Management Board Report on the activity of the ENERGA Capital Group for the year ended 31 December 2013

Gdańsk, 6 March 2014

Contents

SUMMARY OF 2013

- **Revenues of the ENERGA Group exceeded PLN 11.4 billion, growing by PLN 252 million over the 2012 figure. The increase of revenues was associated mainly with the higher distribution tariff for 2013 approved by the ERO President and good hydrometeorological conditions and acquisition of wind farm generation assets.**

- **The Group generated EBITDA of approx. PLN 2 billion, up PLN 336 million, or 21% YoY. Net profit amounted to PLN 743 million, up 63% YoY. The increase of EBITDA and net profit was attributable mainly to improved results of the Distribution and Generation Segments.**

- **The year on year volume growth in the Group's external electricity sales is nearly 12% at 29.1 TWh, while the volume of electricity sold on the wholesale market is up 100% to 10.9 TWh.**

- **The total installed capacity of the ENERGA Group was 1.3 GW. The Group generated 5.0 TWh of electrical energy on a gross basis and supplied 20.4 TWh of electricity to more than 2.9 million customers. 62 percent of gross generated energy came from black coal, 21 percent from water, 14 percent from biomass and 3 percent from wind. Gross heat production reached 3,948.1 TJ.**

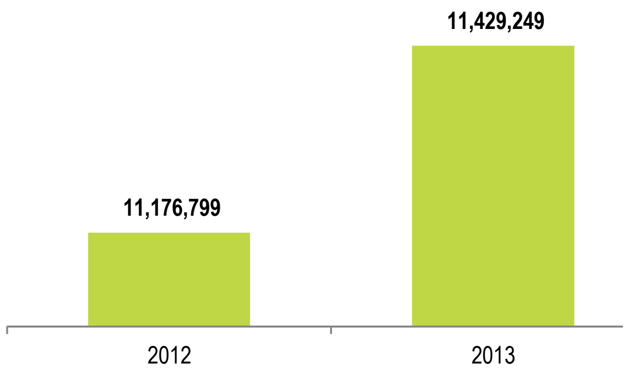
- **At the end of the year, the Group had the installed capacity of over 0.5 GW in renewable energy sources (RES), which generated 1.9 TWh of electricity gross.**

- **Generation companies in the ENERGA Group generated approx. 896 GWh (i.e. 22 percent) more electricity than the year before. The largest growth, by 38%, occurred in hydro power plants. Favorable hydrometeorological conditions contributed to 47 percent higher production of the Hydro Power Plant in Włocławek. Also the units co-burning biomass increased production by 27 percent. (2013 is the first full year of operation of the biomass co-burning boiler in ENERGA Elektrownie Ostrołęka).**

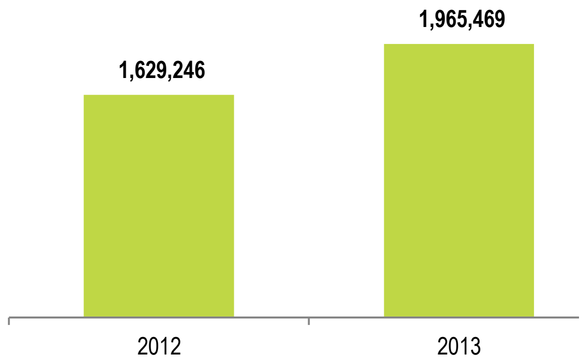
- **At the end of the year, the SAIDI index was 15 percent higher than in 2012, mainly due to hurricane Xavier. The SAIFI index dropped 12 percent YoY. As a result of the modernization of the distribution network carried out by the Group, the value of both indices in 2011 decreased significantly.**

- **Annual capital expenditures of the Group amounted to PLN 2,802 million, compared to PLN 1,849 million in 2012. This was mainly the result of the capital expenditures in the amount of PLN 1,397 million incurred in the Distribution Segment, and increase of the Group's assets by the total amount of PLN 1,052 million in connection with purchase of the wind companies from the DONG Group and Iberdrola Renovables, and purchase of Ciepło Kaliskie.**

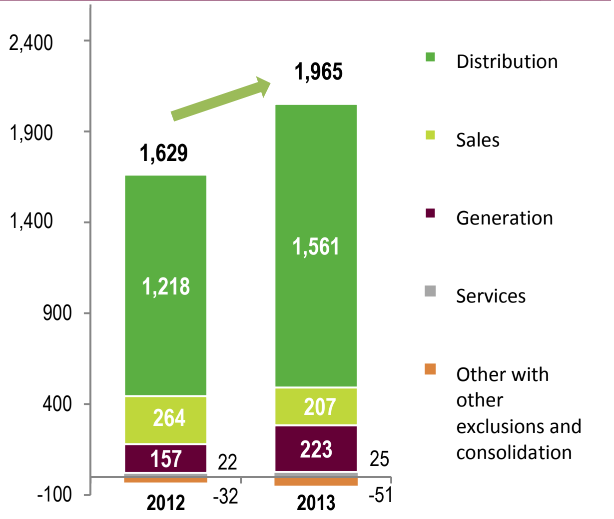
Sales revenues (PLN 000s)



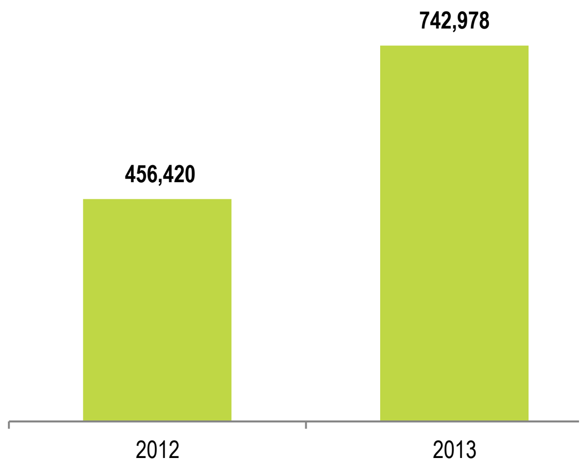
EBITDA (PLN 000s)



ENERGA Group EBITDA structure (PLN m)



Net profit (PLN 000s)



Consolidated financial highlights of the ENERGA Group for 2013

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
	PLN 000s		EUR 000s	
Sales revenue	11,429,249	11,176,799	2,714,141	2,677,976
Operating profit	1,194 834	906,007	283,741	217,080
Profit before tax	1,022,366	626,333	242,785	150,070
Net profit	742,978	456,420	176,437	109,359
Comprehensive income	848,410	486,547	201,475	116,577

	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2013	Year ended 31 December 2012
	PLN 000s		EUR 000s	
Net cash from operating activities	2,007,226	1,334,667	476,663	319,788
Net cash from investing activities	(2,786,776)	(1,803,142)	(661,785)	(432,035)
Net cash from financing activities	1,100,890	742,307	261,432	177,858
Net change in cash and cash equivalents	321,340	273,832	76,310	65,611
Earnings per share, basic and diluted (in PLN/EUR per share)	1.86	1.15	0.45	0.28
Number of shares used to calculate basic earnings per share	414,067,114	414,067,114	414,067,114	414,067,114

	Balance as at		Balance as at	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
	PLN 000s		EUR 000s	
Non-current assets	12,649,356	10,697,396	3,050,095	2,616,652
Current assets	4,435,020	4,215,377	1,069,401	1,031,108
Total assets	17,084,556	14,912,773	4,119,540	3,647,760
Non-current liabilities	6,520,014	4,801,462	1,572,148	1,174,468
Current liabilities	2,516,247	2,392,789	606,734	585,292
Equity	8,048,295	7,718,522	1,940,658	1,888,000
Share capital	4,521,613	4,968,805	1,090,281	1,215,402
Book value per share (in PLN/EUR per share)	19.44	1.55	4.69	0.38
Number of common shares at the end of the period	414,067	4,968,805	414,067	4,968,805

The above financial data for the years ended 31 December 2013 and 31 December 2012 were converted into EUR according to the following rules:

- individual items of the statement of financial position – at the average EUR exchange rate set by the National Bank of Poland ("NBP"): PLN 4.1472 on 31 December 2013 and PLN 4.0882 on 31 December 2012.

- individual items of the statement of profit or loss, the statement of comprehensive income and the cash flow statement – at the exchange rate calculated as the arithmetic mean of the average EUR exchange rates set by NBP on the last day of each month of the financial period: PLN 4.2110 for the period from 1 January to 31 December 2013 and PLN 4.1736 for the period from 1 January to 31 December 2012.

ENERGA Group's consolidated financial data for 2010-2013

PLN 000s	2013	2012	2011	2010	CAGR
Sales revenue	11,429,249	11,176,799	10,368,005	9,467,760	**6%**
EBITDA	1,965,469	1,629,246	1,519,701	1,407,588	**12%**
EBIT	1,194,834	906,007	862,915	816,170	**14%**
Net profit	742,978	456,420	702,590	624,239	**6%**
Capital expenditures	2,801,759	1,848,850	1,445,503	1,162,685	**34%**
Total assets	17,084,556	14,912,773	13,685,283	12,640,143	**11%**
Non-current assets	12,649,536	10,697,396	9,713,449	8,965,130	**12%**
Current assets*	4,435,020	4,215,377	3,971,834	3,675,013	**6%**
Current liabilities	2,516,247	2,392,789	2,228,072	*2,094,820	**6%**
Non-current liabilities	6,520,014	4,801,462	3,571,701	2,631,723	**35%**
Equity	8,048,295	7,718,522	7,885,510	7,913,601	**1%**
Cash flows from operating activities	2,007,226	1,334,667	1,481,920	1,179,234	**19%**
Cash flows from investing activities	(2,786,776)	(1,803,142)	(2,003,682)	(1,003,314)	**41%**
Cash flows from financing activities	1,100,890	742,307	616,474	620,553	**21%**

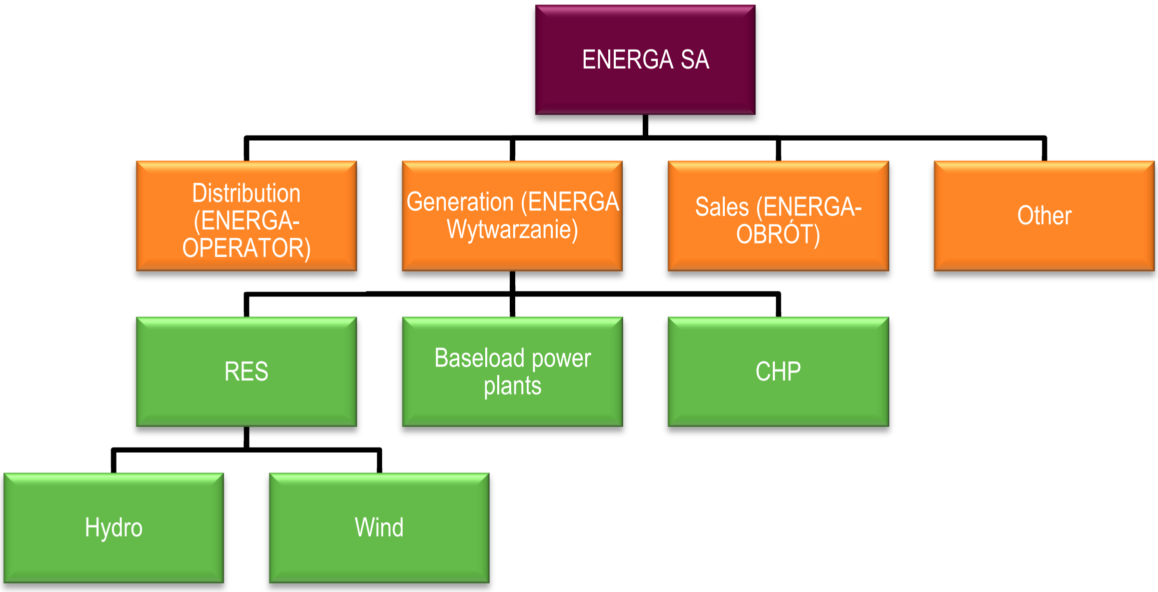
**In 2013, presentation of fixed assets classified as held for sale and liabilities associated directly with non-current assets classified as held for sale was changed; they are now presented as current assets and current liabilities. The data for these periods have been restated accordingly.*

INFORMATION ON THE ENERGA GROUP

Structure of the Group

As at 31 December 2013, the ENERGA Capital Group ("ENERGA Group", "Group") was composed of the parent company ENERGA SA ("Company", "Issuer") and 56 subsidiaries and 2 affiliates. The parent entity was established on 6 December 2006 for an unlimited duration by the State Treasury, Koncern Energetyczny ENERGA SA (currently: ENERGA-OPERATOR SA) and Zespół Elektrowni Ostrołęka SA (currently: ENERGA Elektrownie Ostrołęka SA). The company was registered in the National Court Register on 8 January 2007.

