 and submitted replies to them. In its judgment of 29 May 2015, the Court of Appeals examined appeals of both parties and sided with ENERGA-OBRÓT SA, changing the Regional Court's judgment by dismissing the action to rule that the defendant's statement terminating partially the Master Agreement to Sell Property Rights arising from Certificates of Origin had no legal effect and consequently all the provisions of the agreement remain in effect. The Company is currently waiting for the ruling of the Supreme Court as regards acceptance or refusal to accept the cassation complaint for examination.

In the proceedings brought by Krupy Wind Invest Sp. z o.o. against ENERGA-OBRÓT SA, on 25 February 2015, the Court of Appeal in Gdańsk issued a final judgment siding with ENERGA-OBRÓT SA in the matter of a partial termination of the PPA and CPA agreements with Krupy Wind Invest. The Court of Appeals has dismissed the appeal and awarded the defendant from the plaintiff the costs of the appellate proceedings, changed the appealed judgment by dismissing the action to rule that a statement made by the defendant terminating the Master Agreement to sell property rights arising from certificates of origin had no legal effect and consequently the agreement remains in effect. The plaintiff filed a cassation complaint against the judgment of the Court of Appeals in its entirety. The cassation complaint was delivered to ENERGA-OBRÓT SA on 5 June 2015. The Company has filed a rejoinder to the complaint and currently the parties are waiting for the ruling of the Supreme Court as regards acceptance or refusal to accept the cassation complaint for examination.

With an application of 24 June 2015 ENERGA-OBRÓT SA started the enforcement of the awarded litigation expenses and costs of legal representation. By virtue of the decision of 13 July 2015, the enforcement was completed in accordance with the application.

In the proceedings to refund overpaid excise tax to ENERGA Elektrownie Ostrołęka SA, hearings were held on 21 November and 8 December 2014 before the Voivodship Court of Administration (WSA) in Warsaw based on complaints against decisions made by the Director of the Customs Chamber in Warsaw refusing to rule invalidity of the final decisions on overpayment and calculation of excise tax on electricity supplies. The court rescinded the decision of the Director of the Customs Chamber in Warsaw acting as a second instance body, finding that they had been made with gross violation of law. The Director of the Customs Chamber did not agree with the rulings handed down by the WSA in Warsaw and filed cassation appeals against them.

Currently ENERGA Elektrownie Ostrołęka SA has taken actions to prepare a rejoinder to the cassation complaints filed by the Director of the Customs Chamber.

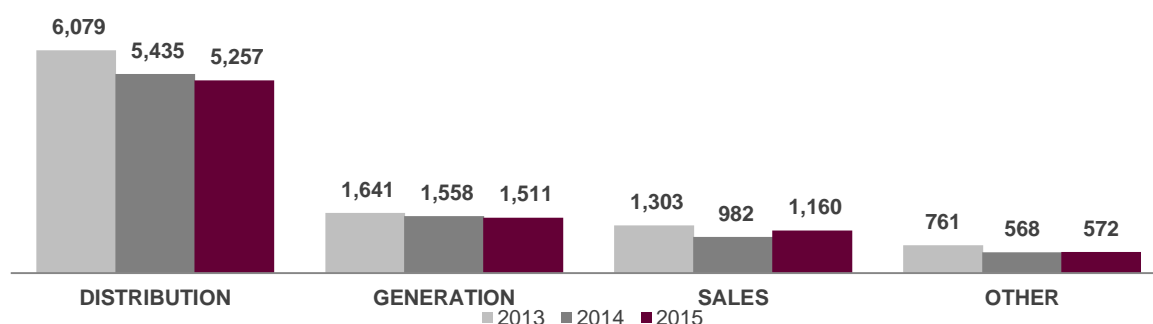
On 6 April 2015, ENERGA-OPERATOR SA filed a claim with the Regional Court in Gdańsk, IX Commercial Division, for payment against T-matic S.A. with its registered seat in Warsaw and Arcus S.A. in Warsaw. The claim requests payment of contractual penalties due to incorrect performance of the agreement to deliver and launch the metering infrastructure. The value of the dispute is over PLN 23 m. In June 2015 a statement of defence was received and ENERGA-OPERATOR SA replied to it in its pleading of 30 September 2015. On 18 December 2015 the defendant filed a second rejoinder comprising similar argumentation to the one presented in the statement of defense, but extended to include a charge of invalidity of the agreements due to their lack of precision and contractual inequality of the parties. On 13 January 2016 the hearing was held at which the Court obligated ENERGA-OPERATOR SA to file a reply to the defendant's second rejoinder within 45 days.

2.9. HR and payroll situation

Headcount in the ENERGA Group

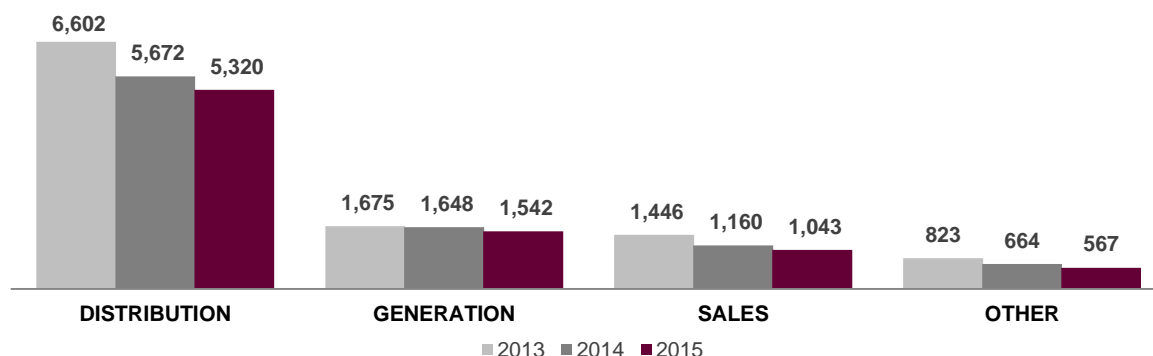
As at the end of 2015, the ENERGA Group employed 8,500 persons. Compared to the end of 2014, the headcount decreased by 43 persons or approx. 0.5%. The decrease in headcount occurred in the Distribution Segment (by 178 person), mainly as a result of terminations under individual departure programs initiated by employees and natural rotation, and in the Generation Segment (by 47 persons), primarily in connection with closure of the Production Facility on Szepietowo owned by Ekologiczne Materiały Grzewcze Sp. z o. o. and continuation of employee departures under the Voluntary Redundancy Programs. At the same time the headcount in the Sales Segment increased by 178 persons, mainly as a result of the initiative to improve customer service quality, continuing implementation of the sales service system, and expansion of the business and mass customer sales network.

Figure 15: Headcount in the ENERGA Group as at 31 December 2013, 2014 and 2015 (persons)



The average headcount (FTEs) in the ENERGA Group in the January-December 2015 period was 8,472 FTEs, compared to 9,144 FTEs in the corresponding period of the previous year.

Figure 16: Average headcount in the ENERGA Group in 2013, 2014 and 2015 (FTEs)



Detailed information about the headcount by gender, age and education in 2015 is presented in the charts below.

Figure 17: Headcount in the ENERGA Group as at 31 December 2015 (persons) – gender

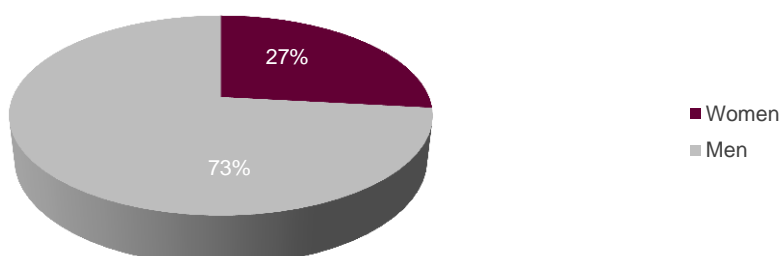


Figure 18: Headcount in the ENERGA Group as at 31 December 2015 (persons) – education

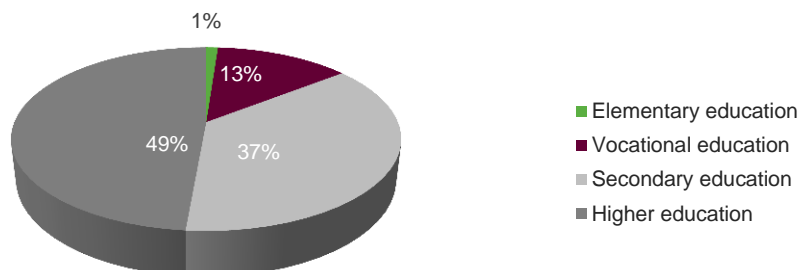
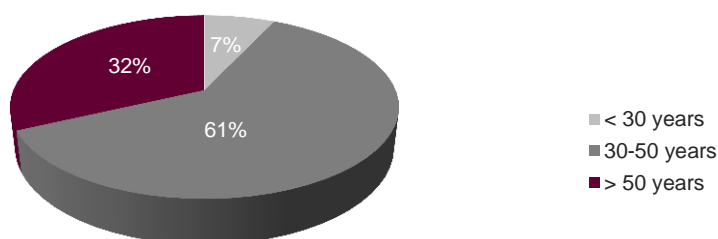


Figure 19: Headcount in the ENERGA Group as at 31 December 2015 (persons) – age



Remuneration systems

The remuneration system in the ENERGA Group is decentralized and diversified. It is regulated, in addition to the Labor Code, the Company Collective Bargaining Agreements, Remuneration Bylaws and the social contracts with trade unions. In 2015, there were no significant changes in the remuneration system of any company of the ENERGA Group.

Important information affecting the HR and payroll situation

Rules for setting and monitoring objectives in the ENERGA Group

Strategic objectives were set with segment leading companies and ENERGA center directors in a consultation process following the 'top to bottom' principle which recognizes the Group's strategic objectives as the basis for setting all objectives for the management staff covered by the system. The values of performance indicators measuring the achievement of the Group's objectives were based on the expectations of ENERGA SA, budgetary data and objectives of segments leaders and of directors of the centers. These objectives form the basis for payment of bonuses to the ENERGA Group's managers.

Employee benefits

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

- (1) 'Employee tariff' for electricity, available to employees with one year of professional experience in the utilities sector,
- (2) The company social benefits fund authorizing charges in the amount three times higher than the basic charge defined in the Act on Company Social Benefits Fund (ZFSS),
- (3) Holidays gift certificates issued to employees for the Easter Holiday, the Power Industry Employee's Day and Christmas,

- (4) The Employee Pension Plans operating in Group companies and funded by the employer in an amount equal to 7% of the remuneration of employees,
- (5) Additional 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,
- (6) Training offered by all ENERGA Group employers; various forms of employee development are aimed at preparing staff to perform tasks in the workplace, improve performance and increase the knowledge, motivation and commitment to work.

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

- (1) Annual bonus constituting 8.5% of the annual remuneration fund from last year, paid out pro rata to the length of employment,
- (2) Addition to basic remuneration depends on seniority,
- (3) Cash equivalent of coal allowance.

Changes of the terms of remuneration

In 2015, there were no significant changes in the prevailing Company Collective Bargaining Agreements with respect to the terms of remuneration.

Group layoffs

The Group Companies did not carry out any group layoffs in 2015.

Collective disputes

As at the end of 2015, there were 30 trade union organizations in ENERGA Group companies. Nearly 5 thousand Group employees were members of the trade unions as at 31 December 2015. In 2015, trade unions sent a number of statements to individual employers containing, among others, demands concerning:

- (1) raising wages and salaries in Group companies,
- (2) payment of awards or bonuses,
- (3) suspension of organizational change processes already underway or revocation of processes already completed.

In 2015, 26 disputes under way (including 3 started in previous years). Most of the disputes ended with signing an agreement. The table below describes the continuing and pending disputes.

Table 5: Collective disputes in the Group

Continuing and pending disputes

Dispute in ENERGA Elektrownie Ostrołęka SA (EEO SA) started in September 2015 associated with the demands made by the trade unions active in EEO SA regarding payment of the cash award from the net profit for 2014. The employer is of the position that the demands of the trade unions do not have any legal grounds. As at the date of this report, the parties have not reached an agreement and mediations will be continued.

Dispute in ENERGA-OPERATOR Eksploatacja Płock Sp. z o.o. from April 2015 associated with receipt of the demands of KP NSZZ "Solidarność" in ENERGA-OPERATOR Eksploatacja Płock Sp. z o.o. pertaining to specific employee matters, including those pertaining to increase of employee compensations. In July 2015 the parties entered into an agreement concerning the remuneration demand. To the remaining extent, as at the date of this Report, the dispute is at the mediation stage.

2.10. 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.

2.11. Awards and recognitions for the ENERGA Group

Table 6: Awards received in 2015

2015
<p>19 October 2015</p> <p>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.</p>
<p>18 October 2015</p> <p>"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"</p>
<p>6 October 2015</p> <p>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.</p>
<p>17 September 2016</p> <p>Title of the Best Company of the Year awarded by CEE Capital Markets Awards</p>
<p>27 May 2015</p> <p>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.</p>

21 April 2015

ENERGA OBRÓT received the Certificate of Reliable Energy Seller which is awarded by the Association of Energy Trading to companies embracing good sales practices.

20 April 2015

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.

30 March 2015

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



3. ANALYSIS OF THE FINANCIAL STANDING AND ASSETS

3.1. Rules for preparing the consolidated annual financial statements

The Consolidated Financial Statements of the ENERGA SA Group 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,
- on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives,
- in PLN million ("PLN m"),
- based on the assumption that the Group would continue as a going concern in the foreseeable future. As at the date of the financial statements there is no evidence indicating significant uncertainty as to the ability of the Group to continue its business activities as a going concern.

The Management Board of the Parent Company used its best knowledge in the application of standards and interpretations as well as measurement methods and principles for the individual items of the consolidated financial statements of the ENERGA SA Group in accordance with IFRS EU as at 31 December 2015. All the tables and explanations have been prepared with due care.

The accounting (policy) principles used to prepare the annual consolidated financial statements are presented in Note 9 to the consolidated financial statements of the ENERGA SA Group for the twelve-month period ended 31 December 2015.