Fig. 1: Simplified organizational structure chart of the ENERGA Capital Group.



The full composition of the ENERGA Group as at the end of the reporting period, organizational and/or capital ties as well as chronological list of formal and legal changes are included in note no. 2.1 to the Consolidated financial statements for 2013.

Activities of the ENERGA Group

The ENERGA Group is the third distribution system operator (DSO) in Poland in terms of the volume of electrical energy supplied to end users, with a leading position on the Polish market in terms of electricity distribution as a percentage of EBITDA. The Group's core business entails distribution, generation and sales of electrical energy. Among Poland's largest utilities it also holds a leading position in terms of the generation of energy in hydro power plants and the percentage of electrical energy originating from renewable energy sources (RES) in the total volume of electrical energy generated and distributed. The Group is third largest electricity supplier in Poland in terms of the volume of electricity sold to end users.

The business of the ENERGA Group is focused on the following key business areas:

1. *Electricity Distribution Segment* – entails activity involving the distribution of electrical energy by the DSO – ENERGA-OPERATOR SA (Segment Leader), as well as activity directly connected to the distribution activity conducted by other companies in this Segment
2. *Generation Segment* – primarily entails the generation of electrical energy from renewable energy sources and generation activity in conventional power plants and combined heat and power plants as well as the

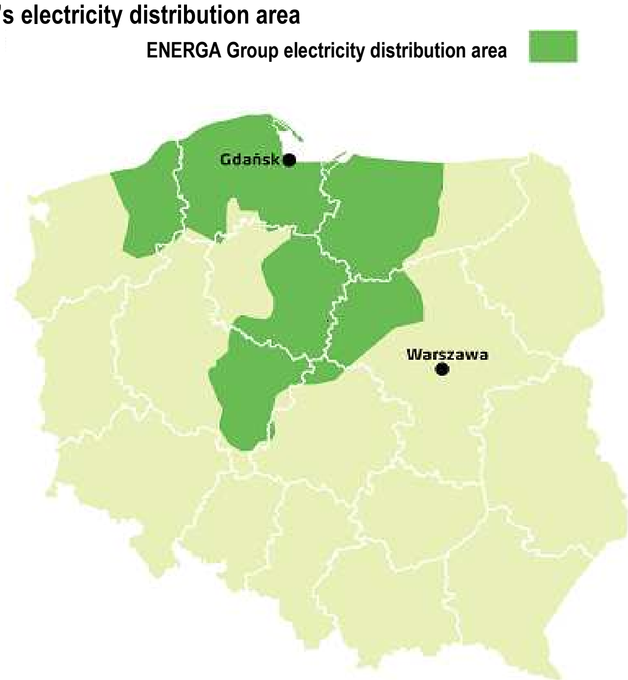
distribution of heat – ENERGA Wytwarzanie Sp. z o.o. (formerly ENERGA Hydro Sp. z o.o.) – Segment Leader

3. *Sales Segment* – consists of activity related to the sales of electrical energy and customer service conducted by ENERGA-OBRÓT SA (segment leader) and ENERGA Obsługa i Sprzedaż Sp. z o.o. as well as street and road lighting services provided by ENERGA Oświetlenie Sp. z o.o.

The activity supporting the Group's three principal operational segments is consolidated within the 'Other' Segment managed by ENERGA as the Group's holding company. The companies, which provide the support services for the major operational segments, include primarily shared services centers providing accounting, HR, payroll, administrative and ICT support services.

The electricity Distribution Segment is key from the standpoint of building the Group's operating profitability. Distribution of electricity in Poland is a regulated activity, conducted on the basis of tariffs approved by the President of the Energy Regulatory Office ("ERO"). The Group has a natural monopoly position in the northern and central part of Poland, where its distribution assets are located, in delivers electricity to over 2.9 million customers. As at 31 December 2013, the distribution grid consisted of power lines with a total length of over 194 thousand km and covered almost 77 thousand km^2, i.e. about 25% of the country's landmass.

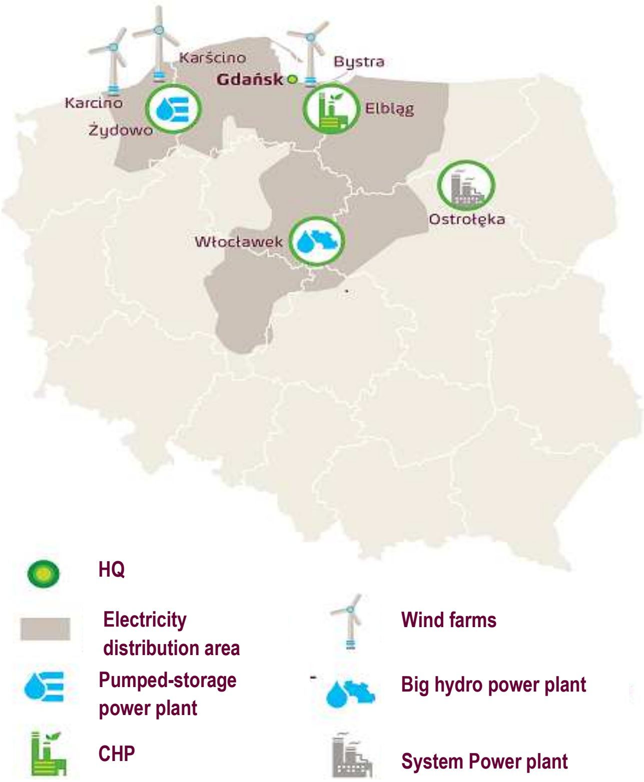
Fig. 2: ENERGA-OPERATOR's electricity distribution area



The Group's generation sources are made up of baseload power plants, renewable energy sources and combined heat and power plants (cogeneration, CHP). At the end of December 2013, the total installed generation capacity in the Group's power plants was approximately 1.3 GW. In 2013, the Group generated 5.0 TWh of electricity gross. The installed capacity of our power plants relies on diverse energy sources, such as hard coal, hydropower, wind and biomass. In 2013, 62% of the Group's gross energy production originated from hard coal, 21% from hydro, 14% from biomass and 3% from wind.

The ENERGA Group has a leading position in terms of the percentage of electrical energy originating from renewable energy sources in the total energy generated among the major utilities operating on the Polish market; it owes this primarily to the generation of energy in hydro power plants. Green energy is produced in 46 hydro power plants, 3 wind farms and in biomass-fired installations. At the end of 2103, the Group had the installed capacity of over 0.5 GW in renewable energy sources, which generated 1.9 TWh of electricity gross in 2013.

Fig. 3: Distribution of the main generation assets of the ENERGA Group



The ENERGA Group, through ENERGA-OBRÓT SA, sells electricity to all customer segments, from industry, through big, medium-sized and small business, to households. The biggest share in terms of volume goes to industrial customers, and households are the most numerous group of customers. At the end of 2013, the ENERGA Group supplied over 2.9 million customers, out of which over 2.6 million were retail customers.

The number of ENERGA Group's customers as at 31 December 2013 (by tariff group)

Tariff groups in ENERGA-OBRÓT	As at 31 December		change (%)
	2013	2012	
Tariff Group A	62	68	-9%
Tariff Group B	6,066	6,379	-5%
Tariff Group C	291,388	297,360	-2%
Tariff Group G	2,609,219	2,590,413	1%
TOTAL	2,906,735	2,894,220	0.4%

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.

In the Sales Segment, the administration, payment, billing and collection processes of the Group's customers is the responsibility of ENERGA Obsługa i Sprzedaż ("EOiS"). In 2013, actions were taken to improve the quality of the services provided, migration of contacts to the telephone channel ("tBOK") and the internet channel ("eBOK") was started, with simultaneous optimization of operating expenses, which will be consistently continued in 2014. In the Segment, a number of actions are taken to support the implementation of the new Business Model, e.g. change of the billing system for retail customers, from settlements based on predictions to actual billing, or expansion to include new functionalities Contact Center, which will improve work efficiency.

Key changes in the organization of the ENERGA Group

19 June 2013:

Increase of the share capital of ENERGA Finance AB (publ) to 20 million to increase its capacity to issue bonds

28 June 2013:

ENERGA Hydro Sp. z o.o. purchases shares in 6 companies from the DONG Group: Tuszyny, Pancerzyn, Karcino, 3, Gąsiorowo, Olecko

24 July 2013:

ENERGA SA becomes the sole shareholder of ENERGA-OPERATOR SA as a result of a squeeze-out of minority shareholders

31 July 2013:

ENERGA Hydro Sp. z o.o. purchases 67.30% shares in Iberdrola Renewables Polska Sp. z o.o.

27 September 2013:

Capital increase of ENERGA-OPERATOR to PLN 1,221,110,400

5 December 2013:

Capital increase of ENERGA Hydro Sp. z o.o. to PLN 658,850,500 and change of the business name to ENERGA Wytwarzanie Sp. z o.o. and completion of the consolidation of companies in the RES segment

Organizational changes carried out within the ENERGA Group in 2013 were primarily aimed at:

- Further sorting out and simplification of organizational and capital ties of the Group companies, including consolidation of wind assets after their acquisition from foreign investors: Danish group DONG and Spanish Iberdrola Renovables;
- Capital strengthening of the leading companies in the Group's core business segments and assigning them responsibility for individual elements of the chain value (Generation, Distribution and Sales).

ENERGA Group's management model

Since 17 December 2013, the organization and management of the ENERGA Capital Group has been done on the basis of an internal regulation named Organizational Governance, which replaced the previously prevailing Holding Agreement. The changed concept is the result of the ENERGA Group's efforts to build a commercial organism whose operations will be firmly based on market principles and competitive strategies. Thanks to this, the Group will be better prepared to face the challenges of the ever-changing market and regulatory environment.

Responsibility for operational effectiveness and efficiency as well as the financial performance is consistently born by the individual Segments. ENERGA SA performs strategic and control functions. Such vision of Governance supports the Group's development based on organic growth and assets held by the Group, and it prepares it well for participation in merger and acquisition processes. Organizational Governance regulates the following areas: corporate governance, financial policy, investments, HR policy, IT, legal service, market and regulatory environment, and investor relations.

ENERGA SA defines the Group's Business Model based mostly on management of Segments, while Segment Leaders still maintain their independence in achievement of business objectives and carrying out market activities. The holding company outlines the Segments in the Group and defines their objectives, and it is responsible for strategic and directional decisions and activities. ENERGA SA is responsible for monitoring and control of Segments' operations, and for management of strategic risk throughout the ENERGA Group. It also supervises the Segment Leader, which conducts activities on the operational level and manages the Segment on the basis of the Group's Business Model, defines and enforces the achievement of the goals of the Segment's companies and it is fully responsible for the Segment's performance, and it is responsible for the Segment's ability to generate dividend for the owner. The activities are effective on the level of the Group, the Segment as well as individual entities. Particular emphasis is placed on development of the Group's management team and its competences, and observance of values by managers of ENERGA SA and the individual Segments, who contribute to achievement of the Group's objectives.

DESCRIPTION OF MARKET ENVIRONMENT IN 2013

Macroeconomic situation

The condition of the Polish economy has a significant impact on the business of the ENERGA Group. In particular, factors such as growth in real Gross Domestic Product ("GDP") and industrial output, development of the service sector and growth in private consumption affect demand for electricity and its consumption.

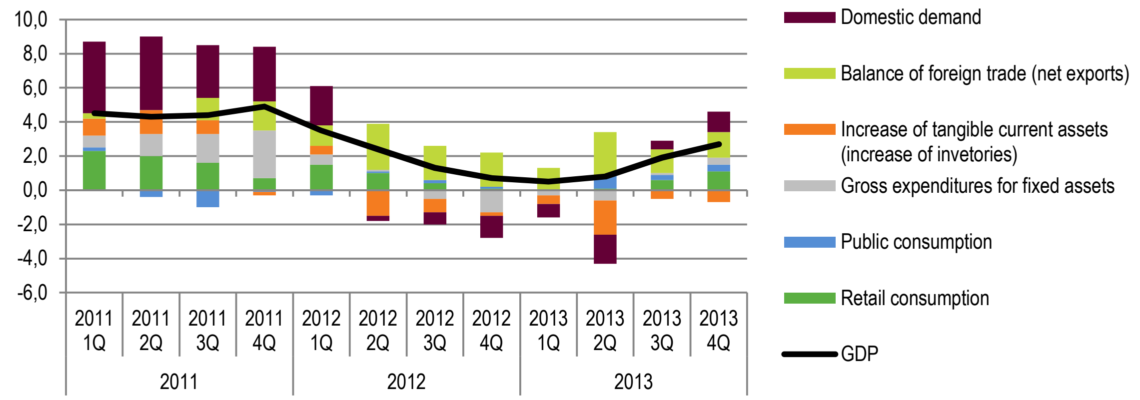
As has been confirmed by the World Bank's "EU11 Regular Economic Report", at the beginning of 2013 the economies of Central and Eastern Europe reached the bottom of their economic downturn. This trend reversed in the second half of the year, which was the result, among other factors, of economic recovery in the Eurozone, which hauled itself out of recession in Q2.

According to preliminary estimates of the Central Statistical Office ("GUS"), Polish GDP in 2013 was greater by 1.6% in real terms than in 2012. The growth in GDP was mainly driven by the favorable impact of net exports and domestic consumer demand, while the impact of investment demand was close to neutral. GDP in Q4 2013 increased 2.7%, as compared to the same period of the previous year. What this means is that the rate of economic growth reached the highest level since Q1 2012 when it was 3.5%.

In 2013, the rate of growth in exports was greater than the rate of growth in imports, and the country's trade volumes were accompanied by stabilization in the annual average exchange rate of the Polish zloty against the euro and the Polish currency's appreciation against the US dollar. Forecasts regarding growth in exports in the subsequent quarters suggest an expected further acceleration of the rate of this growth. In the opinion of the Market Economy Research Institute ("IBnGR"), the situation in foreign trade will be shaped predominantly by the economic climate in the European Union. In 2014, the volume of exports in Poland will grow by 4%, whereas imports will increase by 4.5%.In 2015, growth in exports is expected to increase to 7.2%, coupled with a positive rate of growth in imports reaching 6.8%.

The Polish economy is in a recovery phase which started in Q3 2013. Domestic demand, although on the increase in that period, was still relatively weak (an increase by 0.5% compared to the same period of the previous year), and in the whole of 2013 was lower by 0.2% than in 2012. The fastest growing component of domestic demand was total consumption which increased by 1.1%. Growth in private consumption was lower. In Q4 and in the entire 2013, these percentages were 2.1% and 0.8%, respectively.

Fig. 4: Quarterly GDP structure in Poland in the years 2011-2013 (pp)



Source: Proprietary material based on the Central Statistical Office's data.

In Q3 and Q4 2013, for the first time since Q2 2012, gross expenditures on fixed assets also increased (respectively by 0.6% and 1.3% YoY). A positive trend was recorded in the industrial sector, commerce and finance and insurance business. Investments are the most variable component of demand in at the various stages of the economic cycle. On the annual basis, gross expenditures for fixed assets fell by 0.4% (by 1.7% in 2012). In the last quarter of 2013, investment processes gained more momentum. Even though the increase in capital expenditures estimated in 2013 at 1.3% is hardly satisfactory, it is worth pointing out that it was the highest since Q1 2012, when it was 5.2%. The rate of investment in the national economy (the ratio of gross expenditures on fixed assets to gross domestic product in current prices) in 2013 was 18.4% compared to 19.1% in 2012.

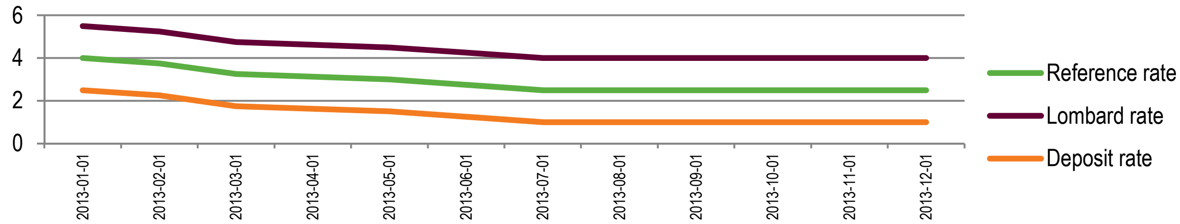
In 2014, investor sentiment clearly improved, which is especially noticeable in investment plans assuming an increase in the number of investment projects started and a higher rate of growth in expenditures. According to IBnGR's forecasts, growth in investments will be driven primarily by an increase in expenditures on renewal of property, plant and equipment in the corporate sector. Another factor supporting investments will be an inflow of cash from European funds to finance infrastructural projects in the new budget outlook for the years 2014-2020.

An important element of macroeconomic evaluation is the situation on the labor market. According to estimates of the Ministry of Labor and Social Policy, the registered unemployment rate at the end of December 2013 was at the same level as the year before, i.e. at 13.4%. According to forecasts of the National Bank of Poland for 2014, the beginning of the year should mark the start of an increase in employment, predominantly in trade, in the processing industry and in companies involved in exports. According to IBnGR's forecasts, in 2014, as a result of faster GDP growth, the situation in the Polish labor market should start to improve, and the unemployment rate as at the end of December 2014 should stand at 13.1%.

Inflation remained low in 2013. According to data published by GUS, the prices of consumer goods and services increased by 0.9% YoY (compared to 3.7% in 2012), which was the lowest rate of inflation in ten years. The increase in the index of prices of consumer goods and services during the year was largely driven by increases in food prices (by 2.2%), housing fees (by 1.7%), higher prices of alcoholic beverages and tobacco products (by 3.5%) and leisure and culture goods and services (by 2.8%). In Q1 2014, the National Bank of Poland expects a further decrease in inflation due to lower than expected increases in the prices of products and services offered by the corporate sector. The prices of raw materials are also expected to increase at a lower rate. According to the IBnGR's forecast, inflation in 2014 will average 1.9%, standing at 2.2% at the end of December. In 2015, inflation will remain at the same level as in 2014. Thus, the inflation rate will continue to stay within the inflation target of 2.5% set by the Monetary Policy Council ("RPP"). The relatively low inflation will be one of the factors favorably affecting the rate of growth in private consumption.

In 2013, the approach to monetary policy was eased and key interest rates were lowered. In January, the reference rate was reduced from 4% to 2.5%, the lombard rate fell from 5.5% to 4% and the deposit rate dropped from 2.5% to 1%. RPP justified its decision by explaining that the National Bank of Poland's significant reductions in the interest rates are conducive to economic recovery and mitigate the risk of inflation falling below the inflation target in the medium term. According to RPP, changes in interest rates, if any, may be expected no earlier than in the second half of 2014.

Fig. 5: Changes in interest rates in 2013 (in%)

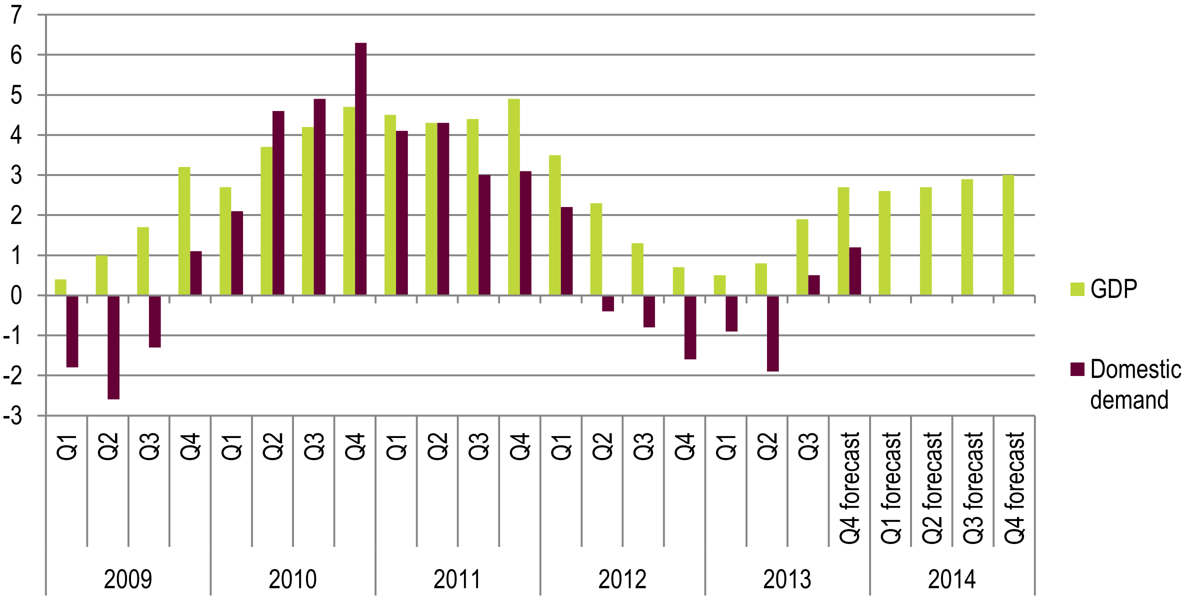


Source: Proprietary material based on the NBP data.

According to a macroeconomic forecast of the National Bank of Poland published in December 2013, the Polish economy is expected to continue to grow in the coming years, with GDP growth of 2.8% in 2014 and 3.5% in

2015. For the first and fourth quarters of this year, IBnGR assumes GDP growth of 2.6% and 3.0%, respectively, with minor differences between the distinct quarters, indicating a gradual acceleration of the Polish economy. Among the drivers of this growth would be the anticipated gradual improvement in the economic situation of the Eurozone (especially in Germany) and the improvement in domestic private consumption.

Fig. 6: Rate of growth of GDP and domestic demand in Poland on a quarterly basis in 2009-2014 (%)



Source: Proprietary material based on the Central Statistical Office's data and IBnGR's forecasts.

Forecasts of the European Commission for the years 2014-2015 assume that the European economy will gradually recover from the economic downturn (with gross GDP of the whole European Union increasing by 1.4% and 1.9%, respectively). Forecasts published by Eurostat indicate a big gap in this respect between the distinct Eurozone countries (with Germany's GDP growth of 0.4% in 2013 and an anticipated decline by 1.8% in Italy). A positive growth in the Eurozone's GDP may only be expected in 2014. It is expected that the driving force of its economic development will be a gradual improvement in internal and external demand. According to the European Central Bank ("ECB"), internal demand will favorably affected by reduced uncertainty, accommodative monetary policy, a weaker fiscal drag and a decrease in commodity prices, which should have a positive impact on real disposable income. In the near term, growth prospects will continue to be weakened by the need to finish the balance sheet adjustments in the private and public sectors and by a high unemployment rate.