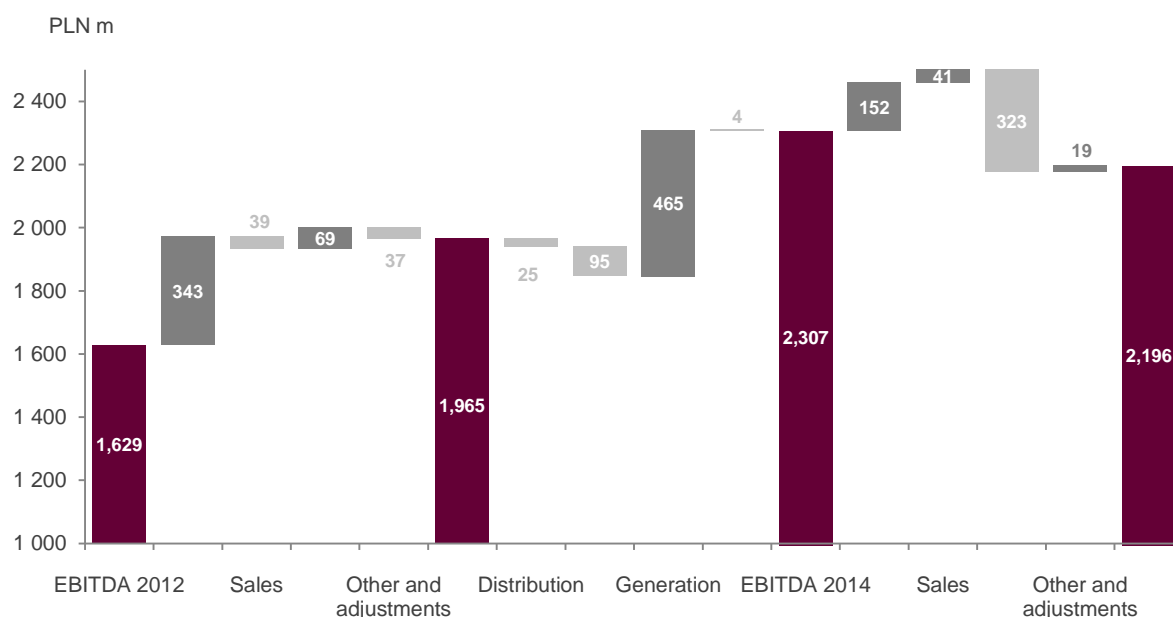
3.2. Explanation of the economic and financial data disclosed in the annual consolidated financial statements

Table 7: Consolidated statement of profit or loss

PLN m	2012	2013	2014	2015	Change 2015/2014	Change 2015/2014 (%)
Sales revenues	11,177	11,429	10,590	10,804	214	2%
Cost of sales	(9,482)	(9,455)	(8,464)	(8,786)	(322)	-4%
Gross profit on sales	1,694	1,974	2,126	2,018	(108)	-5%
Other operating income	135	156	107	91	(16)	-15%
Selling and distribution expenses	(308)	(294)	(312)	(336)	(24)	-8%
General and administrative expenses	(377)	(412)	(350)	(344)	6	2%
Other operating expenses	(239)	(228)	(125)	(149)	(24)	-19%
Operating profit	906	1,195	1,446	1,280	(166)	-11%
Result on financial activity	(280)	(172)	(198)	(228)	(30)	-15%
Share of profit (loss) of associates	0	(1)	-	-	-	-
Profit before tax	626	1,022	1,248	1,052	(196)	-16%
Income tax	(167)	(274)	(239)	(212)	27	11%
Discontinued operations and non-current assets classified as held for sale	(3)	(6)	(3)	-	3	100%
Net profit for the period	456	743	1,006	840	(166)	-17%
EBITDA	1,629	1,965	2,307	2,196	(111)	-5%

PLN m	Q4 2014	Q4 2015	Change	Change (%)
Sales revenues	2,798	2,847	49	2%
Cost of sales	(2,282)	(2,374)	(92)	-4%
Gross profit on sales	517	473	(44)	-9%
Other operating income	(5)	30	35	> 100%
Selling and distribution expenses	(115)	(99)	16	14%
General and administrative expenses	(94)	(98)	(4)	-4%
Other operating expenses	(49)	(63)	(14)	-29%
Operating profit	254	243	(11)	-4%
Result on financial activity	(46)	(61)	(15)	-33%
Share of profit (loss) of associates	-	-	-	-
Profit before tax	208	182	(26)	-13%
Income tax	(26)	(45)	(19)	-73%
Discontinued operations and non-current assets classified as held for sale	(1)	-	1	100%
Net profit for the period	181	137	(44)	-24%
EBITDA	474	481	7	1%

Figure 20: EBITDA bridge, by segment, 2012-2015 (PLN m)



In 2015 the Group's sales revenues amounted to PLN 10,804 m and were 2%, or PLN 214 m higher than in 2014. The biggest increase was recorded in the revenues on distribution and transit services (by 5% yoy), driven by an increase of the average distribution rate (by over 3%) resulting from an increase of the distribution tariff and higher volumes of distributed electricity (on average by 3%). In addition revenues on sales of electricity and gas increased (by PLN 171 m). On the other hand, a decrease of revenues from certificates of origin of electricity (by PLN 268 m) was recorded, which resulted from decreasing market prices of these certificates.

The Group's EBITDA in 2015 was PLN 2,196 m, which was 5% less than in the same period of the previous year. The negative change in the EBITDA of the Generation Segment by PLN 323 m (46%) yoy was the primary contributor to this decline. Positive contributors to EBITDA included primarily the Distribution Segment (contribution increased by PLN 152 m or 10% yoy) and the Sales Segment (where contribution increased by PLN 41 m or 31% yoy).

The Distribution Segment contributed the most to the Group's EBITDA in 2015 (77%), while the Generation Segment accounted for 17% and the Sales Segment accounted for 8% (the aggregation of percentages must also include the Other and Adjustments item).

The operating profit in 2015 fell by 11%, i.e. by PLN 166 m compared to 2014. The biggest decrease in EBIT was recorded in the Generation Segment (by PLN 349 m yoy) and resulted primarily from lower production volumes (mainly in the Hydro line and the Ostrołęka Power Plant), lower market prices for electricity certificates of origin compensated partly by the decrease of fuel consumption costs (lower volume and unit prices). On the other hand, the Distribution Segment recorded a higher result on operating activities (by PLN 133 m yoy), which was primarily attributable to an increase of the tariff.

The Group's net result in 2015 was PLN 840 m, down 17% from 2014.

The Group's EBITDA in 2015 was PLN 481 m and was 1% higher than in the corresponding period of the previous year. The Sales Segment was the main positive contributor to the Group's EBITDA levels (increase of EBITDA by PLN 74 m yoy). The last quarter of the previous year in this Segment was burdened with realization of a negative margin on the activity associated with trading in "green" property rights from 2012-2013, when the rights were sold at prices following from long-term contracts whereas their market prices in 2014 were very low. EBITDA was negatively impacted by: the Generation Segment (decrease of EBITDA by PLN 90 m yoy; primarily the Ostrołęka and Hydro business lines, which resulted primarily from lower production volumes and low market prices of electricity certificates of origin) and the Distribution Segment, where the main negative factor was the accumulation of operating expenses in this quarter.

The table below shows the Group's EBITDA adjusted for effects of non-recurring events, by Segments, in the period of 2012-2015 and in Q4 2015 and Q4 2014.

The impact of non-recurring events in 2015 was on a similar level compared to the previous year. This year, just like the year before, the level of impairment losses for property, plant and equipment and intangible assets and liquidation wind farm projects were on similar levels (PLN 36 m in 2015 and in 2014). The impairment losses and liquidation pertained in particular to the Generation Segment (wind farm projects). In addition, in 2014 the amount of the impairment loss for the goodwill of the subsidiary was partly compensated by reversal of the additional provision recognized in 2013 for CO₂ emissions in the amount of PLN 36 m. The item "Surplus of headcount restructuring (income)/expenses" presents the impact of reversal of actuarial provisions, change in the balance of headcount restructuring provisions and payment of severance awards not covered by that provision.

Table 8: EBITDA adjusted for material non-recurring events

EBITDA (PLN m)	
2015	
EBITDA	2,196
Adjusted EBITDA	2,226
<i>of which:</i>	
<i>Impairment losses on property, plant and equipment and intangible assets and liquidation of wind farm projects</i>	36
2014	
EBITDA	2,307

Adjusted EBITDA	2,328
<i>of which:</i>	
<i>Impairment losses on property, plant and equipment and intangible assets</i>	<i>36</i>
<i>Recognition / (reversal) of additional provision for CO₂ emissions pertaining to free allowances that were not received</i>	<i>(36)</i>

2013

EBITDA	1,965
Adjusted EBITDA	2,220
<i>of which:</i>	
<i>Impairment losses on property, plant and equipment and intangible assets</i>	<i>150</i>
<i>Surplus of (revenues) / costs connected with headcount restructuring</i>	<i>86</i>
<i>Recognition / (reversal) of additional provision for CO₂ emissions pertaining to free allowances that were not received</i>	<i>36</i>

2012

EBITDA	1,629
Adjusted EBITDA	1,864
<i>of which:</i>	
<i>Impairment losses on property, plant and equipment and intangible assets</i>	<i>124</i>
<i>Revenues and costs concerning the dispute between ENERGA-OPERATOR and PSE and PKN ORLEN S.A.</i>	<i>63</i>
<i>Surplus of (revenues) / costs connected with headcount restructuring</i>	<i>48</i>

EBITDA (PLN m)

Q4 2015

EBITDA	481
Adjusted EBITDA	501
<i>of which:</i>	
<i>Impairment losses on property, plant and equipment and intangible assets and liquidation of wind farm projects</i>	<i>25</i>

Q4 2014

EBITDA	474
Adjusted EBITDA	531
<i>of which:</i>	
<i>Impairment losses on property, plant and equipment and intangible assets</i>	<i>25</i>

The definition and method of calculation of EBITDA is presented in the Glossary of terms and abbreviations.

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

Table 9: Consolidated statement of financial position

PLN m	Balance as at 31 December 2012*	Balance as at 31 December 2013*	Balance as at 31 December 2014*	Balance as at 31 December 2015	Change 2015/201 4	Change 2015/201 4 (%)
ASSETS						
Non-current assets						
Property, plant and equipment	10,001	11,761	12,315	12,912	597	5%
Intangible assets	379	399	393	395	2	1%
Goodwill	29	157	143	143	-	-
Deferred tax assets	210	245	246	260	14	6%
Other non-current financial assets	31	31	49	60	11	22%
Other non-current assets	49	57	96	103	7	7%
	10,697	12,650	13,242	13,873	631	5%
Current assets						
Inventories	377	302	296	513	217	73%
Current tax receivables	37	43	76	47	(29)	-38%
Trade receivables	1,521	1,470	1,551	1,762	211	14%
Investments in the financial assets portfolio	706	567	764	322	(442)	-58%
Other current financial assets	46	13	22	38	16	73%
Cash and cash equivalents	1,363	1,785	1,932	1,669	(263)	-14%
Other current assets	156	146	208	232	24	12%
Assets classified as held for sale	10	109	27	-	(27)	-100%
	4,215	4,435	4,876	4,583	(293)	-6%
TOTAL ASSETS	14,913	17,085	18,118	18,456	338	2%
EQUITY AND LIABILITIES						
Equity						
Share capital	4,969	4,522	4,522	4,522	-	-
Exchange differences resulting from conversion of a foreign entity	0	(2)	-	-	-	-
Reserve capital	-	447	447	447	-	-
Supplementary capital	471	521	607	661	54	9%
Cash flow hedge reserve	-	27	(17)	6	23	> 100%
Retained earnings	2,231	2,520	2,957	3,134	177	6%
Equity attributable to equity holders of the Parent Company	7,671	8,034	8,516	8,770	254	3%
Non-controlling interest	47	14	37	44	7	19%
	7,719	8,048	8,553	8,814	261	3%
Non-current liabilities						
Loans and borrowings	2,026	1,812	2,390	2,475	85	4%

Bonds issued	1,079	3,119	3,117	3,116	(1)	-0%
Non-current provisions	711	549	632	664	32	5%
Deferred tax liabilities	520	544	553	591	38	7%
Deferred income and non-current grants	456	489	526	531	5	1%
Other non-current financial liabilities	10	6	32	25	(7)	-22%
	4,801	6,520	7,250	7,402	152	2%

Current liabilities

Trade liabilities	711	890	869	877	8	1%
Current loans and borrowings	390	274	171	203	32	19%
Bonds issued	-	71	72	76	4	6%
Current income tax liability	35	7	50	2	(48)	-96%
Deferred income and grants	146	159	158	161	3	2%
Short-term provisions	555	444	374	471	97	26%
Other financial liabilities	170	235	229	193	(36)	-16%
Other current liabilities	386	356	363	257	(106)	-29%
Liabilities related to assets classified as held for sale	-	81	29	-	(29)	-100%
	2,393	2,516	2,315	2,240	(75)	-3%

Total liabilities	7,194	9,036	9,565	9,642	77	1%
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TOTAL EQUITY AND LIABILITIES	14,913	17,085	18,118	18,456	338	2%
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* Restated data for 2012-2014

As at 31 December 2015, total assets of the ENERGA Group reached PLN 18,456 m and were PLN 338 m higher than on 31 December 2014.

In non-current assets the most important change pertained to property, plant and equipment. The growth of PLN 597 m mostly concerned capital expenditures in the Distribution Segment (capital expenditures to expand and modernize the grid) and in the Generation Segment (adapting the generation units to environmental requirements and building a heat source for the city of Ostrołęka) minus amortization and depreciation. In current assets the most significant changes concerned the following items in particular: investments in the financial assets portfolio (down by PLN 442 m); this item presents participation units in the ENERGA Trading fund), cash (down by PLN 263 m) and); inventories (up PLN 217 m, chiefly certificates of origin of energy from RES).

On the liabilities side of the balance sheet, a significant change occurred in loan and borrowing liabilities, which went up by PLN 117 m (5%) compared with December 2014 figures, following a drawdown of additional tranches of loans from international financial institutions (EIB, NIB) to finance investment projects executed in the Distribution and Generation Segments. The level of provisions rose by PLN 129 m, i.e. 13% (mainly as a result of the recognition of a provision for obligatory redemption of certificates).

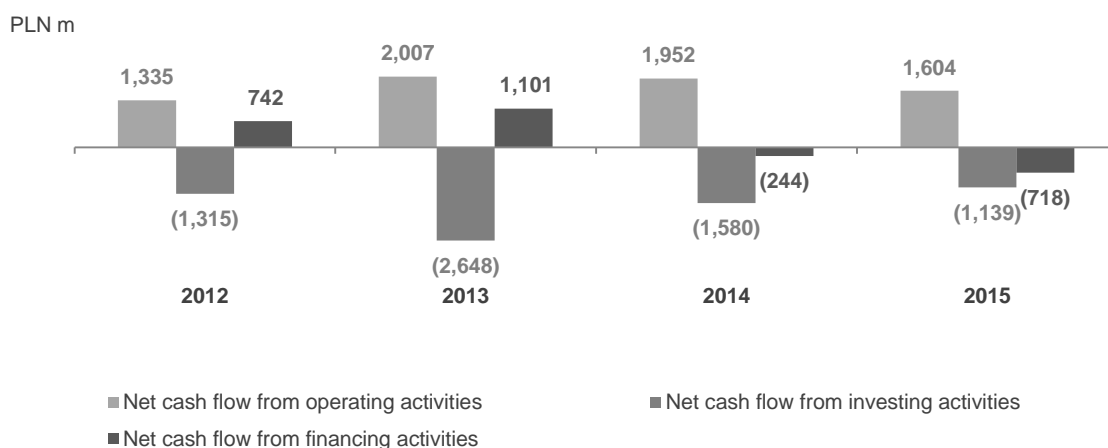
The ENERGA Group's equity as at 31 December 2015 was PLN 8,814 m. ENERGA SA's result for 2015 was allocated with PLN 54 m going to supplementary capital and PLN 596 m being designated as a dividend payment to the Company's shareholders. The cash flow hedge reserve increased by PLN 23 m. As at 31 December 2015, equity covered 47.8% of the Group's assets.

Table 10: Consolidated statement of cash flows

in PLN million	2012*	2013*	2014*	2015	Change 2015/2014	Change 2015/2014 (%)
Net cash flow from operating activities	1,335	2,007	1,952	1,604	(348)	-18%
Net cash flow from investing activities	(1,315)	(2,648)	(1,580)	(1 139)	441	28%
Net cash flow from financing activities	742	1,101	(244)	(718)	(474)	> -100%
Net increase / (decrease) in cash	762	460	128	(253)	(381)	> -100%
Cash and cash equivalents at the end of the period	1,323	1,783	1,911	1,658	(253)	-13%

* Restated data for 2012-2014

Figure 21: Group's cash flows in 2012-2015 (PLN m)



As at 31 December 2015, the balance of the Group's cash was PLN 1,658 m and was PLN 253 m (or 13%) less than the cash balance one year earlier.