According to preliminary estimates of both the World Bank and the International Monetary Fund ("IMF"), the rate of global GDP growth in 2013 did not differ from that recorded a year before. According to IMF, real GDP growth was 3% (compared to 3.1% in the previous year), and in 2014 it is expected to increase to 3.7%. In the United States, GDP grew by 1.9% in 2013 (down by 0.9 percentage points from the previous year), while this year the U.S. economy is expected to grow by as much as 2.8%. In Japan, gross GDP growth in 2014 is expected to remain at the same level as the year before (growth by 1.7%).

Electricity market in Poland

The beginning of transformation of the Polish utilities sector involved a far-reaching consolidation of State Treasury-owned power companies aimed at improving their financial and market potential as the foundation for a further development of this sector. In May 2007, four groups of utility companies were established: the PGE Group managed by PGE Polska Grupa Energetyczna S.A., the Tauron Grupa headed by TAURON Polska Energia S.A., the ENERGA Group managed by ENERGA SA and the ENEA Group with ENEA S.A. as its parent company. All these groups operate in the generation, distribution and trading segments of the electricity market.

In addition to the above utility groups, the energy market in Poland is made up of: Polskie Sieci Energetyczne SA ("PSE"), the transmission system operator ("TSO") balancing demand of the national electricity system, wholly owned by the State Treasury, Towarowa Giełda Energii S.A. ("TGE"), a company organizing a commodity exchange for trading in electricity, as well as national and European companies holding shares in various generation and distribution assets in Poland. These companies are members of the following capital groups, among others: RWE, PGNiG, CEZ, EdF, GDF Suez, Dalkia, Fortum and ZE PAK.

As a result of acceleration of the process of privatization of the utilities sector in recent years, the shares of all four companies heading the country's utility groups are traded on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.). The Company has been operating as a public company since 11 December 2013.

The process of reforming the Polish utilities sector was initiated at the beginning of the 1990s but is still underway due to the need to adjust Poland's electricity market to European Union ("EU") standards in order to create a competitive market. The many elements that need mentioning in this context include, among others: termination of long-term contracts ("LTCs"), withdrawal from the system of approving electricity sales tariffs and unbundling of distribution system operators.

Electricity market segments

Generation

As at 31 December 2013, the total maximum capacity of the Polish utilities sector was 38,501 MW (according to data published by the Energy Market Agency, hereinafter: "ARE"). In Poland, electricity is generated by power plants, including combined heat and power plants, which are required to obtain a license for the generation of electricity and which sell their generated electricity to companies trading in electricity and/or to end users.

Electricity generated in Poland may be divided into the following categories: electricity generated from conventional sources ('black electricity'), electricity obtained in coal cogeneration ('red electricity'), electricity obtained in gas cogeneration ('yellow electricity') and electricity generated from renewable sources ('green electricity').

Generation of electricity in Poland in 2010-2013, by fuel

	2013		2012		2011	
	GWh	(%)	GWh	(%)	GWh	(%)
Coal	79,871	48.6	78,769	48.6	85,548	52.3
Lignite	56,347	34.3	54,248	33.5	54,220	33.2
Natural gas	5,741	3.5	5,137	3.2	5,113	3.1
Biomass i biogas[1]	7,373	4.5	8,878	5.5	6,312	3.9
Hydro[2]	2,693	1.6	2,463	1.5	2,759	1.7
incl. hydro plants classified as RES	2,435	1.5	2,035	1.3	2,329	1.4
incl. pumped storage plants	558	0.4	428	0.3	430	0.3
Wind	5,923	3.6	4,747	2.9	3,210	2.0
Other fuels	164,293	100.0	162,034	100.0	163,495	100.0
Total	**16,908**	**10.3**	**16,827**	**10.4**	**13,087**	**8.0**
incl. RES	**2,693**	**1.6**	**2,463**	**1.5**	**2,759**	**1.7**

Source: ARE; (1) includes electricity generated from co-firing of biomass and biogas, in biomass-fired power plants and in biogas-fired power plants, (2) includes electricity generated in hydroelectric pumped storage power plants.

There are a number of mechanisms in Poland aimed at supporting the development of renewable energy sources. This leads to a noticeable increase in the capacity of zero-emission technologies. The largest share in the increase in available capacity of RES technologies is attributable to wind technologies.

Increase in available RES capacity in Poland since 2011 (in MW)

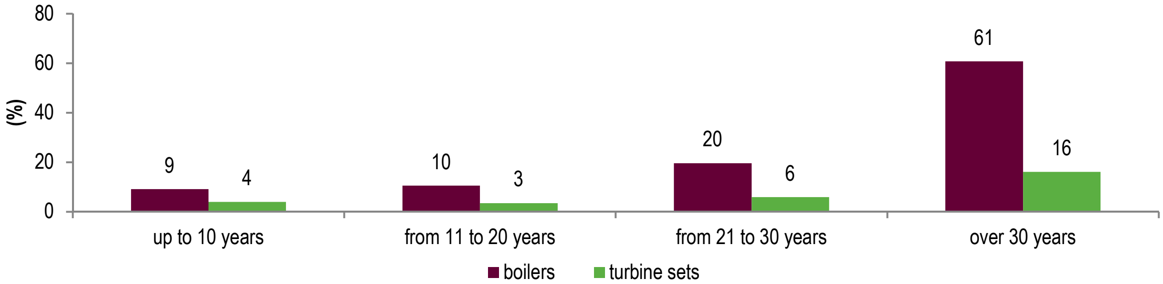
	2013	2012	2011
Biogas-fired power plants	140.6	120.2	93.6
Biomass-fired power plants	651.3	452.2	185.1
Wind power plants	3,399.1	2,583.7	1,819.2
Hydroelectric power plants classified as RES power plants	951.6	948.2	945.7
Total	5,142.6	4,104.3	3,043.6

Source: ARE

Current situation and development of generation capacity in Poland

A significant portion of generating units currently operating in Poland is affected by a significant degree of technical wear. This results in a gradual decrease in the surplus of available capacity in relation to peak demand.

Fig. 7: Age structure of generating units in Poland in 2012 (boilers and turbine sets)



Source: Ministry of Economy

Due to the ongoing process of technical wear of generating units and the gradual tightening of EU emission standards, the existing power units will be decommissioned or modernized. The decommissioned power units will be replaced with new ones, the majority of which will be coal-fired units, although part of the capital expenditures in this area will also be allocated to gas-fired and lignite-fired units.

Key players in the electricity generation sector

According to data as at 31 December 2012, the four major utility groups generated a total of 93.4 TWh of net electricity in Poland and held a share in the market for electricity sales to end users of almost 95%. After Q3 2013, these numbers stood at 71.2 TWh and 88.3%, respectively.

The largest utility groups in the Polish market in terms of the volume of generated electricity are: PGE, Tauron, EDF, ENEA and ZE PAK.

Key generators of electricity in Poland in 2012-2013 (data for the first three quarters of 2013)

Company	Generation (net production[1])			
	Q1-Q3 2013		2012	
	Quantity of TWh	(%)	Quantity of TWh	% share
PGE	42.8	42.6	57.1	42.5
Tauron	15.6	15.5	20.3	15.1
ENEA	9.0	9.0	12.3	9.2
ENERGA	**3.8**	**3.8**	**3.7**	**2.8**
Other	29.2	29.1	40.9	30.5
Total	**100.4**	**100.0**	**134.3**	**100.0**

Source: ARE; (1) net generation of electricity, i.e. gross generation of electricity less consumption for energy transformation purposes, (2) as at the date of the Report, there was no available data on 4Q 2013

According to Eurostat, Poland is the sixth largest generator of electricity in the European Union.

Generation of electricity in separate countries and the whole of EU in 2011-2012 and in the first three quarters of 2013 (in TWh)

Country	1Q-3Q 2013	2012	2011	Country	1Q-3Q 2013	2012	2011
EU (28 member states)	2,320	3,158	3,168	Croatia	10.8	10.7	11.2
				Greece[1]	41.3	56.9	56.1
Germany	398.0	540.4	526.8	Portugal	37.4	34.7	40.4
France	412.1	560.5	564.6	Bulgaria[1]	31.4	47.4	50.3
United Kingdom	264.0	363.8	367.8	Hungary[1]	23.0	34.4	36.2
Italy[1]	218.6	295.4	300.4	Denmark	24.6	30.4	34.9
Spain	207.0	283.4	274.0	Slovakia	21.0	27.9	27.7
Poland	**121.4**	**161.4**	**163.3**	Ireland	18.7	26.7	26.7
Sweden[2]	117.8	166.1	150.7	Slovenia	12.5	15.6	16.0
Netherlands[1]	70.4	102.4	112.3	Estonia	10.1	12.0	12.9
Belgium[1]	56.9	78.0	88.2	Latvia[1]	4.4	6.0	6.1
Czech Republic	63.6	87.5	87.5	Lithuania	3.4	4.4	3.8
Finland	52.4	70.3	73.3	Cyprus	3.2	4.6	4.8
Austria	51.3	72.0	65.5	Luxembourg[1]	1.9	3.8	3.5
Romania	42.1	58.7	60.7	Malta	1.7	2.3	2.2

Source: Eurostat; (1) generation of electricity in September 2013 is based on a forecast; (2) generation of electricity in Q3 2013 is based on a forecast.

Distribution

Distribution is the supply of electricity through distribution grids to end users. The following table presents the areas of operation of the largest distribution system operators in Poland along with their key operating data for 2012.

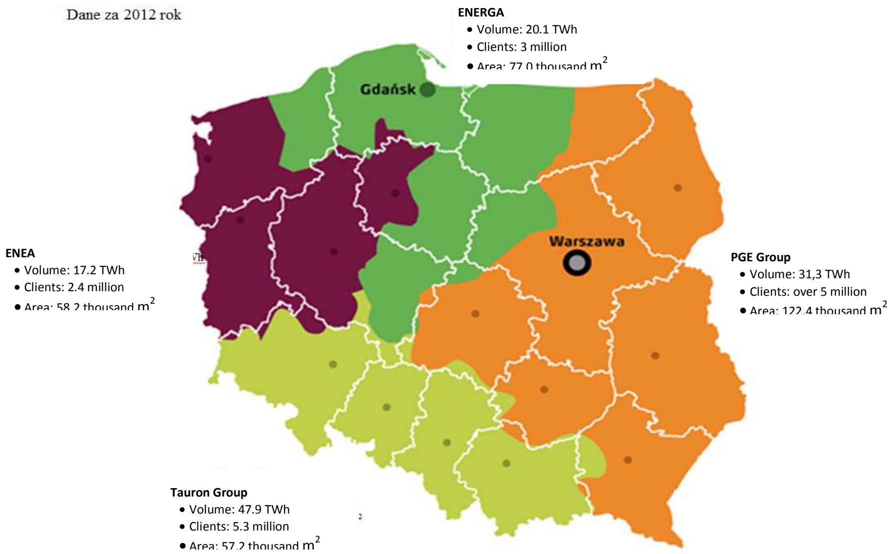
In Poland, distribution is performed by companies holding an electricity distribution license. According to the Energy Regulatory Office, as at 22 January 2014, 98 entities held a license for the conduct of distribution business in Poland. The distribution business is a natural monopoly in the relevant local market and is subject to detailed regulations, especially with regard to tariffs prepared by distribution companies in accordance with the rules prescribed by law.

The technical condition of the distribution grids varies from one grid to another. Some parts of the country, predominantly rural areas, experience problems with maintaining the parameters of their electricity grid. The condition of the distribution grid affects the level of energy losses sustained by the distribution companies. Modernization of the transmission and distribution grids translates into a decrease in the volume of losses in the national power system. According to ARE data, grid losses and balancing differences in the national power system were, respectively, in 2011: 10,435 GWh (6.6% of total consumption), in 2012: 10,701 GWh (6.7%), in Q1-Q3 2013: 6,903 GWh (5.8%).