The total net cash flows from the Group's operating, investing and financing activities in 2015 were negative at PLN 253 m, compared to the positive cash flows of PLN 128 m in the corresponding period of the previous year.

Cash flow from operating activities decreased by PLN 348 m (18%) compared to the previous year. The decrease in cash flows from operating activities compared to 2014 was driven mainly by a decline in pre-tax profit and changes in working capital (mainly increase of the balance of inventories of certificates of origin for energy), which was partially offset by an increase in amortization and depreciation expenses.

Net cash flows from investing activities in 2015 surged up by PLN 441 m (28%), which was mostly caused by higher net cash flows related to investing assets in participation units in the ENERGA Trading fund. This effect was partially offset by higher capital expenditures to acquire property, plant and equipment.

In the period in question cash flows from financing activities were negative and amounted to PLN 718 m, or PLN 474 m less than in 2014. The drawdown of financing from EIB and NIB in an aggregate amount of PLN 268 m in 2015 contributed to the movement in the cash flows in the period under analysis as in 2014 EIB and EBRD financing in the amount of PLN 890 m was originated. In addition, the dividend paid out in 2015 was PLN 182 m higher than in 2014.

3.3. Structure of the annual consolidated statement of financial position

Figure 22: Asset and liability structure

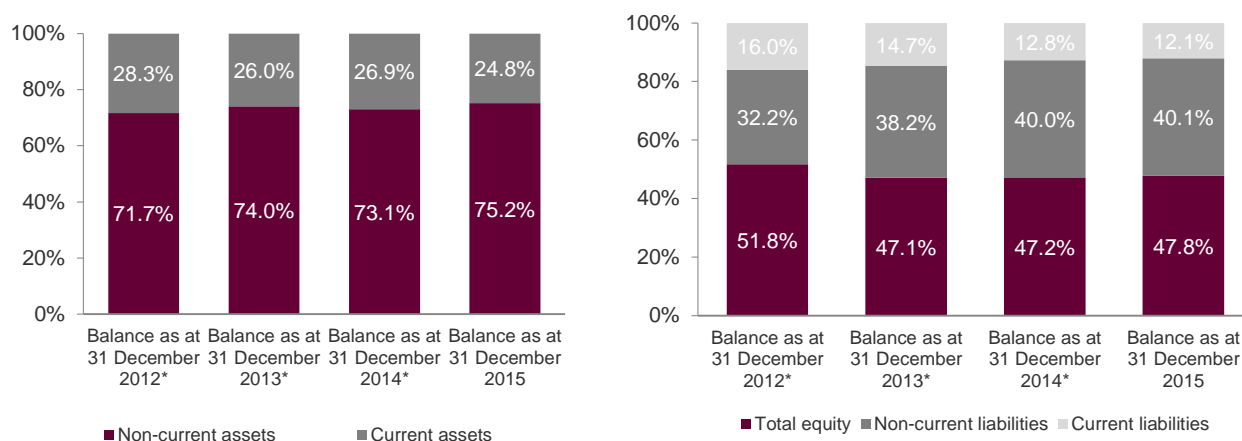


Table 11: Financial ratios of the ENERGA Group

Indicator	Definition	2012	2013	2014	2015
Profitability					
EBITDA margin	operating result + amortization and depreciation / sales revenues	14.6%	17.2%	21.8%	20.3%
return on equity (ROE)	net profit for the period / equity at the end of the period	5.9%	9.2%	11.8%	9.5%
return on sales (ROS)	net profit for the period / sales revenues	4.1%	6.5%	9.5%	7.8%
return on assets (ROA)	net profit for the period / total assets at the end of the period	3.1%	4.3%	5.6%	4.6%
Indicator	Definition	Balance as at 31 December 2012*	Balance as at 31 December 2013*	Balance as at 31 December 2014*	Balance as at 31 December 2015
Liquidity					
current liquidity ratio	current assets/current liabilities	1.8	1.8	2.1	2.0
Indebtedness					
financial liabilities (PLN m)	sum of liabilities under loans and borrowings and under long- and short-term debt securities	3,495	5,276	5,750	5,870
net financial liabilities (PLN m)	financial liabilities - cash and cash equivalents	2,132	3,491	3,818	4,201
net debt / EBITDA ratio	net financial liabilities / EBITDA	1.3	1.8	1.7	1.9

* Restated data for 2012-2014

Increase in the value of assets and capital with simultaneous decrease of the net result by 17% in relation to the previous year had adverse impact on the level of the ENERGA Group's profitability ratios. A corresponding trend can be observed in sales profitability.

The liquidity ratio is on a safe level, similar to the level as at 31 December 2014.

In 2015 financial liabilities increased (2% yoy) from their 2014 levels. While the parallel decrease in cash contributed to a higher growth of net financial liabilities (10% yoy). At the same time, the decrease in the Group's results contributed to a higher net debt to EBITDA ratio, as compared to the previous year.

3.4. Description of significant off-balance sheet items

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

3.5. Key operational data of the ENERGA Group

Table 12: Distribution of electricity, by tariff groups

Distribution of electricity, by tariff groups (invoiced sales) in GWh	2012	2013	2014	2015*	Change 2015/2014	Change 2015/2014 (%)
Tariff Group A (HV)	3,783	3,948	4,143	4,280	136	3%
Tariff Group B (MV)	6,654	6,829	7,210	7,531	321	4%
Tariff Group C (LV)	4,172	4,250	4,246	4,283	37	1%
Tariff Group G (LV)	5,450	5,418	5,323	5,392	69	1%
Total distribution of energy	20,058	20,444	20,923	21,486	563	3%

Distribution of electricity, by tariff groups (invoiced sales) in GWh	Q4 2014	Q4 2015*	Change	Change (%)
Tariff Group A (HV)	1,030	993	(37)	-4%
Tariff Group B (MV)	1,898	1,967	70	4%
Tariff Group C (LV)	1,110	1,116	6	0%
Tariff Group G (LV)	1,380	1,376	(4)	0%
Total distribution of energy	5,417	5,452	34	1%

* In the case of the 2015 data (for tariffs C and G), the data on invoiced sales were increased by the volume of supplied electricity (on the basis of readouts) which has not been invoiced due to postponement of invoicing in connection with data migration to new billing systems.

In 2015, the volume of electricity supplied was higher than in the previous year, by 3% on average. The increase in the average distribution rate was over 3% yoy.

Table 13: SAIDI and SAIFI levels

	SAIDI			SAIFI		
	Unplanned incl. catastrophic	planned	Total	Unplanned incl. catastrophic	planned	Total
	Number of minutes per customer in the relevant period			Disruptions per customer in the relevant period		
Year ended 31 December 2012	225.1	83.7	308.8	3.4	0.4	3.8
Year ended 31 December 2013	283.9	71.1	355.0	2.9	0.4	3.4
Year ended 31 December 2014	203.7	58.4	262.2	3.1	0.4	3.5
Year ended 31 December 2015	239.4	46.4	285.8	3.1	0.3	3.4
Change 2015/2014	35.6	(12.0)	23.6	(0.1)	(0.1)	(0.1)
Change 2015/2014 (%)	17%	-21%	9%	-2%	-13%	-3%
Q4 2014	30.7	12.8	43.5	0.6	0.1	0.7
Q4 2015	31.4	12.8	44.2	0.6	0.1	0.7
Change	0.6	0.0	0.7	(0.0)	0.0	(0.0)
Change (%)	2%	0%	2%	-5%	0%	-5%

As at the end of 2015, the ENERGA Group reached a level of SAIDI (planned and unplanned with catastrophic) higher than that of the previous year by 9%. SAIFI decreased by 3% from the previous year.

In 2015, ENERGA-OPERATOR SA recorded a 0.2% increase in the number of customers from the previous year. The number of customers increased across all tariff groups, except for group C, where an approx. 1% decline was recorded. At the end of 2014, the Company had 2,972 thousand customers.

Table 14: Number of ENERGA-OPERATOR SA's customers in 2012-2015 (by tariff group)

Tariff groups ENERGA-OPERATOR	As at 31 December				Change 2015/2014	Change 2015/2014 (%)
	2012	2013	2014	2015		
Tariff Group A	57	66	72	90	18	25%
Tariff Group B	6,045	6,279	6,540	6,777	237	4%
Tariff Group C	299,283	301,493	299,190	295,030	(4,160)	-1%
Tariff Group G	2,611,382	2,638,170	2,660,526	2,670,053	9,527	0%
TOTAL	2,916,767	2,946,008	2,966,328	2,971,950	5,622	0%

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

Table 15: Gross production of electricity in the ENERGA Group

Gross electricity produced (GWh)	2012	2013	2014	2015	Change 2015/2014	Change 2015/2014 (%)
Power plants - coal-fired	2,564	2,944	3,109	2,226	(882)	-28%
Power plants - biomass co-fired	541	692	643	609	(34)	-5%
CHP plants - coal-fired	201	144	153	131	(23)	-15%
CHP plants - biomass-fired	12	0	20	24	4	19%
Power plants - hydro	733	1,008	837	687	(149)	-18%
Pumped-storage plant	22	29	34	37	3	8%
Power plants - wind	-	151	308	419	111	36%
Power plants - photovoltaics	-	-	-	4	4	100%
Total electricity production	4,072	4,967	5,103	4,136	(967)	-19%
<i>incl. RES</i>	<i>1,285</i>	<i>1,851</i>	<i>1,808</i>	<i>1,743</i>	<i>(65)</i>	<i>-4%</i>

Gross electricity produced (GWh)	Q4 2014	Q4 2015	Change	Change (%)
Power plants - coal-fired	829	485	(344)	-42%
Power plants - biomass co-fired	158	146	(13)	-8%
CHP plants - coal-fired	41	39	(2)	-5%
CHP plants - biomass-fired	10	6	(4)	-42%
Power plants - hydro	167	141	(26)	-16%
Pumped-storage plant	8	15	6	76%
Power plants - wind	82	133	51	62%
Power plants - photovoltaics	-	1	1	100%
Total electricity production	1,296	964	(332)	-26%
<i>incl. RES</i>	<i>418</i>	<i>426</i>	<i>8</i>	<i>2%</i>

In 2015, ENERGA Group's generation companies produced approx. 967 GWh (19%) less electricity than they did in the corresponding period of the previous year. The main reason was a decline in coal-fired production in the must-run power plant in Ostrołęka (882 GWh), which was caused, among others, by the general overhaul of one of the units of the must run power plant (which lasted for the entire 2nd half of 2015) and PSE's lower demand for must run operation. Additionally, lower electricity production was observed in run of the river hydro power plants (by 149 GWh), mainly due to the unfavorable hydrologic conditions caused by an extremely warm and dry summer. At the same time, production from the Group's wind farms increased (by 111 GWh), among others as a result of additional production from the new wind farm Myślino (51 GWh) and better wind conditions. Decrease of energy production from biomass co-burning (by 34 GWh) results from, among others, the aforementioned overhaul of one unit in the must-run power plant.

Comparing Q4 in annual terms, one notices the higher wind production by 51 GWh, i.e. 62% (record good weather conditions and the new Myślino wind farm) and lower production based on coal in the must-run power plant by 344 GWh (42%), which is attributable mainly to two factors, i.e. general overhaul of the must-run power plant unit and lower PSE's demand for must run production.

Table 16: Production of heat

Gross heat production in TJ	2012	2013	2014	2015	Change 2015/2014	Change 2015/2014 (%)
ENERGA Kogeneracja Sp. z o.o.*	2,496	2,480	2,264	2,226	(38)	-2%
ENERGA Elektrownie Ostrołęka S.A.	1,604	1,468	1,452	1,399	(52)	-4%
ENERGA Ciepło Kaliskie Sp. z o.o.	-	-	137	280	143	> 100%
Total gross heat production	4,100	3,948	3,853	3,905	53	1%

Gross heat production in TJ	Q4 2014	Q4 2015	Change	Change (%)
ENERGA Kogeneracja Sp. z o.o.*	774	711	(63)	-8%
ENERGA Elektrownie Ostrołęka S.A.	438	423	(14)	-3%
ENERGA Ciepło Kaliskie Sp. z o.o.	107	108	1	1%
Total gross heat production	1,318	1,242	(76)	-6%

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

2015 saw a slight increase of the Group's heat production by approx. 53 TJ (1%) attributable to much higher heat production by ENERGA Ciepło Kaliskie. This was caused by the modification of the company's business, i.e. starting licensed business at the beginning of 2Q 2014. Nonetheless the higher heat production was compensated by lower heat production by ENERGA Kogeneracja by 38 TJ (-2%) yoy and by ENERGA Elektrownie Ostrołęka by 52 TJ (-4%). The main reason for the lower production volume in these two companies was the higher average annual temperature in 2015 than in 2014, resulting in lower demand for heat.

In Q4 2015, heat production decreased by approx. 76 TJ (6%) which was driven mainly by the decreasing demand on the local markets recorded by two main companies: Energa Kogeneracja and ENERGA Elektrownie Ostrołęka.

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

Fuel consumption*	2012	2013	2014	2015	Change 2015/2014	Change 2015/2014 (%)
Coal						
Quantity (000s tons)	1,429	1,576	1,607	1,157	(450)	-28%
Cost (PLN m)	458	455	413	284	(130)	-31%
Biomass						
Quantity (000s tons)	403	455	436	406	(30)	-7%
Cost (PLN m)	186	198	176	161	(15)	-9%
Total fuel consumption (PLN m)	644	653	589	445	(145)	-25%

* Including the cost of transportation

Fuel consumption*	Q4 2014	Q4 2015	Change	Change (%)
Coal				
Quantity (000s tons)	423	261	(162)	-38%
Cost (PLN m)	108	62	(46)	-42%
Biomass				
Quantity (000s tons)	111	95	(16)	-15%
Cost (PLN m)	46	36	(10)	-23%
Total fuel consumption (PLN m)	154	98	(56)	-36%

* Including the cost of transportation

In 2015, the generators from the ENERGA Group consumed approx. 450 thousand tons (28%) of black coal less than the year before. This was due to, among others, a 28% drop in the production of electricity from black coal. In the analyzed period, consumption of biomass fell by approx. 30 thous. tons (7%), driven by, among others, a 30 GWh (5%) drop in the gross production of electricity from biomass firing. The changes in consumption volumes of the individual fuels was accompanied by a decrease in average unit consumption cost (PLN/MWh) of respective fuels (by 12% for coal and 12% for biomass).

In Q4 2015, the cost of consumption of key fuels was PLN 56 m (36%) lower than in the comparable period of 2014. The main cause was the lower consumption of the aforementioned fuels for production of electricity and reduction of the average unit consumption cost (PLN/MWh) of respective fuels (by 17% for coal and 18% for biomass).

Table 18: Sales of electricity by the Sales Segment

Sales of electricity by the Sales Segment in GWh	2012	2013	2014	2015	Change 2015/2014	Change 2015/2014 (%)
Retail electricity sales	20,482	18,248	16,364	16,767	403	2%
Electricity sales on the wholesale market, of which:	7,802	12,764	9,720	8,892	(829)	-9%
Electricity sales to the balancing market	537	823	331	428	96	29%
Electricity sales to ENERGA-OPERATOR* to cover network losses and for own consumption	1,643	1,593	1,561	(16)	(1,577)	>-100%
Other wholesale	5,623	10,348	7,828	8,480	652	8%
Total electricity sales	28,284	31,012	26,084	25,658	(426)	-2%

Sales of electricity by the Sales Segment in GWh	Q4 2014	Q4 2015	Change	Change (%)
Retail electricity sales	4,277	4,423	146	3%
Electricity sales on the wholesale market, of which:	2,522	2,425	(97)	-4%
Electricity sales to the balancing market	23	244	221	>100%
Electricity sales to ENERGA-OPERATOR* to cover network losses and for own consumption	525	-	(525)	-100%
Other wholesale	1,974	2,181	208	11%
Total electricity sales	6,799	6,848	49	1%

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

In 2015, the overall volume of electricity sold by the Segment decreased by 2% (0.4 TWh) when compared to 2014, which is attributable to the decrease of the sales volume in the wholesale market (by 9%, i.e. 0.8 TWh), whereas the retail sales increased by 2% (0.4 TWh) in relation to the year before.

In retail sales in 2015, increases in volumes sold to business customers, including to Slovak market customers, with a slightly lower sales volume to households, were recorded. The increase of the retail sales volume is the result of higher average electricity consumption by customers, which resulted from an increase in energy consumption in Poland (according to PSE's data, in 2015 consumption in Poland increased by 1.7% yoy), with a slightly lower average number of customers (Electricity Offtake Points). In terms of volume, sales to households (tariff G) in 2015, similarly to the year before, accounted for 32% of the sales billed to end users by ENERGA-OBRÓT SA.

In the analyzed period, electricity sales fell also in the wholesale market (by 9%). This was mainly a result of ENERGA-OPERATOR SA changing the entity selling electricity to cover network losses in 2015. The remaining electricity trading on the wholesale market aims largely at optimizing the average purchase price of energy to be sold on the retail market.

In Q4 2015, as opposed to the annual data, the overall volume of electricity sold by the Segment increased by 1% (0.05 TWh) when compared to Q4 2014. This is attributable to the annual increase of the retail sales growth rate (by 3%, i.e. 0.15 TWh) with lower annual decline rate of the sales volume in the wholesale market (by 4%, i.e. 0.1 TWh). The increase of the retail sales volume in quarterly terms is the effect of both higher average electricity consumption by customers and higher average number of customers (Electricity Offtake Points).

3.6. Financial results by operating segments

Table 19: EBITDA of the ENERGA Group, by Segment

EBITDA (PLN m)	2012	2013	2014	2015	Change 2015/2014	Change 2015/2014 (%)
DISTRIBUTION	1,218	1,561	1,536	1,688	152	10%
GENERATION	164	233	698	375	(323)	-46%
SALES	264	226	131	172	41	31%
OTHER and consolidation eliminations and adjustments	(17)	(54)	(58)	(39)	19	33%
Total EBITDA	1,629	1,965	2,307	2,196	(111)	-5%

EBITDA (PLN m)	Q4 2014	Q4 2015	Change	Change (%)
DISTRIBUTION	372	350	(22)	-6%
GENERATION	170	80	(90)	-53%
SALES	(18)	56	74	> 100%
OTHER and Consolidation eliminations and adjustments	(51)	(6)	45	89%
Total EBITDA	474	481	7	1%

Distribution Segment

Figure 23: Results of the ENERGA Group's Distribution Segment (PLN m)

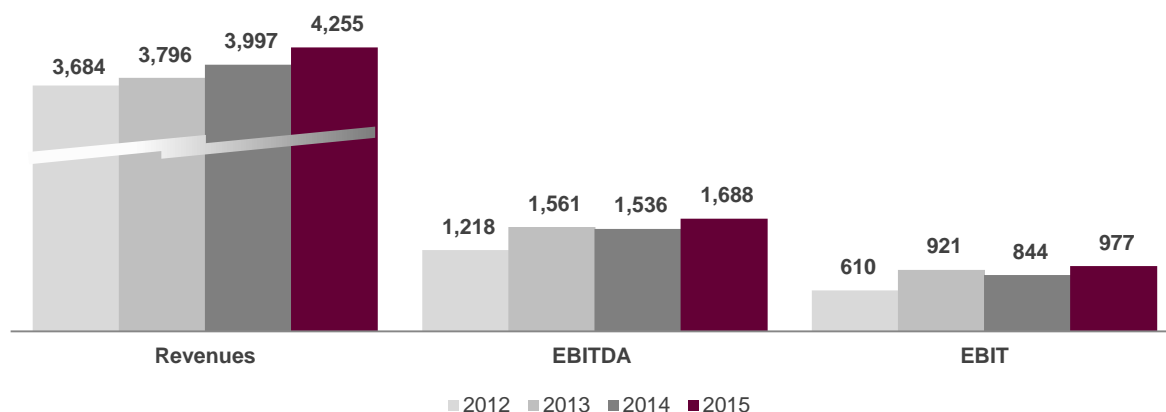
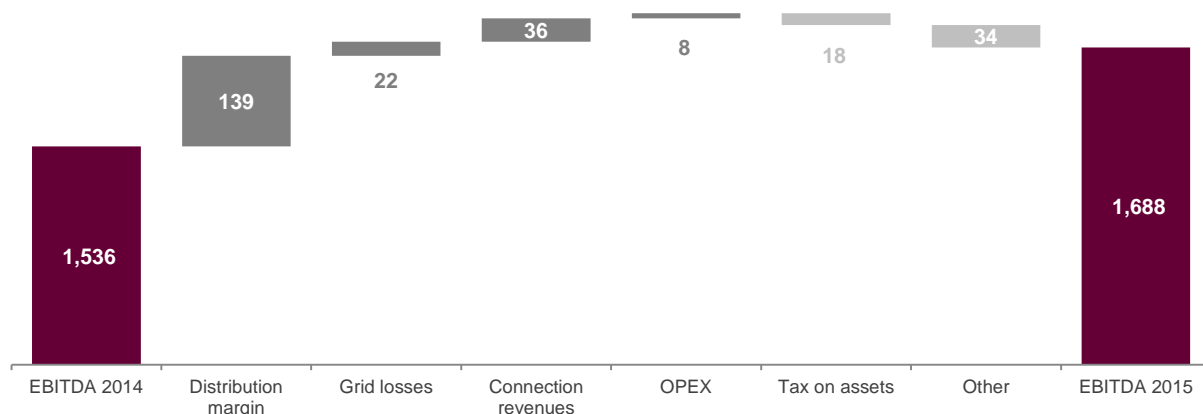


Table 20: Results of the Distribution Segment

PLN m	2012	2013	2014	2015	Change 2015/2014	Change 2015/2014 (%)
Revenue	3,684	3,796	3,997	4,255	258	6%
EBITDA	1,218	1,561	1,536	1,688	152	10%
amortization and depreciation	608	640	692	711	19	3%
EBIT	610	921	844	977	133	16%
Net profit	320	612	599	667	68	11%
CAPEX	1,364	1,397	1,148	1,123	(25)	-2%

PLN m	Q4 2014	Q4 2015	Change	Change (%)
Revenue	1,071	1,118	47	4%
EBITDA	372	350	(22)	-6%
amortization and depreciation	175	182	7	4%
EBIT	197	168	(29)	-15%
Net profit	158	103	(55)	-35%
CAPEX	633	404	(229)	-36%

Figure 24: EBITDA Bridge of the Distribution Segment (PLN m)



During 2015, the Distribution Segment contributed approx. 77% to ENERGA Group's EBITDA (over 67% in 2014).

Revenues of the Distribution Segment in 2015 were more than 6% higher than in the same period of the previous year. The increase in revenues was driven by an increase of the average distribution rate (by almost 3%) resulting from an increase of the distribution tariff and higher volumes of distributed electricity (by over 3%). Revenues from connection fees reached over PLN 97 m, or 58% more than in 2014. That was caused by a higher number of connections of wind farms and traction substations for the purposes of PKP.

EBITDA increased by 10% yoy and EBIT increased by PLN 133 m (nearly 16% yoy). Important contributors to the operating result of PLN 977 m included: an increase in the distribution margin by PLN 161 m including network losses (due to a yoy increase in tariff margin by ca. PLN 91 m, as well increased volume resulting from economic recovery in tariffs A and B), property tax costs higher by PLN 18 m (the effect of increased real estate and property tax rates and establishment of provisions for litigation), as well as a decrease of the result on other operations by PLN 34 m (increase of claims provision in connection with location of power infrastructure on land owned by third parties and higher costs of removals of results of unexpected events caused by strong wind).

Net profit in 2015 was almost PLN 68 m higher than the year before. This was a consequence of a better operating result of the Segment, partly offset by a higher mandatory tax burden. The higher yoy effective tax rate resulted mainly from the fact of obtaining a technology-related tax allowance in 2014, which improved that year-result on a one-off basis.

Capital expenditures of the Distribution Segment amounted to PLN 1,123 m, that is almost PLN 25 m less than the year before.

The Q4 2015 EBITDA was shaped primarily by distribution margin, which was higher than in Q4 2014 (by PLN 41 m), higher connection revenues (by PLN 9 m), higher OPEX (by PLN 74 m, due to accumulation of expenses in Q4 2015). As a result, EBITDA fell from PLN 372 m to PLN 350 m.

Generation Segment

Figure 25: Results of the ENERGA Group's Generation Segment (PLN m)

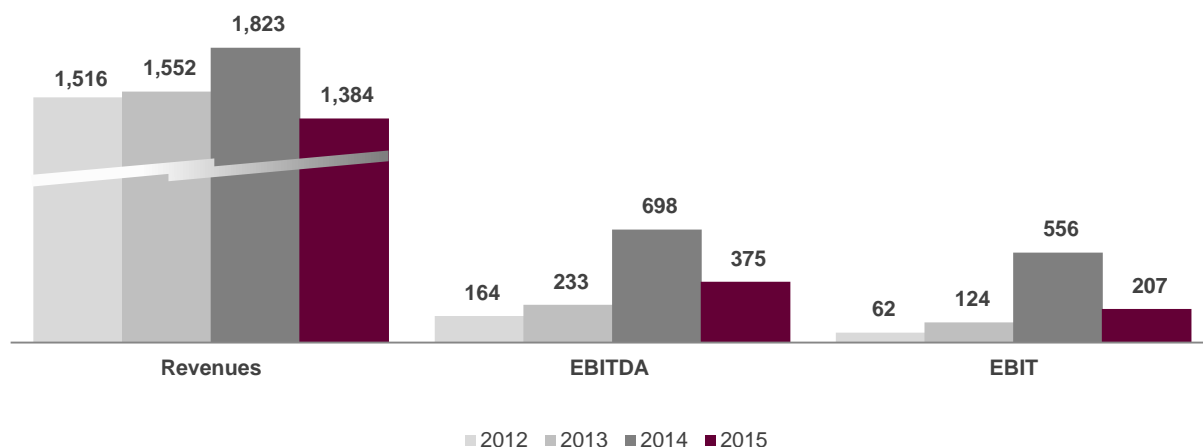
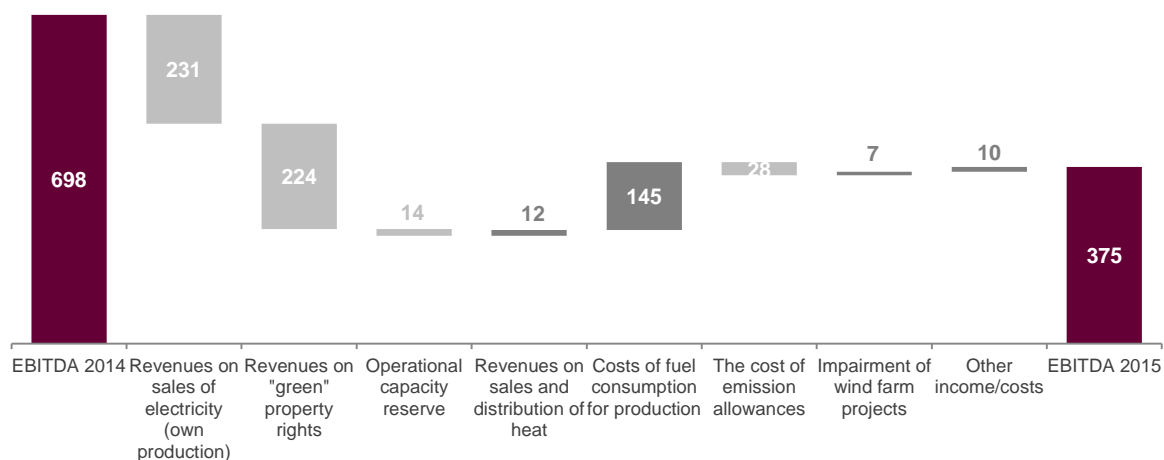


Table 21: Results of the ENERGA Group's Generation Segment

PLN m	2012	2013	2014	2015	Change 2015/2014	Change 2015/2014 (%)
Revenue	1,516	1,552	1,823	1,384	(439)	-24%
EBITDA	164	233	698	375	(323)	-46%
amortization and depreciation	102	110	142	168	26	18%
EBIT	62	124	556	207	(349)	-63%
Net profit	30	75	384	115	(269)	-70%
CAPEX	408	1,333	271	392	121	45%

PLN m	Q4 2014	Q4 2015	Change	Change (%)
Revenue	503	332	(172)	-34%
EBITDA	170	80	(90)	-53%
amortization and depreciation	40	47	7	18%
EBIT	131	33	(98)	-75%
Net profit	85	17	(68)	-80%
CAPEX	79	147	68	87%

Figure 26: EBITDA Bridge of the Generation Segment (PLN m)



The table below presents a breakdown of EBITDA of the Generation Segment by business lines. This table includes individual data plus the management cost charge for managing the Generation Segment, elimination of transaction concluded between individual business lines and consolidation adjustments.

The data presented for 2014 may be slightly different than the presented historical data, because the methodology for allocating Segment results to individual business lines was made more precise in the beginning of 2015.

Table 22: EBITDA of the Generation Segment, by business line

EBITDA (PLN m)	2013	2014	2015	Change 2015/2014	Change 2015/2014 (%)
Hydro	374	283	155	(129)	-45%
Wind	41	79	73	(5)	-7%
Ostrołęka Power Plant	(205)	339	148	(191)	-56%
Other and adjustments	23	(2)	(1)	1	59%
Total Generation	233	698	375	(323)	-46%

EBITDA (PLN m)	Q4 2014	Q4 2015	Change 2015/2014	Change 2015/2014 (%)
Hydro	54	27	(27)	-51%
Wind	19	28	9	49%
Ostrołęka Power Plant	113	32	(81)	-71%
Other and adjustments	(15)	(6)	9	60%
Total Generation	170	80	(90)	-53%

In 2015, the Generation Segment's contribution to total EBITDA of the ENERGA Group was 17% (30% in 2014). EBITDA fell by PLN 323 m, which was caused mainly by worse market conditions, record low hydrological conditions and lower demand for must run production, and a simultaneous general overhaul of one of the units at the Ostrołęka Power Plant.