Key players in the electricity distribution sector

The main distribution system operators in Poland are: TAURON Dystrybucja S.A., PGE Dystrybucja S.A., ENERGA-OPERATOR SA and ENEA Operator Sp. z o.o. The geographical coverage of these entities is presented in the following picture. The other distribution system operators were local industrial distributors of electricity.

Fig. 8: Coverage of the main DSOs in Poland in 2012



Source: Own calculations based on the distinct groups' annual reports and presentations of results for 2012.

Share of companies in the distribution of electricity in 2012-2013 (data for the first three quarters of 2013)

Company	Energy distribution			
	1Q-3Q 2013		2012	
	Quantity of TWh	(%)	Quantity of TWh	(%)
PGE	23.5	25.6	31.3	25.5
Tauron	35.7	38.8	47.9	39.0
ENERGA	**15.1**	**16.4**	**20.1**	**16.4**
ENEA	12.9	14.0	17.2	14.0
Other	4.8	5.2	6.4	5.2
Total[2]	**92.0**	**100.0**	**122.9**	**100.0**

Source: ARE; (1) together with the volume of electricity distributed in 2011 by companies of Górnośląski Zakład Energetyczny, (2) supplies from the grids to end users according to ARE, (3) as at the date of the Report, there was no available data on 4Q 2013

Trading in electricity

Trade in electricity is effected by purchasing electricity from generators or other entities engaged in such trade for the purposes of resale. Trade in electricity consists of wholesale trade in electricity and sale of electricity to end users. Wholesale electricity trading takes place between generators and trading companies (including retailers). Retail sale is the sale of electricity by generators or trading companies to end users (households or businesses).

The sale of electricity to end users is associated with the obligation to submit for redemption to the President of the Energy Regulatory Office certificates of origin corresponding to the relevant part of the supplied electricity.

The conduct of electricity trading business is regulated and requires an appropriate license. Trading companies may purchase and sell electricity from and to entities of their choice and may exercise the right of access to transmission and distribution grids on an equal basis, and all end users in Poland since 2007 have had the right to select their electricity supplier.

Key players in the electricity trading sector

The main players in the trading sector are the four largest utility groups: the Tauron Group, the PGE Group, the ENERGA Group and the ENEA Group. During the first three quarters of 2013, a total of 92.0 TWh of electricity was sold to end users, of which the four main groups sold a total of 81.2 TWh or 88.3% of total electricity sales to end users.

Share of companies in the sale of electricity to end users in 2012-2013 (data for the first three quarters of 2013)

Company	Sales to end users			
	1Q-3Q 2013		2012	
	Quantity of TWh	(%)	Quantity of TWh	(%)
Tauron	30.5	33.1	44.7	36.7
PGE	27.3	29.7	31.9	26.2
ENERGA	**13.6**	**14.8**	**20.5**	**16.8**
ENEA	9.8	10.7	14.9	12.2
Other	10.8	11.7	10.9	8.8
Total[2]	**92.0**	**100.0**	**122.9**	**100.0**

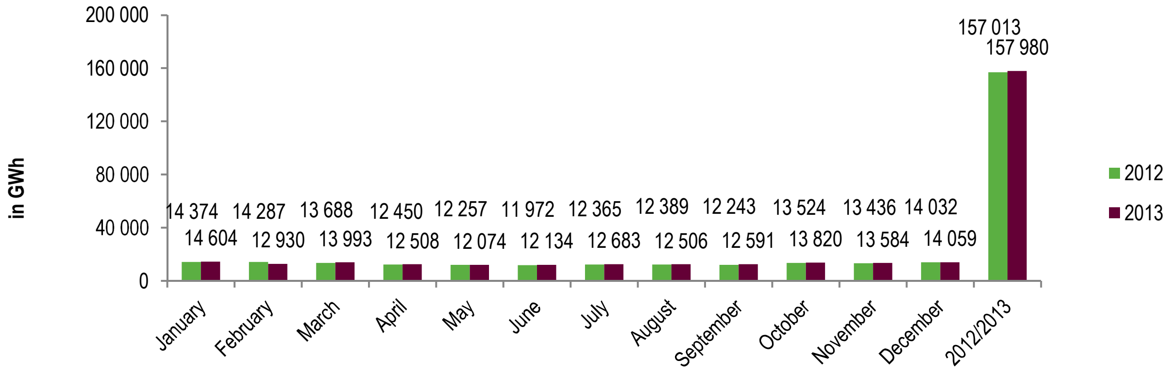
Source: ARE ; [(1)]as at the date of the Report, there was no available data regarding 4Q 2013

Consumption of electricity

According to Eurostat data, in 2012, electricity consumption in the EU was 2,795.3 TWh, of which 122.6 TWh was consumed in Poland, accounting for 4.4% of total consumption in the EU.

The domestic consumption of electrical energy in Poland, according to the preliminary data published by PSE for 2013, was slightly higher than last year (approximately 0.6%). The first quarter had a special contribution to this picture, especially February, when consumption was more than 9% lower than in the previous year. Q2 was close to the 2012 level. Persistent growth returned in Q3 and Q4 when each month's performance was better than that of the previous year. From the perspective of the economic recovery, the growth in consumption this year is not extensive, however one should note that it has been growing every month since June.

Fig. 9: Domestic electricity consumption in Poland in 2013 compared to 2012



Source: PSE.

In Poland, electricity is consumed mainly by industrial or service companies (tariff groups A, B and C) whose share in the structure of domestic consumption, according to data for Q1-Q3 2013, was 75%. The share of households (tariff G) in electricity consumption in the same period was 24%.

Outflow of electricity from the National Power System ("KSE") in 2011-2013 (in GWh)

Item	2013	2012	2011
Total consumption	157,980	157,013	157,910
Exports	12,323	12,644	12,023
Total outflow of electricity[1]	170,303	169,657	169,933

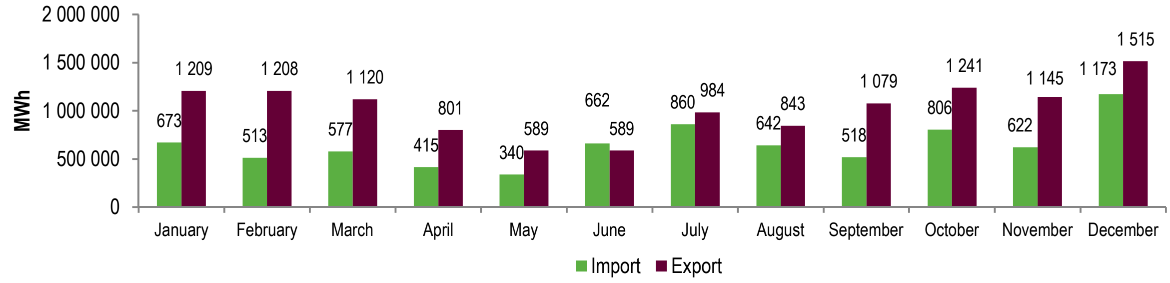
Source: PSE; (1) Includes total consumption plus electricity exports.

Inter-system exchange

In the past, contractual flows of electricity between the systems of different countries were based primarily on long-term contracts and, accordingly, were of a stable nature. The existing limited transmission capacity between the systems of distinct countries is the main factor impeding the integration and creation of a single and competitive European electricity market. This situation is a consequence of the previously pursued policy of isolating national markets and the historically existing absence of international transmission capacity. Such national capacities were built primarily with a view to ensuring safety in emergency situations rather than creating a cross-border electricity market. In recent years, the European Commission and national operators have been gradually more and more involved in the expansion of cross-border connections in order to ensure the development of the Community electricity market.

According to the Polish Energy Policy until 2030, one of the objectives in area of generation and transmission of electricity and heat is the expansion of cross-border connections, to be coordinated with the expansion of the national transmission system and the expansion of transmission systems in Poland's neighboring countries. This expected expansion should enable cross-border exchange at a level of at least 15% of domestic electricity consumption by 2015, 20% by 2020 and 25% by 2030.

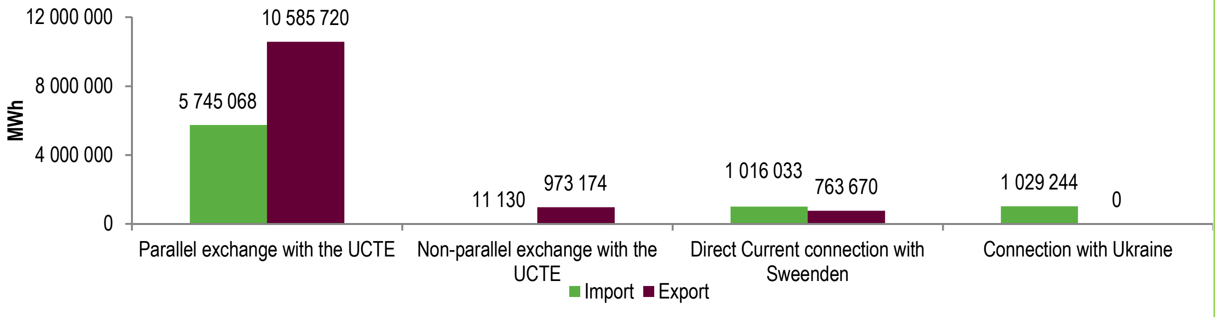
Fig. 10: Monthly volumes of intersystem exchange in Poland in 2013



Source: PSE.

As is clear from the chart above, the prevailing direction of trade was the export of electricity from Poland. In the first four months of 2013, a significant difference between exports and imports of electricity was recorded. This difference diminished in the months of May to August, and only in June were imports of electricity greater. From September onwards, in the volume of exports was on the increase again.

Fig. 11: Volumes of intersystem exchange in Poland depending on the direction of sales/purchases of electricity in 2013



Source: PSE

The main direction of electricity exchange was trade with member countries of the UCTE (Union for the Coordination of Transmission of Electricity), an association of certain transmission system operators from the continental part of Europe, i.e. Germany, the Czech Republic and Slovakia. In terms of volume, a similar amount of electricity was imported to Poland from Sweden and Ukraine, although no electricity was exported to Ukraine.

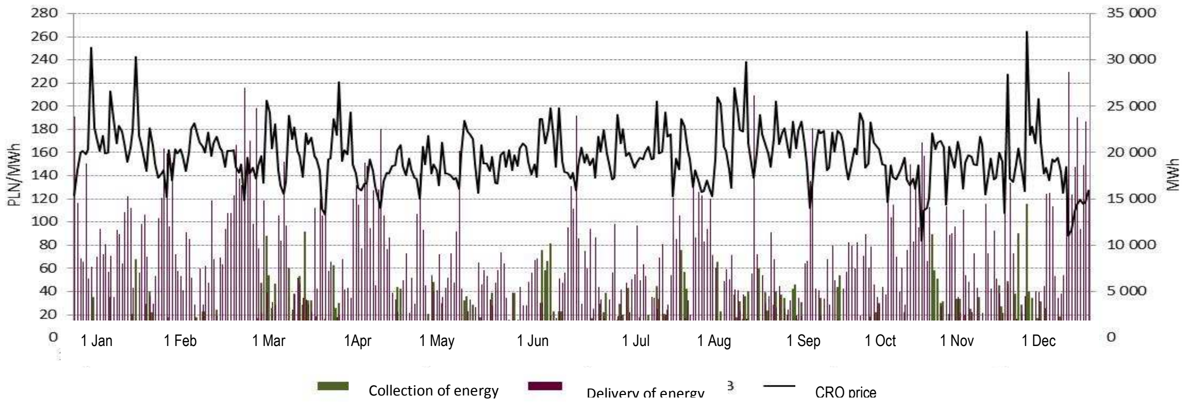
Balancing Market

The balancing market serves the purpose of technical and commercial balancing between market participants and is run by PSE. The balancing market operates under certain strict rules approved by the President of the Energy Regulatory Office with a view to balancing deviations between the planned volumes of electricity and the volumes of electricity actually introduced to or collected from the transmission grid.