The Segment's results were shaped mainly by the market price of property rights to renewable energy. In 2015, the price of property rights remained low, much lower than in 2014 (in 2015, average price as per the OZEX_A index was 124 PLN/MWh as compared to 187 PLN/MWh in 2014). Moreover, in 2015 there was no positive event such as the one which occurred in 2014 when the inventories of 2013 property rights were sold at prices higher than those on the production date. At the same time, the gross volume of production of renewable energy decreased by 65 GWh (by 4%) and the lower production from water and biomass was partly compensated with higher production from wind.

A decrease in revenue on sales of electricity was caused by three major events. Firstly, there was a significant drop in the electricity generation volume from coal (by 28%) caused by the performance of the planned renovation and repair work (general overhaul of one unit in Ostrołęka) and PSE's reduced demand for must run production. Secondly, due to unfavorable hydrological conditions, the yoy generation of hydro electricity fell (by 18%), in particular in the Włocławek hydro power plant (which was partly compensated with the production from wind. And thirdly, compared to the corresponding period of the previous year, the official electricity sales price announced by the ERO President also fell (which is particularly important for the Hydro and Wind business lines). In 2014, this price was 181.55 PLN/MWh, while in 2015 it was 163.58 PLN/MWh. The Ostrołęka Power Plant business line maintained to keep the prices at a similar level because of the must run production.

As of the beginning of 2014, operating reserve was added to the catalog of system services provided to PSE, increasing significantly revenues of the Generation Segment from services provided to the Transmission Grid Operator. In 2015, revenue on this service earned by the Ostrołęka Power Plant was lower (by 27%, or PLN 14 m) than in the corresponding period of the previous year, due to the general overhaul of one of the power units and lower market prices for this service.

The Segment noted higher revenue on sale and distribution of heat (by PLN 12 m) because of considerably higher production of heat by ENERGA Ciepło Kaliskie in 2015 in connection with modification of the company's business, i.e. starting licensed business at the beginning of 2Q 2014 (earlier the company had not carried out operating activity on own assets).

The fuel consumption costs (including transportation) in the Generation Segment decreased in 2015 by 25%, that is by PLN 145 m yoy. This drop was driven by lower production of energy from coal, combined with the lower unit cost of coal (12%) and biomass (12%), which was due to lower purchase prices of the materials (the ratio of unit consumption cost to total production of electricity and heat in Mwh). The fuel purchase cost was also affected by introduction, in the early 2015, of heat elements in the system units used in the Ostrołęka power plant, which improved efficiency of primary fuel processing.

The costs of purchasing emission allowances by the Segment were much lower than the yoy levels in the analyzed period (PLN 8 m) as a result of decreased production from coal. However in this case the results were affected by a positive non-recurring event in 2014 consisting in a reversal of provision for free emission allowances that were not received in the amount of PLN 36 m (at the end of 2013, the Group recognized a provision for such not received free emission allowances, as until 31 December 2013 no free CO₂ allowances arising from the published allocation had been credited to the accounts of the Group's companies and no pertinent regulations were adopted under which the transfer of such allowances would take place). In 2014, the legal situation changes and in 2Q 2014 the provision was reversed.

In addition to the above market factors driving the yoy performance of the Generation Segment, we should also note the non-recurring events, such as: impairment allowances and liquidation of the wind

farm projects (projects purchased during the wind farm acquisition program in 2013). In 2015, the total value of impairment losses reached PLN 32 m, while in 2014 it was PLN 39 m.

The net profit earned by the Generation Segment in 2015 was affected by the costs of service of the financial debt incurred among others to purchase the wind farms in 2013.

Capital expenditures in the Segment in 2015 were PLN 121 m higher (i.e. by 45%). In 2015, the capital expenditures were made in particular at the Ostrołęka Power Plant in connection with the general overhaul of one of the units, adaptation of the power plant to the stricter environmental requirements and settlement of the construction of a heat source for the city of Ostrołęka. The second set of capital expenditures consisted in designs and construction of wind farms (for instance, settlement of the Myślino wind farm, construction of a new farm in Parsówek) and photovoltaic farms (PV Czernikowo). The third group of capital expenditures included modernization of generation sources in all business lines.

In the fourth quarter of 2015, we should note much lower revenue on electricity sales (lower volume and selling price), property rights (mostly lower selling price and absence of a positive event such as the sale of inventories of 2013 property rights at prices higher than those on the production date, which occurred in Q4 2014). At the same time, the Segment generated lower revenue on the provision of regulatory system services. On the other hand, the considerably lower production had a positive impact on the fuel purchase cost and the cost of purchase of additional CO₂ allowances.

Hydro

Table 23: Results of the Hydro business line

PLN m	2013	2014	2015	Change 2015/2014	Change 2015/2014 (%)
Revenue	480	374	247	(127)	-34%
EBITDA	374	283	155	(129)	-45%
EBIT	348	255	124	(131)	-51%
CAPEX	40	32	15	(17)	-53%

PLN m	Q4 2014	Q4 2015	Change 2015/2014	Change 2015/2014 (%)
Revenue	71	53	(18)	-26%
EBITDA	54	27	(27)	-51%
EBIT	47	19	(28)	-60%
CAPEX	13	3	(10)	-75%

In 2015, contribution of the Hydro business line to the Generation Segment's total EBITDA was 41%. EBITDA generated by this line fell by PLN 129 m yoy, which reduced the Segment's results significantly.

This was mainly the effect of a material drop in electricity production volume, especially in the Włocławek hydro power plant, due to the unfavorable hydrological conditions caused by warm and dry summer. Additionally, electricity was sold at lower prices (official prices quoted by the ERO President).

The decline in electricity production contributed directly to the lower number of green property rights received in the current period. At the same time, a significant decrease in the market prices for green certificates, as compared to the corresponding period of the previous year, deepened the decline

trend. In 2015 there was no positive event such as the one which occurred in 2014 when the inventories of 2013 property rights were sold at prices higher than those on the production date.

In 2015, capital expenditures were lower than in 2014 and were associated with modernization works.

In the fourth quarter of 2015, the results of this business line were worse, mainly due to the lower production volumes, lower prices of electricity and property rights.

Wind

Table 24: Results of the Wind business line

PLN m	2013	2014	2015	Change 2015/2014	Change 2015/2014 (%)
Revenue	58	120	112	(8)	-6%
EBITDA	41	79	73	(5)	-7%
EBIT	22	39	29	(10)	-25%
CAPEX*	1,033	4	9	5	> 100%

PLN m	Q4 2014	Q4 2015	Change 2015/2014	Change 2015/2014 (%)
Revenue	27	36	8	31%
EBITDA	19	28	9	49%
EBIT	9	16	8	87%
CAPEX*	3	-	(3)	-100%

** Method of presentation of capital expenditures for construction of new wind farms was modified in relation to data presented in the previous quarter (data for 2014 presented under Other and adjustments).*

Contribution of the Wind business line to the Generation Segment's total EBITDA in 2015 increased to 20% (compared to 11% in the same period of the previous year).

The higher yoy performance of the discussed business line was caused by higher production of electricity, including additional production from the new Myślino wind farm (51 GWh) and better wind conditions in the current period. Lower prices of sale of electricity had an additional negative effect (sales at official prices quoted by the ERO President).

The increase in electricity production contributed directly to the higher number of green property rights received. As in the case in the Hydro business line, the significant decline in the market prices for green property rights has a significant adverse impact on the results.

The value stated under this item is low because capital expenditures towards wind farms in construction are recognized in the Other and Adjustments business line.

In the fourth quarter of 2015, the results of the a/m business line were much better results due mostly to excellent weather conditions which led to a material growth of production volume, account being taken of the production volume of the new farm in Myślino. Yet, lower sale prices of electricity and property rights partly offset the production growth.

Ostrołęka Power Plant

Table 25: Results of the Ostrołęka Power Plant business line

PLN m	2013	2014	2015	Change 2015/2014	Change 2015/2014 (%)
Revenue	862	1,159	844	(314)	-27%
EBITDA	(205)	339	148	(191)	-56%
EBIT	(254)	289	88	(200)	-69%
CAPEX	123	42	175	133	> 100%

PLN m	Q4 2014	Q4 2015	Change 2015/2014	Change 2015/2014 (%)
Revenue	343	190	(153)	-45%
EBITDA	113	32	(81)	-71%
EBIT	100	11	(89)	-89%
CAPEX	9	62	53	> 100%

Contribution of the Ostrołęka Power Plant business line to the Generation Segment's total EBITDA in 2015 was 39%. EBITDA in the reporting period was much lower (by PLN 191 m) than in the previous year.

This was driven mainly by the declining volume of the power plant's production of electricity and heat from coal (by 882 GWh) due to the general overhaul of one of the units in Ostrołęka, which took the entire second half of 2015 and a lower demand for must run production requested by the Transmission System Operator. The positive fact was that the average selling price of electricity decreased only slightly despite the significant declines in SPOT rates yoy (the prices in the Ostrołęka Power Plant are affected by a significant percentage of must run production).

The performance of the business line was also affected by a decline in market prices for green property rights. Moreover, in 2015 there was no positive event such as the one which occurred in 2014 when the inventories of 2013 property rights were sold at prices higher than those on the production date. At the same time, the volume of gross production of energy from in the line concerned decreased by 34 GWh (5%).

Since the beginning of 2014, the Ostrołęka Power Plant has provided an additional system service to PSE named the Operating Reserve. In 2015, revenue on this service was much lower (27%, or PLN 14 m) than in the corresponding period of the previous year.

A drop in fuel consumption costs by PLN 143 m was caused by decreased production of energy from coal, combined with a 9% decline in the unit cost of coal consumption (the ratio to total production of electricity and heat in Mwh) and a slightly lower production from biomass, with a 12% decline in the unit cost of biomass consumption due to lower purchase prices for the fuel. The fuel purchase cost decreased also as a result of introduction, in the early 2015, of heat elements in the system units, which improved efficiency of primary fuel processing.

The costs of purchasing emission allowances by the line were much lower than the yoy levels in the analyzed period (PLN 12 m) as a result of decreased production from coal. However in this case the results were affected by a positive event that occurred in 2014 and was attributed to the line (value of PLN 32 m), consisting in a reversal of provision for free emission allowances that were not received (as described above).

Planned capital expenditures in 2015 were significantly higher (by PLN 133 m). The key drivers included, among others, settlement of construction of the new heat source for the city of Ostrołęka, the need to adapt the power plant to the more stringent environmental requirements (for the coming years), the general overhaul of a power unit already mentioned above and the work aimed at improving efficiency and increasing the maximum capacity of one of the plant's units.

In the fourth quarter of 2015, we should note much lower revenue on electricity sales (lower volume and selling price) and property rights (lower volume of co-firing production, lower prices of sale of property rights and absence of reversal of revaluation of property rights that happened in 2013). At the same time, revenue generated on the provision of regulatory system services (the operating reserve in particular) for PSE was lower (by PLN 4 m). Lower production volume resulted in lower costs of purchase of fuel and purchases of emission allowances.

Other and adjustments

Table 26: Results of the Ostrołęka Power Plant business line

PLN m	2013	2014	2015	Change 2015/2014	Change 2015/2014 (%)
Revenue	152	171	180	10	6%
EBITDA	23	(2)	(1)	1	59%
EBIT	7	(27)	(35)	(7)	-27%
CAPEX*	138	193	193	(0)	0%

PLN m	Q4 2014	Q4 2015	Change 2015/2014	Change 2015/2014 (%)
Revenue	62	54	(8)	-13%
EBITDA	(15)	(6)	9	60%
EBIT	(25)	(13)	12	47%
CAPEX*	54	82	28	51%

* Method of presentation of capital expenditures for construction of new wind farms was modified in relation to data presented in the previous quarter (moved in full to the line as above).

The Other and adjustments category comprises the Generation Segment's CHP assets, Czernikowo PV plant and PV Delta, companies providing services to the Generation Segment and special purpose vehicles executing investment projects in the area of construction of new generation sources in the ENERGA Group. Eliminations of mutual transactions between business lines are also recognized here.

In addition to the above market factors driving the yoy performance of the line concerned, we should also note the non-recurring events, such as: impairment allowances and liquidation of the wind farm projects (projects purchased during the wind farm acquisition program in 2013). In 2015, the total value of impairment losses reached PLN 32 m, while in 2014 it was PLN 39 m.

The capital expenditures in the Other and adjustments line item include, among others, capital expenditures in the CHP area, capital expenditures made by the special purpose vehicles of the Generation Segment, including the wind farm construction projects executed in the ENERGA Group. In 2015, performance was driven mainly by the recognition as capital expenditures of expenditures related to the construction of the Parsówek wind farm (PLN 108 m) and expenditures for the modernization of heat sources and lines.

Sales Segment

Figure 27: Results of the ENERGA Group's Sales Segment (PLN m)

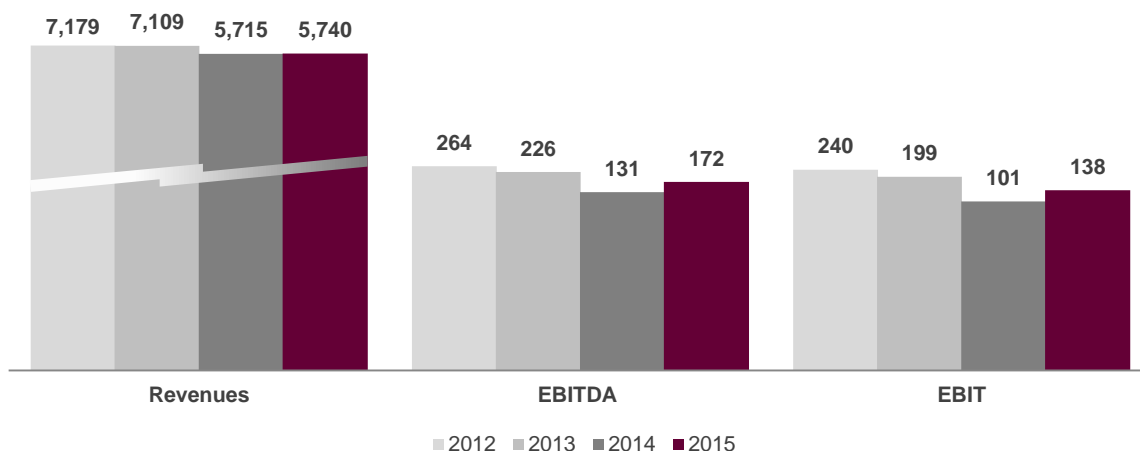
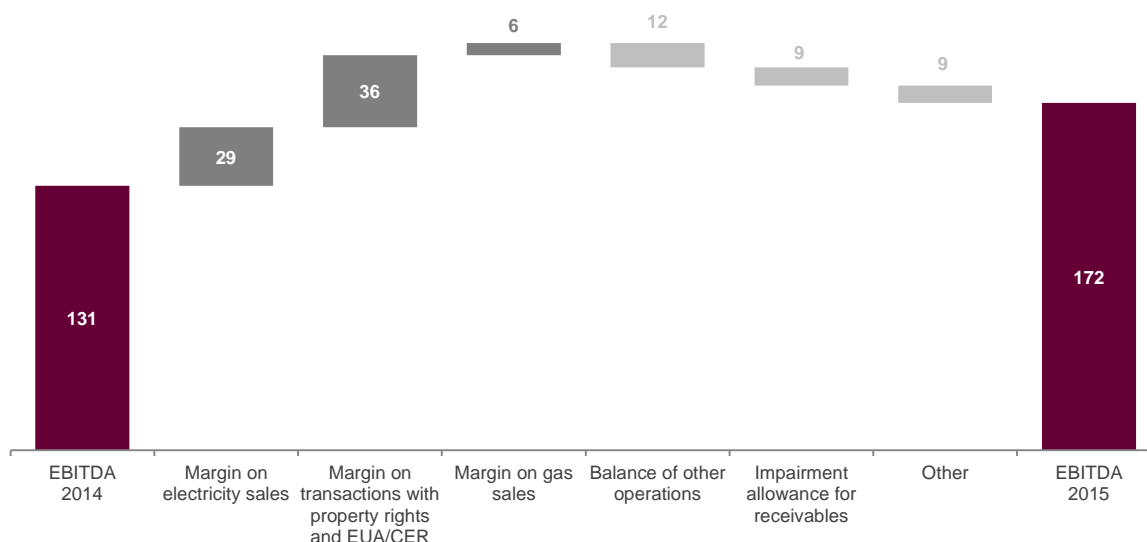


Table 27: Results of the ENERGA Group's Sales Segment

PLN m	2012	2013	2014	2015	Change 2015/2014	Change 2015/2014 (%)
Revenue	7,179	7,109	5,715	5,740	25	0%
EBITDA	264	226	131	172	41	31%
amortization and depreciation	25	27	30	34	4	13%
EBIT	240	199	101	138	37	37%
Net profit	192	186	108	119	11	10%
CAPEX	30	43	38	58	20	53%

PLN m	Q4 2014	Q4 2015	Change	Change (%)
Revenue	1,527	1,543	16	1%
EBITDA	(18)	56	74	> 100%
amortization and depreciation	8	9	1	12%
EBIT	(26)	47	73	> 100%
Net profit	(14)	35	49	> 100%
CAPEX	17	19	1	7%

Figure 28: EBITDA Bridge of the Sales Segment (PLN m)



In 2015, the Sales Segment earned EBITDA of PLN 172 m, i.e. about 8% of the ENERGA Group's total EBITDA, compared to PLN 131 m in 2014, when the Segment's contribution to the Group's EBITDA was 6%.

The Sales Segment's revenue in 2015 stood at PLN 5,740 m, i.e. practically did not change as compared to the 2014 level (increase by only 0.4%). Although the overall volume of electricity sold decreased by 2%, it was compensated with a 3%-growth of the average sales price. Revenue on retail sale of electricity increased by 5% compared with last year thanks to a higher volume (by 2%) and average sales price (by 3%). On the other hand, revenue on sales of electricity in wholesale market decreased by 11% in 2015, due to a lower sales volume (by 9%) and average sales price (by 2%).

In 2015, the margin on sale of electricity, which is the key component generating the Segment results, increased in terms of value by PLN 29 m as compared to 2014. This was the effect of an increased unit margin: average electricity sales prices to end users increased faster (+3% yoy) than the average unit purchase price of electricity with property rights (+2% yoy). Changes in the level of sales to end users follow the changes in variable cost. An increase of average cost of purchases of electricity is a result of a growth of electricity market prices and higher costs connected with the function of the "offtaker of last resort" performed by ENERGA-OBRÓT SA. It was significant that in 2015 production of electricity by wind power plants increased by 40% yoy, to 10 TWh (as follows from PSE data, their share in the domestic production of electricity increased to 6.2%). In spite of increases (in percentage terms) of the obligation to redeem property rights ("green" and "yellow" ones in particular), in 2015 the unit cost of property rights redemption decreased as compared to 2014, which was connected with significantly lower market prices of the green certificates (in 2015, prices fell by 34% yoy).

In 2015, the Segment's EBITDA improved yoy (by PLN 36 m) due to the 2014 loss on trading in the "green" property rights, which considerably reduced the margin generated on this activity at that time. In 2014, long-term agreements were performed that had been entered into many years earlier, where the transaction price was based on the substitution fee. Based on those agreements, the Segment purchased property rights and then sold them on the market at lower prices. A significant part of the volume was related to property rights created in the years 2012-2013. Similar transactions were entered into in 2015, however their scale and impact on the Segment results were not important.

In 2015, the Segment was very active in the area of sale of gas and the sales volume increased several times yoy. Contribution of this business to the Segment result is not yet significant, however

the growth of margin on sale of gas (by PLN 6 m as compared to 2014) contributed to improvement of the Segment's EBITDA.

The net other operations had a negative impact on the Segment's EBITDA (PLN -12 m) in 2015. This was mainly a result of non-recurring events, i.e. reversal of restructuring provisions which had a positive impact on the 2014 result and did not occur in 2015.

Change in the impairment loss for receivables, which occurred when the balance of qualifying overdue receivables increased, had a negative impact (- PLN 9 m) on the Segment's EBITDA in 2015, as compared to 2014.

The best EBITDA in the entire year was reported in 4Q 2015, when the Segment's operating profit plus amortization and depreciation was of ca. PLN 56 m. This was connected with the low prices of the green certificates, electricity purchase prices lower than in the previous quarters of 2015 (due, inter alia, to lower prices in the SPOT market) and a simultaneous accumulation of the effects of the activities undertaken in the entire 2015 to improve the customer loyalty (modification of the product mix). One should mention that 4Q 2014 was the worst quarter of the year, when the loss of (-) PLN 18 m was reported. The loss suffered in that period was caused by the largest portion of negative margin generated on trading in the "green" property rights, as referred to above.

3.7. 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.

3.8. 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 28: 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

3.9. 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.

PLN 414 m	PLN 596 m
Dividend from Company's profit for 2013	Dividend from Company's profit for 2014

3.10. 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 29: Auditor's fee for services provided to the Group (PLN 000s)

PLN 000s	Year ended 31 December 2014	Year ended 31 December 2015
Audit of the annual financial statements	661	377
Other assurance services, including a review of financial statements	294	156
Tax consulting services	-	-
Other services	-	225
Total	955	758

Environment



4. ENVIRONMENT

4.1. Macroeconomic situation

The national economy developed slightly faster in 2015 as compared with the previous year. According to the preliminary estimate of the Central Statistical Office (GUS), the gross domestic product (GDP) increased by 3.6% per annum in real terms in 2015, which shows that this was the highest economic growth rate over the last four years. The main growth factor was domestic demand, but net exports also had a positive impact on the GDP.

Figure 29: Dynamics of GDP, domestic demand, consumption in the households sector and gross expenditure on fixed assets (YoY)



Source: own material on the basis of GUS data and IlnGR forecast.

Among the domestic demand components, the gross expenditure on fixed assets (investment expenses) had the greatest dynamics, increasing by 6.1% over the year. However, the increase in domestic consumption was caused, to the largest extent, by an increase in total consumption, which strengthened by 3.2%. The growth rate of consumption in the households sector for the same period was 3.1%.

A solid GDP growth rate in Poland is confirmed by the PMI ratio, which reached 52.1 points in December 2015. The fact that the value of this ratio exceeded 50 points is a sign of a general improvement of conditions in the Polish industrial sector, which was reflected in an increase in output volumes. The number of new orders, on the other hand, was disappointing, as its growth in December was the slowest in three months.

A downward pressure on prices could be observed in 2015. The consumer price index in the past year vs. the preceding year decreased by 0.9%, falling 2.1 pp below the level assumed in the Budget Law.

The prices of consumer goods were lower than in the past year (a 1.8% decrease), whereas the prices of services increased by 1.4%. Energy prices were on average 0.1% higher than in 2014, of which heat prices – by 1.9% and electricity – by 1.6%, with gas prices having decreased – by 2.6% and fuel – by 1.7%. In connection with the lower prices of raw materials, and specifically metals, the production costs decreased in December for a fourth month in a row.

The situation on the domestic labor market constituted another positive impulse for Poland's economic situation. Since August last year, the unemployment rate has been at a one digit level, reaching 9.8% at the end of December. Real increase in the average wage in 2015 was 4.2% YoY, whereas the average monthly wage in the national economy was at a level of PLN 3,899.78.

According to the forecast of *Instytut Badań nad Gospodarką Rynkową* (Institute for Market Research), the economic situation in the first half of the current year will be better than a year earlier, and the expected GDP growth is to reach 3.9% in the first quarter and 3.6% in the second quarter. A slight slowdown in the economy is expected in the second half of the year, to a level of 3.5% in the third quarter and 3.3% in the fourth quarter. Further worsening of confidence in this respect is to be recorded in 2017, with the forecast GDP growth rate for the entire year reaching 3.1%. Due to a slowdown in the economy, the conditions on the labor market are expected to worsen and the unemployment rate is expected to increase. Risk aversion and restrictions of investment expenditure are expected to be greater in the business sector, which jointly will contribute to a consumption slowdown.

As indicated by the Monetary Policy Council, the main risk factors for the growth of the Polish economy remain to be the external environment and uncertainty of businesses regarding the outlooks for economic growth abroad. In this respect, a factor of particular importance is an economic upturn in the euro zone, the economic situation in the United States, Russia and China, as well as the prices of oil

and other energy resources on global markets and the monetary policy of central banks. According to the International Monetary Fund's forecasts, a yearly change in the global GDP will be at a level of 3.4% in 2016 and 3.6% in 2017. Among the risks facing the global economy the Fund indicates: a slowdown in China, the lower prices of raw materials, the stronger US dollar and geopolitical tensions.

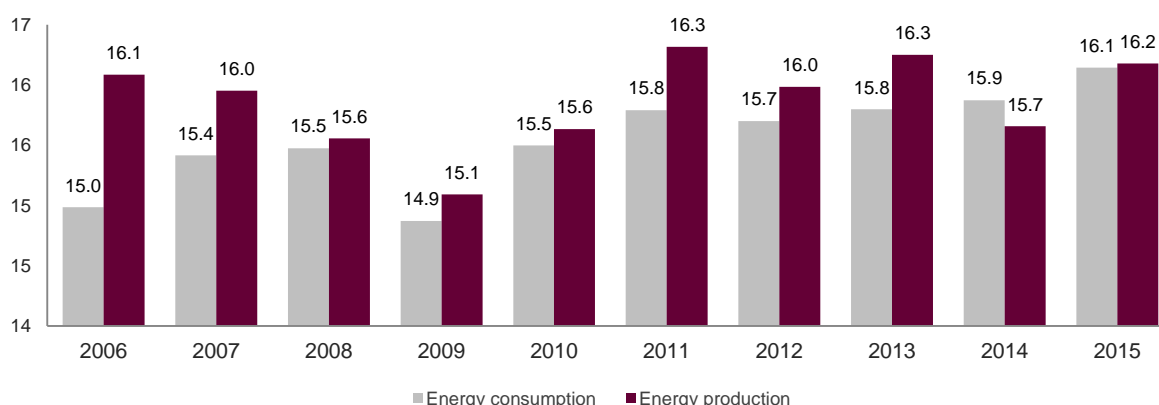
4.2. Electricity market in Poland

The situation in the market environment is of material importance for the Group's market performance. With this respect, one should mention in particular the prices of electricity, property rights, CO₂ emission allowances and hard coal (which is the basic fuel for production). Also, the regulatory mechanisms in operation in the market, such as the operating reserve, had an impact on the Group results.

Domestic generation and consumption of electricity

As follows from the data published by PSE, the production of electricity in 2015 was close to its levels in 2011 and 2013, and increased considerably as compared with the previous year (by 5.2 TWh). The increase was a consequence of two factors: an increase in electricity consumption and a reversal of trend in the inter-system exchange. While in 2014 Poland was a net importer of electricity at a level of 2.2 TWh, in 2015 it was a net exporter, and the absence of import was compensated by increased domestic production.

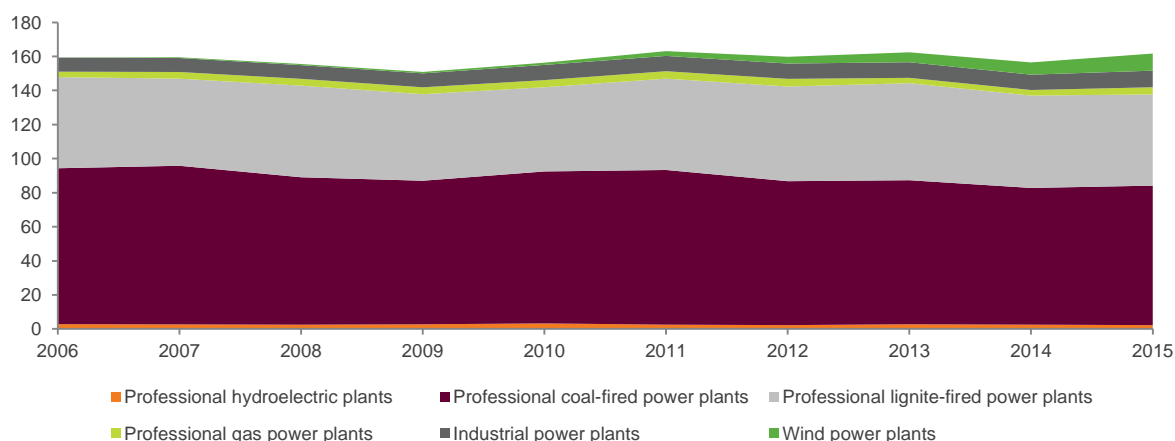
Figure 30: Production and consumption of electricity in Poland in 2006-2015 (TWh)



Source: PSE

2015 was another consecutive year of growth in wind energy generation. The share of wind sources in the production structure was ca. 6.2%, and the generation of electricity by these utilities increased by ca. 40% as compared to 2014. A significant number of wind farms operate in the operating area of ENERGA-OPERATOR SA, which translates into a higher potential risk for the ENERGA Group relating to the fact that the function of the offtaker of last resort is performed by ENERGA-OBRÓT SA.

Figure 31: Structure of production of electricity in Poland in 2006-2015 (TWh)



Source: PSE

In the past year, the greatest share in the electricity production structure was held by hard coal-fired public-grid power plants. Their share in the total production amounted to 50.6%. The share of lignite-fired public-grid power plants amounted to 33.1%. In addition to wind farms, the greatest production increase was recorded in 2015 by gas-fired public-grid plants, in which electricity generation increased by 28%, to reach 4.2 TWh.

Poland's inter-system exchange

In 2015, similar electricity import and export levels can be seen. This is an important change as compared with 2014, where import clearly prevailed. The balance was improved due to a reduced level of import from Ukraine and an increased level of export as part of the parallel exchange with the Czech Republic and Slovakia. The impact of launching the interconnection with Lithuania cannot yet be seen in full in data for 2015, as it was commissioned in December last year.

Figure 32: Annual volumes of inter-system exchange in Poland in 2006-2015 (TWh)

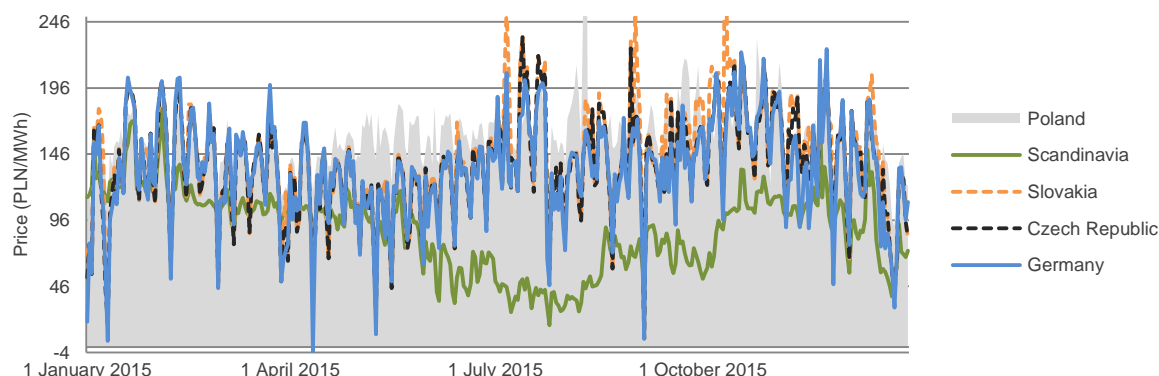


Source: PSE

Energy prices in neighboring countries

In order to compare energy prices in Poland to those in the neighboring countries, SPOT market prices were used as reference products. The price level in Poland, as compared with previous years, was significantly higher than in the neighboring countries. The lowest SPOT market prices were recorded in Scandinavia and Germany. Strong price increases were faced especially in the third quarter of the past year in peak hours. The end of the fourth quarter deserves special attention in this respect, in which a decrease of prices was recorded. They remained below 150 PLN/MWh, which related to a high production level of electricity from wind farms.