According to PSE data, in 2011-2013 the volume of transactions on the balancing market was as follows – in 2011: 2,682 GWh (sales) and 975 GWh (purchases), in 2012: 2,914 GWh and 831 GWh, and in 2013: 3,000 GWh and 700 GWh.

The year 2013 on the balancing market in Poland may be summarized by noting that from the point of view of the flow of electricity, supplies to this market prevailed (approximately 3.0 TWh with a maximum in December (320,643 MWh) and a minimum in June (185,693 MWh)), while collections from the market were 0.66 TWh (with a maximum in March (84,397 MWh) and a minimum in February (20,764 MWh)). This resulted from, inter alia, the uniqueness of market participants' contracting activity.

Fig. 12: Prices (PLN/MWh) and volume (MWh) of energy in the balancing market in 2013

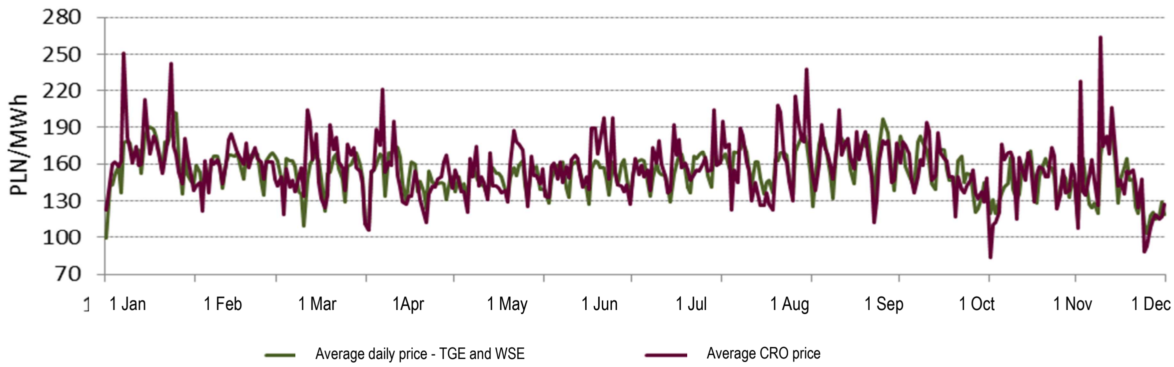


Source: PSE

In 2013, there were no spectacular events on the balancing market, meaning that the year was a stable one. The prices regularly followed electricity prices on the wholesale (spot) market. The level of prices was largely impacted by disconnections of generating units caused by repairs, failures and generation of energy from renewable sources.

The arithmetic mean of the settlement price for the period in question was 156.43 PLN/MWh, peak: 169.16 PLN/MWh and off-peak: 135.19 PLN/MWh. The lowest average monthly price of PLN 146.59 per MWh was recorded in December while the highest average monthly price of PLN 170.46 per MWh was recorded in January.

Fig. 13: Statement of prices on the balancing market and the SPOT market in 2013

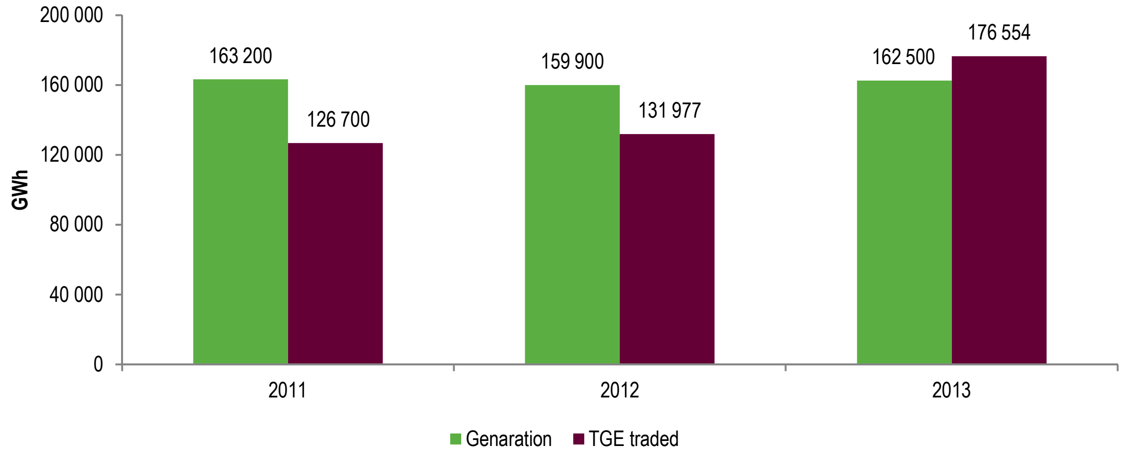


Source: PSE

Most commodity exchange contracts in Poland are entered into on TGE (the Polish Power Exchange) in the following markets: (i) Commodity Futures Market, (ii) Day-Ahead Market, (iii) Intra-Day Market, and (iv) Energy Auction. Moreover, TGE also includes markets for certificates of origin of electricity, gas and CO_2 allowances. In recent years, the electricity trading model has undergone a major reorganization resulting from the imposition, in 2010, of an 'exchange obligation' on electricity generators. For this reason, the electricity exchange is currently one of the most important segments of the wholesale electricity trading business.

The total volume of transactions entered into in 2013 in all markets dedicated to electricity on TGE was 176,553,688 MWh, representing an increase by 33.76% compared to 2012 (131,977,146 MWh).

Fig. 14: Volumes of transactions on the Polish Power Exchange



Source: TGE

Last year, the total volume of trade on TGE was up by 33.76% compared to 2012 and reached 176,554 GWh. On the Commodity Futures Market, the volume of trade was close to 154,300 GWh, up by 36.7%. On the Day-Ahead Market, the volume of trade was approximately 22,202 GWh, up by 16.21%. On the Intra-Day Market, it was almost 53 GWh, up by 173%.

During this time, the production of electricity in Poland reached 162,501 GWh, while the total consumption of electricity was 157,980 GWh. Thus, the volume of trade on TGE is estimated at 108.64% of all electricity generated in Poland in 2013 and 22.67% of its total consumption.

Retail market for electrical energy in Poland

Supplies to end users are performed as part of the retail market and involve transactions in which the demand side is created by end users purchasing electricity for their own consumption. There are two types of end users. The first type is individual users (households forming tariff group ‘G’). The second type is users purchasing electricity for their business operations.

The largest participants in the electricity retail market on the supply side are the existing sellers of electricity who have remained in this role following the unbundling of distribution system operators. They act in the capacity of ex officio sellers in relation to customers who have not decided to select any other electricity supplier despite the right to do so available to them since July 2007.

Retail trade in electricity in Poland is affected to a large extent by the requirement to request approval of tariffs by the President of the Energy Regulatory Office. Currently, trade companies are required to obtain approval of tariffs for end users in tariff group G. In respect of all other tariffs, the President of the Energy Regulatory Office has waived the requirement of tariff approvals recognizing the market as competitive.

On 17 December 2013, the President of the Energy Regulatory Office approved the tariffs for the sale of electricity to ENEA SA, ENERGA-OBRÓT SA, PGE Obrót SA and Tauron Sprzedaż. All approved tariffs assume a decrease in the prices of electricity for users in group G by more than 6%. The lower prices of electricity in the approved tariffs are a result of the decreased purchase prices of electricity in the wholesale market.

The regulator also approved the tariffs of the following distribution system operators: ENERGA-OPERATOR, ENEA Operator, Tauron Dystrybucja, RWE Operator and PGE Dystrybucja. The distributors’ tariffs will increase by an average of 3.1% and the distribution fees for household users will increase by an average of approx. The increase in distribution fees results from the need to maintain the continuity and safety of electricity supplies (an increase in the qualitative fee) and an increased transitional fee associated with the costs of liquidation of long-term contracts with electricity generators to sell power and electricity. At the same time, the new distribution tariffs include reductions (resulting from recalculations) in fees for connection to the grid, down by approx. 53% to approx. 66%, depending on the operator and the type of connection (overhead or underground).

As a result of the introduction of these approved tariffs, the bills of household users purchasing electricity from 'ex officio sellers' will decrease by an average of 2.5%.

Tariffs approved by the Energy Regulatory Office for electricity distributors and ex officio sellers

DSOs	Change of tariff in overall distribution (%)	Change of tariff in distribution for users in groups G (%)	Change of tariff of ex officio sellers for users in groups G (%)	Total change in the bill for users in groups G (%)
ENEA Operator	0.6	(0.3)	(6.5)	(3.7)
ENERGA-OPERATOR	5.6	3.0	(6.2)	(1.7)
PGE Dystrybucja	2.6	2.8	(6.2)	(1.9)
RWE Stoen Operator	6.6	5.5	1)	1)
TAURON Dystrybucja	2.6	1.4	(6.2)2)	(3.1)2)
TOTAL	**3.1**	**2.1**	**(6.2)3)**	**(2.5)3)**

1) RWE Polska SA does not submit any tariffs for approval; 2) TAURON Sprzedaż GZE Sp. z o.o. does not submit any tariffs for approval – presented are only the results for customers of TAURON Sprzedaż Sp. z o.o. (the Kraków and Wrocław coverage areas of TAURON Dystrybucja SA); 3) The average excludes customers of TAURON Dystrybucja SA (the Gliwice coverage area) and RWE Stoen Operator Sp. z o.o.

Prices of electricity and derivative products

In recent years, the electricity market in Poland has undergone significant changes. The most significant changes involved a gradual departure from approving tariffs in electricity trading in favor of market mechanisms, termination of LTCs and unbundling of distribution system operators. An important role was also played by the development of web platforms and the Polish Power Exchange, which enabled the introduction of an organized trade in electricity.

Even though the Polish electricity market has undergone significant liberalization, the prices of electricity in Poland are still off from the average prices of electricity in the EU. Comparing electricity prices for industrial users and medium-sized households, in Poland such prices are significantly lower than those in selected European countries. However, this does not necessarily mean that electricity prices in Poland must be in line with the average electricity prices in other European countries, because a number of local factors also come into play in this context.

Electricity prices for industrial users and medium-sized households in EU countries in 2013

Country	Price for industrial users[1] (EUR per MWh)	Price for households[2] (EUR for 1 MWh)	Country	Price for industrial users[1] (EUR per MWh)	Price for households[2] (EUR for 1 MWh)
EU (28 member states)	94.3	137.3	Greece	104.0	117.0
Germany	86.0	149.3	Portugal	101.5	121.0
France	77.1	100.7	Bulgaria	80.3	77.1
United Kingdom	113.9	165.8	Hungary	90.4	106.1
Italy	112.2	149.8	Denmark	90.0	130.0
Spain	116.5	175.2	Slovakia	124.2	138.4
Poland	**88.3**	**115.5**	Ireland	133.1	195.1
Sweden	79.9	135.9	Slovenia	83.8	117.7
Holland	78.9	132.2	Estonia	84.2	99.4
Belgium	91.4	158.3	Latvia	112.5	114.0
Czech Republic	101.2	124.9	Lithuania	122.8	113.2
Finland	67.9	110.2	Cyprus	200.2	227.7
Austria	87.1	141.3	Luxembourg	94.0	144.7
Romania	90.4	89.0	Malta	180.0	161.5

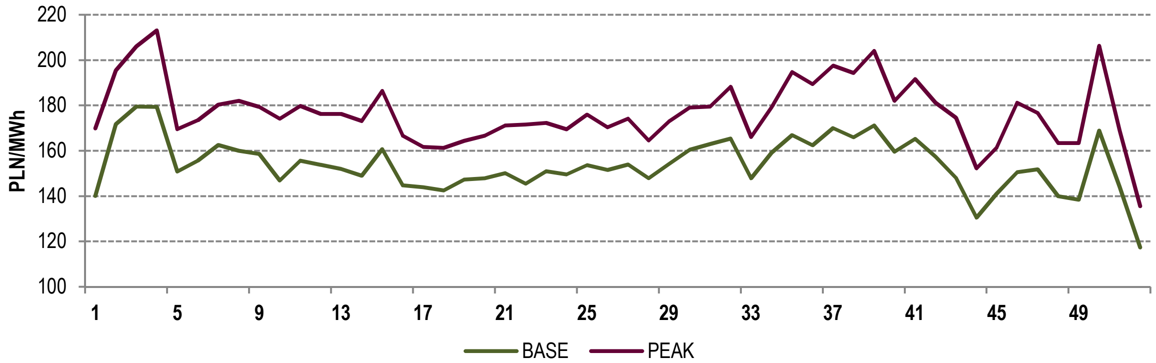
Source: Eurostat

In analyzing the prices of electricity for households in various countries, account should be taken of the fact that electricity prices in Poland, despite their much lower level than in other European countries, do not need to catch up with the average electricity prices in other European countries due to a number of local factors.

SPOT market for electrical energy in Poland

To analyze the SPOT market in Poland, a weekly price table was used for BASE and PEAK hours, respectively. Since the hourly prices on the SPOT market exhibit extensive volatility, using this structure for analysis will make it possible to observe the trends regardless of their extensive hourly volatility.

Fig. 15: Average weekly energy prices on the SPOT market in 2013



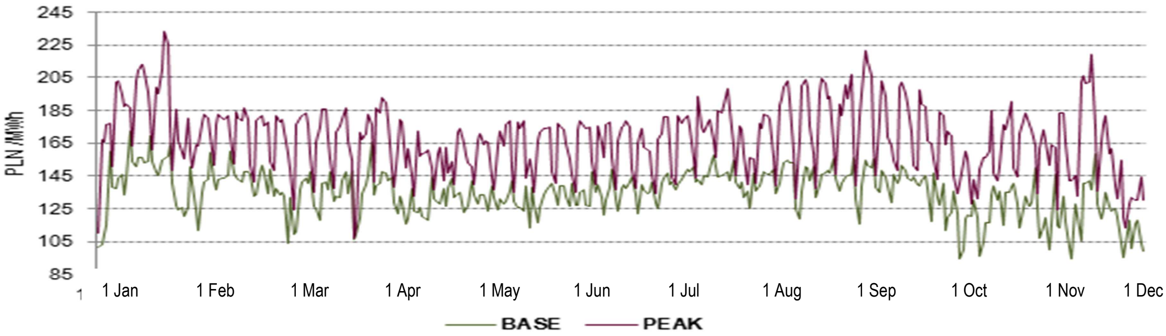
Source: http://wyniki.tge.pl/wyniki/rdn/ceny-sredniowazone

The first half-year on the Day-Ahead Market was characterized by a decreasing trend: from January to June, the average price was at the level of PLN 154.17 per MWh. In relation to the same period in 2012, the price was lower by PLN 20.59 per MWh, down by over 11%. The second half-year on the Spot Market was a period of significant price volatility with the average price of PLN 153.56 per MWh, which in relation to the same period of the previous represented a decrease by PLN 18.93 per MWh (over 10%).

The highest average monthly price in 2013 was recorded in January (PLN 166.39 per MWh), while the lowest price was recorded in December 2013 (PLN 140.11 per MWh). This was associated with a reduced demand for electricity and a greater generation from wind sources as well as low exports.

The average price of electricity in 2013 on the Spot Market reached the level of PLN 153.87 per MWh, down by 11% YoY.

Fig. 16: Electricity prices on the spot market in 2013



Source: http://wyniki.tge.pl/wyniki/rdn/ceny-sredniowazone

Electricity forward market in Poland

To assess the forward market in Poland, the annual forward contract for delivery of base energy in the whole 2014 was used as a reference product.

H1 2013 recorded a significant decrease of prices for this product from 178 PLN/MWh in the first days of January to 148 PLN/MWh on 27 June 2013. Assessing the price of the above contract one can note that especially in January its price dropped by as much as 16 PLN/MWh. In February we saw low price volatility, to record more decreases in March. The next periods of decreases fell in April and May. In the analyzed period this product clearly followed a decreasing trend, “breaking” individual support levels, first approx.164 PLN/MWh, then approx. 162 PLN/MWh and approx. 161 PLN/MWh, stopping at 148 PLN/MWh. In July and August the price oscillated between 145 PLN/MWh and 150 PLN/MWh. At the end of August, after a nearly 3-months’ stabilization of prices in the market, the helm was taken by buyers who pushed the price up by PLN 11. Such rapid increases were probably the result of cyclically improving macroeconomic data. In September, prices grew rapidly, especially in the first week of September when the price reached a record high of PLN 165 per MWh (the same level as that of February 2013). The increase in the prices of futures contracts was associated with greater CO_2 allowances and correlation with prices in the neighboring markets (in Germany, the Czech Republic and Slovakia). The subsequent months of trading brought price decreases due to reduced CO_2 allowances.

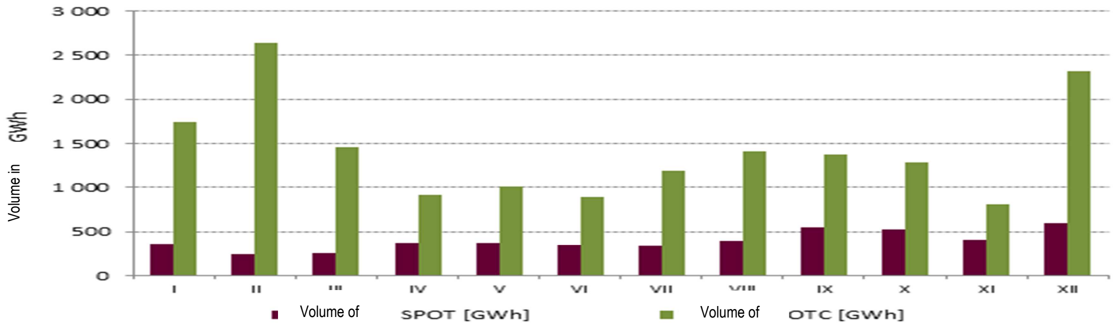
Fig. 17: Forward contract price – base with delivery in 2014 throughout 2013

Source: http://wyniki.tge.pl/wyniki/rtee/tables

Property rights market (RES market)

Currently the property rights (RES) market operates on the basis of bilateral contracts as well as SPOT contracts. At TGE session deals (approx. 22% of trade) and OTC deals (remaining trade) are concluded.

Fig. 18: Analysis of SPOT and OTC prices and volumes in 2013

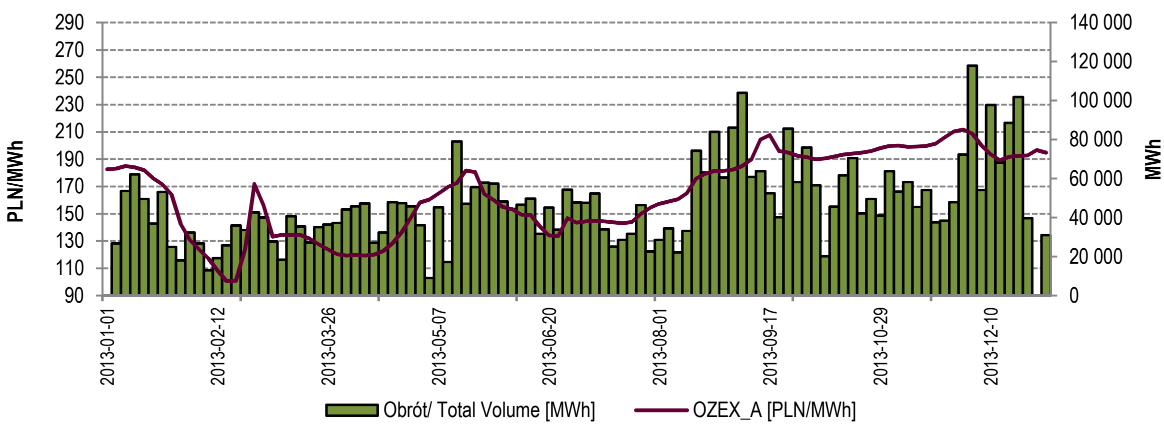


Source: http://wyniki.tge.pl/wyniki/rpm/indeksy/

In 2013, as a result of an accumulated surplus of green certificates, there were significant price fluctuations both in OTC transactions and in spot transactions.

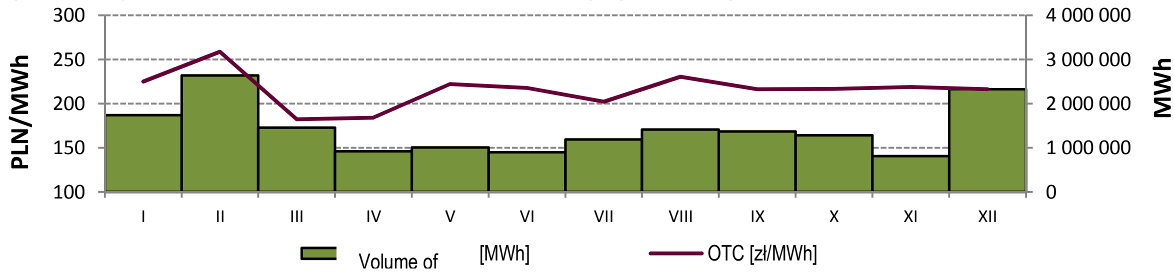
On the spot market, the largest decreases of the OZEX_A index occurred in February when the price fell to the lowest level ever of PLN 99 per MWh. Already in March, due to an increase in demand resulting from the final contracting of companies required to perform their obligations for 2012, the prices increased sharply. In the middle of the year, the index oscillated around the break-even point for biomass firing sources in the range of PLN 120-150 per MWh. In connection with problems faced by companies generating electricity in the biomass co-firing process with properly documenting the origin of biomass used to generate electricity in November and December 2012 and in 2013, the President of the Energy Regulatory Office suspended his decision on the issuance of outstanding certificates from that period. Market information on lower supply contributed to a rapid increase in the OZEX_A index in Q3. In the middle of Q4 2013, another significant event which affected a subsequent decrease in the price of PMOZE_A was the coming into force of the Regulation of 13 November 2013 issued by the Minister of the Economy amending the rules for issuing certificates of origin for electricity generated before 1 January 2013 in respect of full-value wood and auxiliary fuels. The coming of this Regulation into force allowed the President of the Energy Regulatory Office to issue a positive opinion on part of the requests for generation of electricity in 2012, and thus contributed to an increase in the supply of PMOZE_A in the market.

Fig. 19: Analysis of prices and volumes at TGE trading sessions (PMOZE_A)



Source: http://wyniki.tge.pl/wyniki/rpm/indeksy/

Fig. 20: Analysis of prices and volumes at TGE RES listings (PMOZE_A)



Source: TGE

Emission allowance market

In H1 2013, the market for emission allowances was highly volatile. The main reason for such behavior was the wait for a vote on the European Commission's proposal to shift surplus EUAs in time (900 million EUAs). This was accompanied by emerging media reports on different approaches of member states to the idea (Poland was against it). Furthermore, especially Q1 was the last period of trade in EUAs driven by the emissivity obligation for 2012 and the resulting closing of the second trading period (the deadline for redemption of EUAs expired on 30 April).

In Q3 2013, clear increases in the CO_2 allowances market were observed. This resulted from delays in allocation of free allowances for the period 2013-2020 and the risk of a correction of previously assumed quantities. These price increases could also be attributable to better data from the European economy, suggesting a recovery in the industry. The projected increase of production was associated with increased demand for CO_2 allowances.