Figure 33: Electricity prices on the SPOT market in Poland and in neighboring countries in 2015 (PLN/MWh)

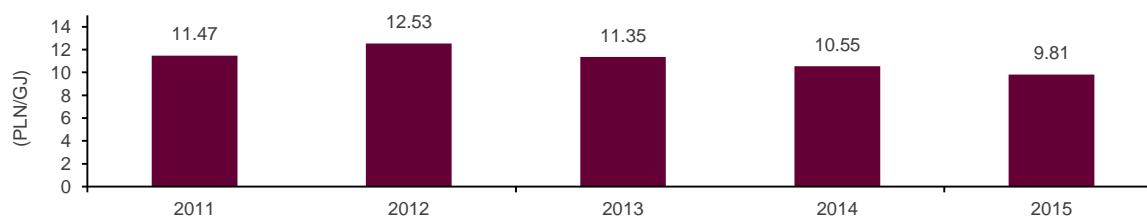


Source: Bloomberg

Prices of hard coal in Poland

In recent years, the prices of hard coal have been systematically decreasing (starting from 2012), due to global factors, i.e. the global reduction of prices of this raw material and its over-supply in Poland. This had a positive impact on the results of the ENERGA Group.

Figure 34: Average hard coal price (PCSMI1) index in 2011-2015 (PLN/GJ)

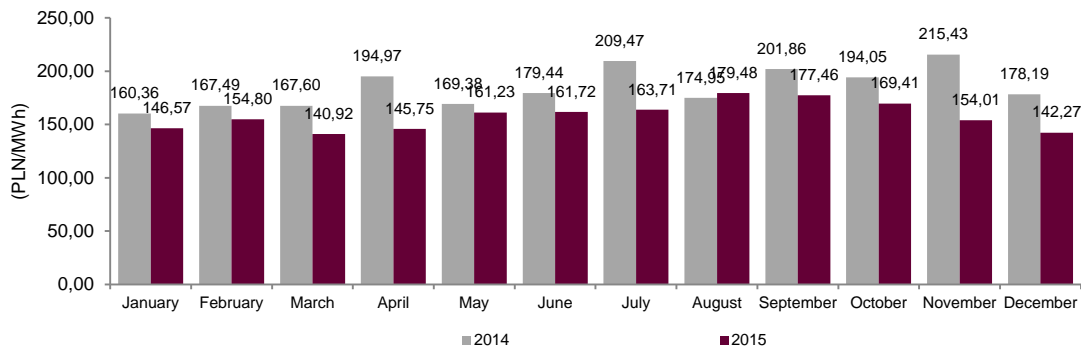


Source: Polski Rynek Węgla

Electricity Day-Ahead Market (DAM) in Poland

The average DAM prices in 2015 were lower each month, except for August, than the prices in the corresponding periods of the preceding year. The greatest variation occurred in April, July and November.

Figure 35: Energy prices in the Day-Ahead Market in 2014-2015 (PLN/MWh)



Source: TGE

The highest average monthly price of electricity on the commodities market was recorded in August last year, where the average IRDN index reached PLN 179.48/MWh. The high level of prices in that month was owed to a periodic capacity shortage in the system. The minimum of PLN 140.92/MWh was recorded in March 2015.

Electricity forward market in Poland

To assess the forward market in Poland, the annual forward contract for delivery of base energy in the whole 2016 was used as a reference product. Throughout the 2015, the prices showed a downward trend. In the fourth quarter of the past year, the prices on the market bounced back in connection with the introduction of the new mechanism of compensation for operating reserve. The trend on the forward market is particularly important from the perspective of the Group contracting process for the next year.

Figure 36: Forward contract price – base in 2015 with delivery in 2016

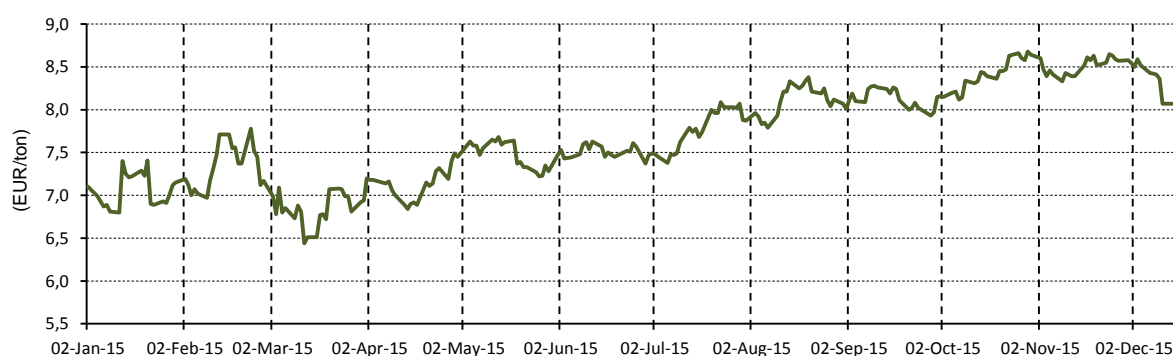


Source: TGE

Emission allowance market

The EUA emission allowance market with delivery in December 2015 was characterized by high price volatility (ranging from EUR 6.4 to 8.7). The fluctuations were particularly strong in the first quarter of the past year. Since April 2015, a systematic growth in EUA prices has been recorded, relating to the introduction of the stabilization reserve mechanism, which was intended to reduce the oversupply of CO₂ emission allowances.

Figure 37: EUA emission allowance prices (DEC 2015) in 2015



Source: Bloomberg

Market for property rights

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

Table 30: Prices of property right indices listed on the Polish Power Exchange

Index (type of certificate)	Index value				Percent Responsibilities*	Substitution fee**
	Q1 2015 (PLN/MWh)	Q2 2015 (PLN/MWh)	Q3 2015 (PLN/MWh)	Q4 2015 (PLN/MWh)	(%)	(PLN/MWh)
OZEX_A_POLPX (PMOZE_A - green)	174.57	156.84	142.11	143.28	14.0	300.03
KMETX (PMMET - 2015 - purple)	-	61.76	61.62	62.02	1.3	63.26
KGMX (PMGM-2015 – yellow)	-	114.55	116.53	117.50	4.9	121.63
KECX (PMEC-2015 – red)	-	10.44	10.57	10.65	23.2	11.00
EFX (PMEF – white)	940.40	945.03	957.05	965.76	1.5*	1,000.00

* Obligation % calculated in relation to sales revenues, substitution fee in PLN/toe.

** Value of the substitution fee and redemption obligation in 2015.

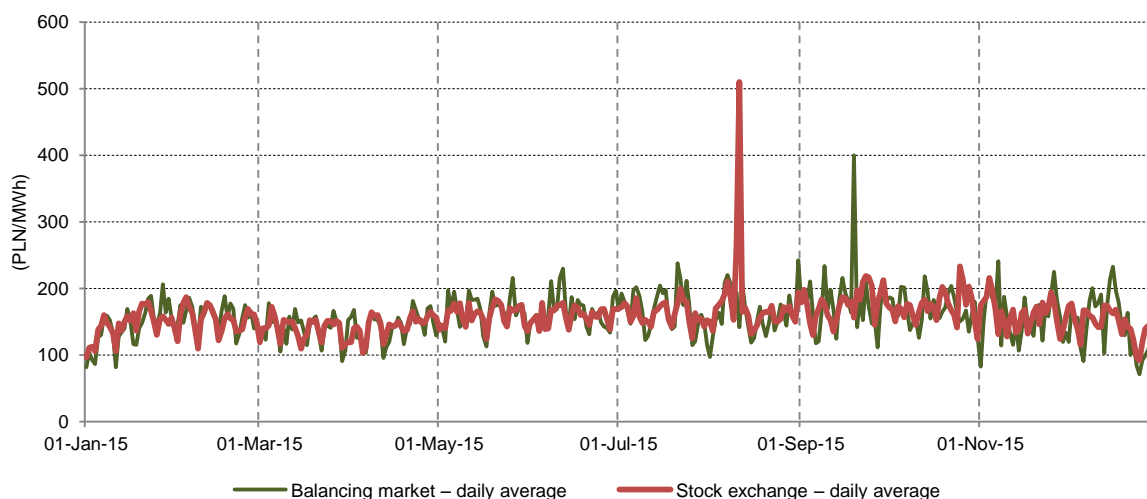
From the standpoint of the Group's generation structure (i.e. high RES production) the quotations of green property rights were the most important. In 2015 a systematic decrease of prices for this index was observed. This can be attributable to, among other things, surplus of certificates in the market.

Balancing Market and SPOT

In the first quarter of 2015, a stable level of prices could be observed on the balancing market, which at the same time was close to prices quoted on the SPOT market. An increased price volatility was

recorded only in August, resulting, in a longer run (September and October), in increased price levels. A significantly increased price volatility in August was an effect of problems with the balancing of the National Power System (KSE), as a result of which 20th power rationing level was introduced. Following a temporary stabilization of prices in November, a reduction in prices could be observed starting from the beginning of December.

Figure 38: Statement of prices on the balancing market and SPOT market (Exchange) in 2015 (PLN/MWh)

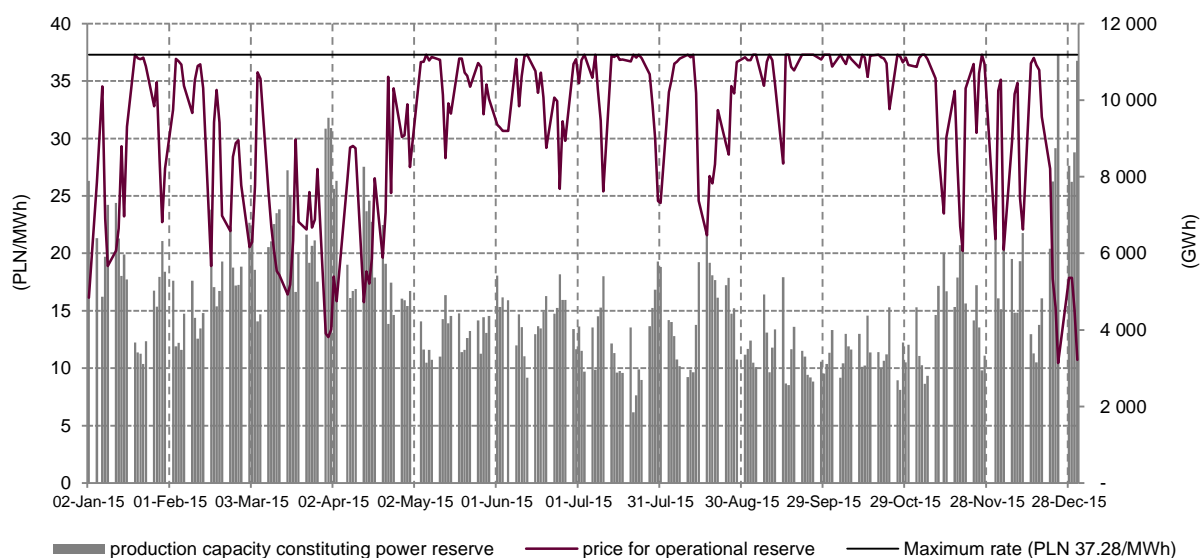


Source: PSE

Operating reserve

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

Figure 39: Prices and generating capacity constituting operating reserve in 2015



Source: PSE

In 2015, the reference (maximum) price was PLN 37.28/MWh. From the beginning of the year until May, there was a surplus operating reserve in the system as compared with the required levels. From

May until October, the reserve level decreased with the price often reaching the maximum level. The level of the available reserve increased again at the end of the year.

4.3. Regulatory environment

Table 31: List of legal acts affecting the Group

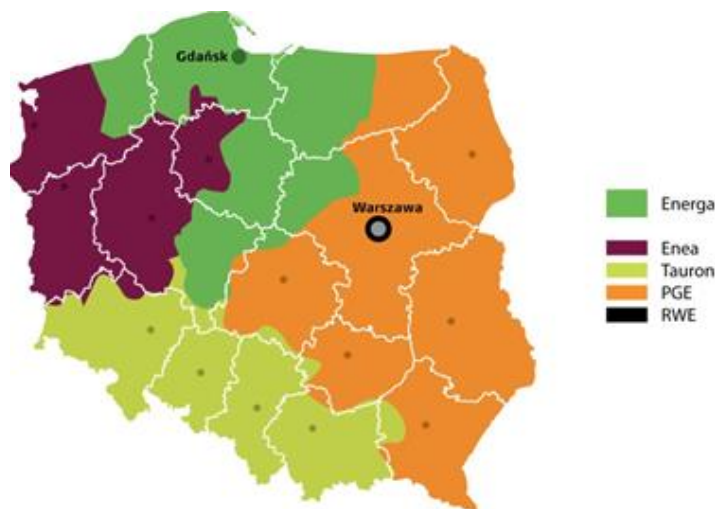
Legal act	Purpose of changes	Opportunities	Risks/Issues
RES act	Reform of the RES support system	<ul style="list-style-type: none"> (1) limitation of risks and excessive costs for offtakers of last resort (in the ENERGA Group, it is ENERGA-OBRÓT), (2) setting the rules regulating support for RES installations - introduction of an auction system (reduced investment uncertainty - opportunity to develop RES investments in the ENERGA Group), (3) new type of support for modernized RES installations, (4) support for dedicated multi-fuel co-burning installations 	<ul style="list-style-type: none"> (1) loss of support for hydro power plants > 5 MW and limitation of support for biomass co-burning (materialized), (2) support for new Group products depending on conditions obtained on RES auctions (reference price), (3) uncertainty regarding the full launch of the system by the adopted deadline (Renewable Energy Settlements Operator has to operate as of the effective date of the new system, otherwise companies performing the duties of obligated offtakers – trading companies obligated to purchase energy from RES generators at the auction price - will be exposed to losses)
RES act - amendments	Postponement of the effective date of the new RES support system (from 1 July 2016)	<ul style="list-style-type: none"> (1) extending the “interim” period constitutes an opportunity to enter the system of new RES installations using the current system based on the certificates of origin 	<ul style="list-style-type: none"> (1) only few RES projects at advanced development stages (physically under construction) will benefit from the additional 6-month interim period, (2) the additional interim period postpones the practical application of new regulations concerning the obligation to purchase electricity from RES by Offtakers of Last Resort / Obligated Offtakers
Amendment of the Water Law Act	Implementation of the requirements of the Water Framework Directive in respect to the principles of water management	<ul style="list-style-type: none"> (1) rationalization and stimulation of investments in the area of water management in Poland 	<ul style="list-style-type: none"> (1) elimination of exemptions from fees for business use of water for energy production purposes, (2) unknown level of new fees for business use of water for energy production purposes, (3) uncertainty as to the date of resuming works on amending the act (the works on the last draft amendments were discontinued)
A draft of the so-called distance act	Systematization of the process of location of wind	<ul style="list-style-type: none"> (1) reduction in costs incurred by Obligated Offtakers 	<ul style="list-style-type: none"> (1) very high costs relating to tax burdens (local tax on the value of the entire

Legal act	Purpose of changes	Opportunities	Risks/Issues
(concerning wind farm investment projects)	farms in Poland	due to the expected significant slowdown in wind farm investment projects	power plant) - a maximum of 2% of the investment value (2) obligation to obtain an operating permit within 1 year of the effective date of the act (applies to facilities under operation), (3) high cost of obtaining an operating permit - up to 1% of the investment value - an operating permit is valid for 2 years only, (4) lack of possibility of increasing the installation's performance parameters and of the environmental impact, (5) considerable limitation of new investments due to legal restrictions (mainly relating to distance) and administrative restrictions
Amendment of the energy efficiency act	implementation of the requirements of the EED Directive	(1) possibility of obtaining additional funds for the execution of efficiency investments in the Group	(1) the extension of the operation of the system of energy efficiency certificates (obligation to redeem) by 1 year will result in financial losses for electricity trading companies due to the earlier closing of the process of agreeing tariffs with the President of the Energy Regulatory Office.

4.4. ENERGA vs. the industry

ENERGA Group is one of the four major vertically integrated energy groups operating in Poland. Companies are separated geographically, in terms of the areas on which they conduct their electricity distribution activities. ENERGA'S distribution area covers northern and central Poland.

Figure 40: Distribution area of the main power-generating companies

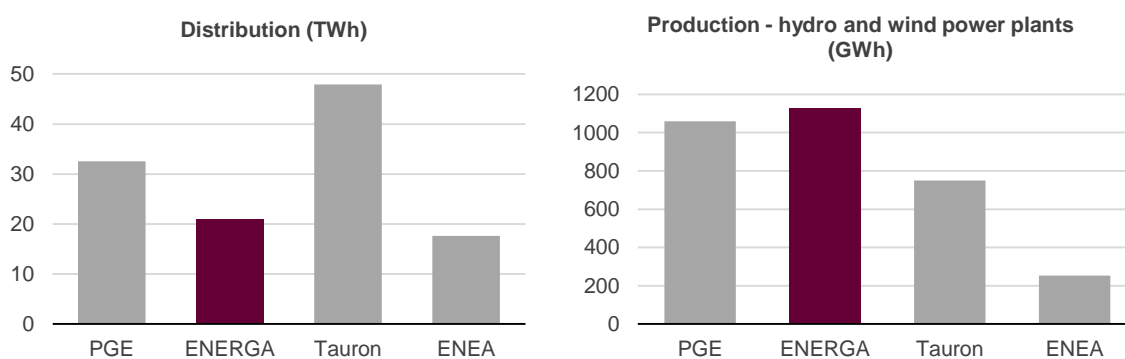


In the distribution segment, ENERGA ranks third, after PGE and Tauron, in terms of such indicators as the line length and the regulatory value of the distribution assets. Due to historical conditions, the range of distribution services translates into the number of clients in the trading segment. In this respect ENERGA also ranks third.

Compared with other companies, it has a small share in conventional energy generation. The Group has one system heat-generating unit with a maximum capacity of 647 MW (Elektrownia Ostrołęka B). This is significantly less than in the case of the remaining companies, among which PGE has the highest maximum capacity with Tauron ranking second.

A different situation occurs in the renewable energy area, which has been developed dynamically in the Group over the recent years. From the point of view of generating energy from water and wind resources, ENERGA competed with PGE for the position of the leader.

Figure 41: Comparison of the electricity distribution and production volumes in 2014*



* As at the date of the report, no comparable data for 2015 are publicly available

Shares and shareholding structure



5. SHARES AND SHAREHOLDING STRUCTURE

5.1. ENERGA's shareholding structure

Table 32: Issuer's shares by series and types

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

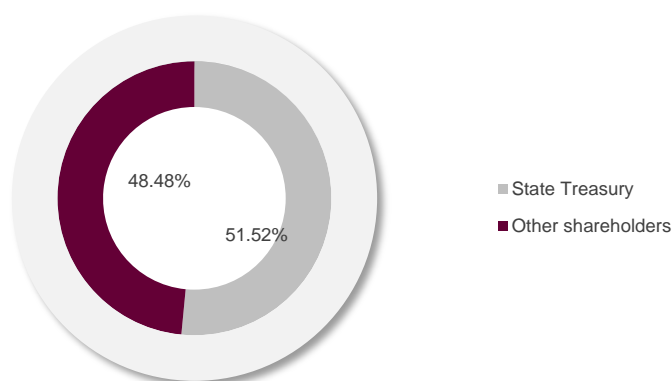
* One preferred share entitles its holder to 2 votes at the General Meeting. These shares are owned by the State Treasury.

Table 33: Shareholding structure of ENERGA as at 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 42: 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 43: Share of ENERGA shareholders holding shares in free float by country of origin in 2015



Source: Proprietary materials

5.2. 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.

5.3. Company stock prices on the Warsaw Stock Exchange

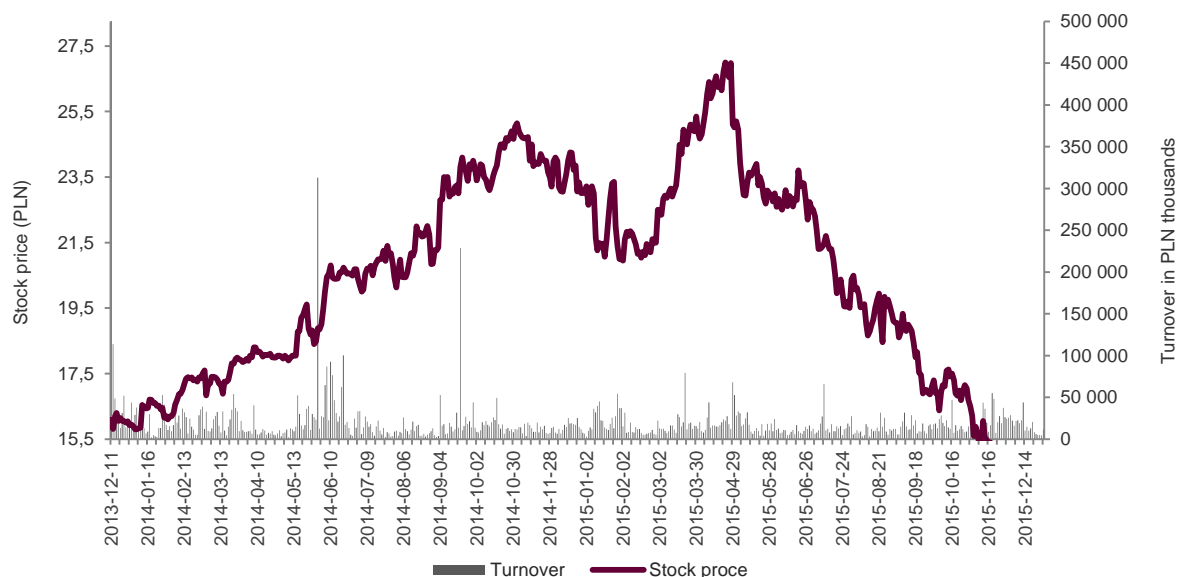
Table 34: Data for ENERGA stock as at 31 December 2015

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

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 44: 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 gpwinfstrefa.pl

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

Figure 45: Changes in ENERGA quotations in comparison with changes in WIG and WIG-ENERGIA indices



Source: Proprietary material based on data from gpwinfstrefa.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%.

WIG

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%.

WIG20

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%.

WIG30

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%.

WIGenergia

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 characterized 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%.

WIGdiv

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%.

WIGPoland

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%.

**RESPECT
Index**

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%.

FTSE
THE INDEX COMPANY

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

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.

MSCI

5.4. 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 (whether 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, ENERGA SA's 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 or factual summaries, the so-called factsheets. Market participants may familiarize themselves with the rules applied by the Company in investor relations - the website includes the [Information policy](#).

5.5. 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 46: Recommendations issued for ENERGA's shares in 2015



Representation on the application of Corporate governance principles



6. 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 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.

6.1. 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 Ziemiańska-Książak 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%.

6.2. Significant shareholders

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

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

According to the information presented in the previous sub-clause, the State Treasury is the holder of the majority block of shares and votes at the General Meeting 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.

6.4. Restrictions regarding the exercise of voting rights

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

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

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

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

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.

6.5. 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.

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

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

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

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

6.7. Company's corporate bodies

General Meeting

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

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

Manner of convening the General Meeting

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

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

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

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

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

Course of the General Meeting

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

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

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

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

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

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

Powers of the General Meeting

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

- 1) reviewing and approving the Management Board report on the Company's activity and the financial statements for the completed financial year,
- 2) granting a discharge to members of the Company's corporate bodies on the performance of their duties,
- 3) distributing profit or covering a loss,
- 4) changing the Company's line of business,
- 5) amending the Company's Articles of Association,
- 6) increasing or decreasing the Company's share capital,
- 7) merging, splitting up or transforming the Company,
- 8) dissolving or liquidating the Company,
- 9) issuing convertible bonds or bonds with a pre-emptive right, and on issuing subscription warrants,
- 10) selling or leasing an enterprise or an organized part thereof and establishing a limited right in rem thereon,
- 11) creating, using and liquidating the Company's capitals and funds,
- 12) appointing or dismissing Supervisory Board members and setting their compensation levels,
- 13) depriving current Company shareholders of their pre-emptive rights, in whole or in part,
- 14) allowing the Company to purchase 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 Żołyniak - 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 Ziemecka-Księżak - Supervisory Board Secretary,
 - d) Jarosław Mioduszeński - 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 Ziemecka-Księżak - Supervisory Board Secretary,
 - d) Jarosław Mioduszeński - 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 Ziemecka-Księżak - Supervisory Board Secretary,
 - c) Jarosław Mioduszeński - 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 Ziemecka-Księżak - Supervisory Board Chairman,
 - b) Zbigniew Wtulich - Supervisory Board Deputy Chairman,
 - c) Bogdan Skalski - Supervisory Board Secretary,
 - d) Jarosław Mioduszeński - 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 Ziemecka-Księżak - Supervisory Board Chairman,
 - b) Zbigniew Wtulich - Supervisory Board Deputy Chairman,
 - c) Bogdan Skalski - Supervisory Board Secretary,
 - d) Jarosław Mioduszeński - 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 Ziemecka-Księżak - Supervisory Board Chairman,
 - b) Zbigniew Wtulich - Supervisory Board Deputy Chairman,
 - c) Bogdan Skalski - Supervisory Board Secretary,
 - d) Jarosław Mioduszeński - Supervisory Board Member,
 - e) Mirosław Szreder - Supervisory Board Member,
- 8) in the period from 7 January 2016 to this date:
- a) Paula Ziemecka-Księżak - Supervisory Board Chairman,
 - b) Zbigniew Wtulich - Supervisory Board Deputy Chairman,
 - c) Bogdan Skalski - Supervisory Board Secretary,
 - d) Andrzej Powąłowski - 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 Mioduszeowski 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 Powałowski studied from 1969 to 1973 at the Faculty of Law and Administration in the Nicolaus Copernicus University in Toruń. In 1973 he started to work as an assistant in the National Economy Management Law Section at the Faculty of Law and Administration in the University of Gdańsk. In 1980 he obtained the title of doctor of legal sciences and was employed at the position of assistant professor. From 1992 he worked 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 remuneration,
- 16) determining the manner in which the Company votes at general meetings of its subsidiaries.

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

Operation of the Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In the period from 1 January to 31 December 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 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 Mioduszeński, 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 Powałowski.

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 Mioduszeński 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 Powałowski.

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 Ziemiańska-Księżak,

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

6.8. Level of remuneration 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 component, 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 in supervisory bodies of companies belonging to the ENERGA Group and compensation for copyright to all the works developed by the Manager within the framework of performing this agreement, which constitute a work as understood by the Act on Copyright and Neighboring Rights of 4 February 1994 and which are transferred to the Company pursuant to this agreement.

Variable components of 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 after 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) the right to compensation for refraining from conducting 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 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 35: Compensation paid to the persons in the ENERGA SA Management Board in the period from 1 January to 31 December 2015 (PLN 000s)

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
TOTAL		2,627	2,609	5,236

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.

Compensation is not due for a month in which a Supervisory Board member does not attend any of the formally convened meetings and fails to provide any formal justification. The table below presents the compensation of ENERGA SA's Supervisory Board members in 2015.

Table 36: Compensation of 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
Paula Ziemiańska-Książek	from 1 January to 31 December	41.5	0	41.5

Full name	Period in office in 2015	Compensation	Other benefits	Total
Jarosław Mioduszeński	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
TOTAL				263.6

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 37: Number of the Company's shares and participations in related companies held by managers

No.	Full name	ENERGA shares		Participations in ENERGA's related companies	
		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.

6.9. 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



7. MANAGEMENT BOARD'S REPRESENTATION

The ENERGA SA Management Board hereby represents that:

- (1) according to the best knowledge, the annual consolidated financial statements and the comparative data were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the ENERGA Group and its financial result. The Management Board Report on the activity of the ENERGA Group contains a true presentation of developments, achievements, and situation of the Capital Group, 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 consolidated financial statements of the ENERGA Group 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 consolidated 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
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 cogeneration
Certificate of origin from co-generation	Document issued by the ERO President pursuant to art. 9l of the Energy Law confirming the generation of electricity in highly-efficient cogeneration generated in: (i) a cogeneration unit fired with gaseous fuels or with the total installed electrical capacity at source being under 1 MW (known as a yellow certificate), (ii) a cogeneration unit fired with methane released and drained in the course of underground mining activity in hard coal mines that are active, that are being shut down or that have been shut down or with gas obtained by processing biomass (known as a purple certificate), or (iii) some other cogeneration unit (known as a red certificate)
Certificate of origin from renewable energy sources, green certificate	Document issued by the ERO President pursuant to art. 9e of the Energy Law confirming the generation of electricity in a renewable energy source (known as a green certificate)
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 ₂	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 – Earnings before interest, taxes, depreciation and amortization.	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)	European Union Greenhouse Gas Emission Trading Scheme The rules governing its operation are stated in ETS Directive.
EUA	Emission allowances
EUR	Euro, currency used in countries belonging to the European Union's Eurozone

GDP	Gross Domestic Product
GUS	Główny Urząd Statystyczny (Central Statistical Office)
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	Narodowe Centrum Badań i Rozwoju (National Centre for Research and Development)
NFOŚiGW	National Fund for Environmental Protection and Water Management Fund (NFOŚiGW)
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 cogeneration
PSE	Polskie Sieci Elektroenergetyczne Spółka Akcyjna with its registered office in Warsaw, entered in the register of entrepreneurs of the National Court Register under file number KRS 0000197596; company designated by ERO President decision No. DPE-47-58(5)/4988/2007/BT of 24 December 2007 to be the electrical power transmission system operator in the Republic of Poland for the period from 1 January 2008 until 1 July 2014
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 (Giełda Papierów Wartościowych w Warszawie S.A.)
yoy	Year on year