In Q4 2013, the market for CO_2 allowances experienced a moderate decline in prices from approx. EUR 6 to approx. EUR 5 at the end of 2013. Throughout Q4, several factors affected the market. The most important ones included:

- Elections in Germany and subsequent coalition talks coupled with specifying Germany's position on the backloading project and the whole EU Emissions Trading System
- The backloading project – subsequent stages of the project lasting throughout Q4
- Disbursement of the next tranche under the NER 300 program
- The November climate summit in Warsaw.

The most important event was the adoption of backloading in the vote taken on 10 December by the European Parliament. This generated a revival on the emissions market. The average price of EUAs on the spot market compared to the closing price of the previous week increased 4.6% to reach EUR 5.01 at the end of the session. This high price did not hold for long, as already on the next day there was a correction of 2.6 percentage points.

Fig. 21: EUA emission allowance prices (DEC 2013) in 2013

Source: http://www.barchart.com/detailedquote/futures/CKZ13

DESCRIPTION OF BUSINESS ACTIVITY OF ENERGA GROUP

Key events and achievements of the ENERGA Group

The most important events of 2013, which exerted and will exert influence on the activity of the ENERGA Capital Group, include the following:

ENERGA SA's IPO on the WSE

The IPO of ENERGA SA, carried out on 11 December 2013, was the largest in more than two years initial public offering of shares on the Warsaw Stock Exchange. Its value was PLN 2.4 billion ("IPO") The final number of offered shares and stabilizing shares was 141,522,067 (series AA shares). The Company market capitalization at the opening of trading was PLN 7.02 billion. The State Treasury's offer was a huge success, and average reduction in both tranches of individual investors was the same, i.e. 55.9%.

Approval of tariffs for 2014 by the President of the Energy Regulatory Office

On 17 December 2013, at the request of ENERGA-OBRÓT SA the President of the Energy Regulatory Office approved the electricity tariff for group G users with effect from 1 January 2014. The approved prices are down 6.2% compared to 2013 due to a fall in the purchase prices for electricity. The decreased tariffs for electricity purchased by group G users in 2014 apply to all major sellers of electricity covered by the tariff approval duty in Poland.

On 17 December 2013, at the request of ENERGA-OPERATOR SA the President of the Energy Regulatory Office approved the tariff for electricity distribution services with effect from 1 January 2014. The tariff approved for 2014 assumes a 5.6% increase compared to the tariff applicable in 2013.

Payment of dividend by the Company for 2012

On 23 April 2013, the Ordinary General Meeting adopted a resolution to allocate PLN 496,881 thousand for a dividend payment to the Company's shareholder, that is PLN 0.10 per share (if we used for the calculation the number of shares after the reverse split carried out in September 2013, the divided per share would be PLN 1.20). The dividend was paid out of the net profit generated by the Company in 2012.

Ostrołęka C Project

In 2012 the ENERGA Group decided to suspend preparations for the construction of a coal unit in Ostrołęka. The reasons for suspending the project were, among others, difficulties in obtaining funding under the Project Finance formula and adverse conditions on the market of construction companies. In 2013 the Group was actively seeking for a partner interested in a joint implementation of the project or in a purchase thereof. Despite initial interest in participation in the project from a few prospective investors, the Group actually did not receive any satisfactory proposals. Currently the Group is considering alternative scenarios of further actions, including a reduction of the capacity of the unit in Ostrołęka, or a switch to a gas fuel.

Wind asset purchase agreement

On 19 February 2013, ENERGA Hydro Sp. z o.o. (currently: ENERGA Wytwarzanie Sp. z o.o.) signed a preliminary purchase agreement for up to 100% of the shares in the companies making up the on-shore wind assets of Dong Energy Wind Power A/S in Poland as part of a consortium with Polska Grupa Energetyczna SA ("PGE"). The transaction was finalized on 28 June 2013 after obtaining UOKiK's approval for the concentration. As a result of this transaction, ENERGA Hydro Sp. z o.o. acquired a wind farm in Karścino, Zachodniopomorskie voivodship, with an installed capacity of 51 MW and a portfolio of wind projects with a total planned capacity of approximately 252 MW.

On 26 February 2013, ENERGA Hydro, also in a consortium with PGE, concluded a preliminary agreement on purchase of shares in Iberdrola Renewables Polska Sp. z o.o. (currently: EPW Energia Sp. z o.o.). After fulfillment of the conditions precedent the transaction was finalized on 31 July 2013. After fulfillment of the conditions precedent the transaction was finalized on 31 July 2013. As a result of the transaction ENERGA Hydro became the owner of 67.3% of the shares of the acquired company. After splitting the company the ENERGA Group will become the sole owner of wind farms: Karścino with a capacity of 90 MW and Bystra with a capacity of 24 MW and a portfolio of wind projects.

The above transactions are in pursuit of the ENERGA Group's strategic objective of making greater use of environmentally friendly energy sources. The completion of such projects – in line with the Group's investment strategy – will strengthen the position of the ENERGA Group in the RES energy market.

Heating asset purchase agreement

On 9 April 2013, a subsidiary, ENERGA Kogeneracja Sp. z o.o., and the City of Kalisz concluded an agreement on the purchase of 90% shares in Ciepło Kaliskie Sp. z o.o., company managing the integrated heating system in Kalisz and holding the position of a natural monopolist in this market. The acquisition of shares in Ciepło Kaliskie marked the beginning of preparations for follow-up action involving the construction of new cogeneration units in the ENERGA Group's Elektrociepłownia Kalisz. The Group's investment plans also include the modernization of Ciepło Kaliskie under the project entitled "Reconstruction of the municipal heating system aimed at conserving energy and protecting the air in the city of Kalisz".

Growth Strategy of the ENERGA Group for 2013–2020

The ENERGA SA Management Board on an on-going basis reviews and adapts the strategy to the current market conditions and other factors important for the industry. After verification of the strategy presented in current report no. 20/2013 on 13 September 2013, the Company replaced the previous versions of the strategy in their entirety.

The Company's overriding objective is to create value for shareholders and other stakeholders through growth of the Group as an efficient and innovative entity which flexibly adapts to market conditions, maintains a profile of activity with a low business risk and safe capital structure, becoming an increasingly reliable distributor, preferred supplier and environment-friendly generator of electricity.

The strategy of the ENERGA Group 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: (i) growth of distribution activity, (ii) minimizing environmental impact, and (iii) constant concentration on customer service.

In distribution activity the priority will be to enhance profitability, improve the quality and reliability of services and further connection of new customers and renewable sources of energy to our grid. These objectives will be attained in particular through modernization and expansion of the distribution grid and improvement of operation efficiency.

The ENERGA Group will reduce its impact on the natural environment thanks to growth of environment-friendly energy sources, including investments in renewable energy sources and support of efficient energy consumption. To this effect the Group uses tested technologies and processes reducing greenhouse gas emissions in the generation and distribution process.

The ENERGA Group's constant concentration on customer service will enable us to improve their satisfaction with the quality of services and maintain strong long-term ties. The Group will provide its customers with high quality products and services delivered in a reliable and cost-efficient manner.

One of the core tools for execution of the strategy is the Investment Program. The Group carries out careful financial analyses to ensure that its investment projects reach and exceed the minimum thresholds of the internal rate of return on investments. ENERGA evaluates and undertakes investments and manages business risk in a prudent manner, while observing safety of the capital structure. Currently the Group pursues the following financial objectives: (i) maintaining the credit ratings on the investment level; (ii) limiting the amount of expenditures on individual projects to a figure no higher than the Group's annual EBITDA; and (iii) maintaining a safe level of financial ratios – our objective is to maintain the Net Debt/EBITDA ratio at no more than 2.5.

Long-term Strategic Investments Program (WPIS)

On 20 September 2013, the ENERGA SA Supervisory Board approved the Long-term Strategic Investments Program ("WPIS") of the ENERGA Group for 2013-2021 (second edition). WPIS has the status of an executive document regulating the planning activity in the area of investments in the ENERGA Group. The investments program for 2013-2021 encompasses potential investments worth approx. PLN 19.7 billion and focuses on the Distribution Segment and production of electricity from RES, which makes the Group stand out among other large Polish energy groups. Approx. PLN 15.9 billion of this amount are investments in projects perceived as important from the standpoint of execution of the Strategy, which depend on external factors such as, regulatory changes or market conditions only to a small extent. These are in most cases projects stimulating increase of efficiency of the Distribution Segment and the Group's production capacity regarding RES and co-generation, with the total expenditures on distribution of approx. PLN 12.5 billion, on RES – approx. PLN 1.7 billion, on the baseload power plant and CHP – approx. PLN 1.1 billion, and other investments – approx. PLN 0.6 billion. The remaining projects with the expenditures of approx. PLN 3.8 billion, with an 82% share of RES, comprise optional investment projects depending on the market and regulatory conditions, whose implementation in each case will depend on the results of feasibility studies and analyses of cost-efficiency and risks associated with their execution. Thus one cannot rule out that only some or none of them will be executed.

The investment program broken down into principal and additional projects

	Distribution	Generation			Sales and others	Total
		RES	Baseload	CHP		
	(in millions of PLN)					
Principal investment projects	12,463	1,742*	498	620	580	15,903
Additional investment projects	-	3,105	234	452	-	3,791

** Takes into account acquisition of wind assets from Dong Energy and Iberdrola.*

Execution of the investment program

In 2013, all members of the ENERGA Group incurred capital expenditures of PLN 2,802 million. The biggest share in this amount went to the expenditures of the Distribution Segment, which totaled PLN 1,397 m (nearly 50% of total expenditures). Significant expenditures were also incurred on the construction of a heat source for the city of Ostrołęka (PLN 85.6 million), the construction of a biomass-fired unit in the Elbląg Cogeneration Plant ("EC Elbląg") (PLN 63.2 million) and the modernization of the Żydowo Pumped Storage Plant ("ESP Żydowo") (PLN 26.5 million).

In 2013, the ENERGA Group executed, among other things, the following investment projects:

- Expansion and modernization of the distribution network, including implementation of the Smart Grid.

- Construction of a biomass unit at CHP plant in Elbląg (EC Elbląg) with the capacity of 25 MWe and 30 MWt. All installation works for the unit have been completed. At present, functional and operation tests of the installations and equipment are under way, and after their positive completion the trial and adjustment run of the entire unit will take place. The commissioning of the unit is planned for 2014.
- Addition of heat generation to the power units in Elektrownia Ostrołęka B. The investment is at the construction stage. The commissioning of the new heat source is planned for 2014.
- Modernization of ESP Żydowo, including expansion of the power plant's generating capacity by 10 MWe. All modernization works have been completed on schedule. The commissioning of the last hydro unit took place on 2 October 2013. Currently underway is the final financial settlement of the project.
- Construction of a ~20 MWe wind farm in Myślino. Preparations for commencement of the construction phase are currently under way. On 22 August 2013, a tender for delivery, installation and commissioning of wind turbines was announced. At the end of January, a preliminary selection was made of the supplier of turbines. The final confirmation of the selected proposal and the signing of the contract will take place following a formal and legal review of the proposal.
- Construction of a ~28 MWe wind farm in Drzewiany. The investment project is at the stage of obtaining the required permits and administrative decisions, and securing the title to the land. The commissioning of the farm is planned for 2015.
- Construction of a photovoltaic power plant in Czerników with the capacity of approx. Currently the work associated with preparation of the investment project for execution is under way. On 27 November 2013, a tender procedure was announced for the selection of the Contractor. The initiative is executed as part of the Smart Toruń project.
- Construction of a photovoltaic power plant in Gdańsk with the capacity of approx. Currently the work associated with preparation of the investment project for execution is under way. On 4 July 2013, a tender for the construction of a photovoltaic power plant with accompanying infrastructure was announced. It is planned that the winning bid will be selected in February 2014.
- On 2 October 2013, ENERGA SA completed the procedure to select the general contractor for the task under the name "Construction of a pilot co-generation unit in Żychlin, functionally connected with the concept of modernization of local heating plants for combined electricity and heat generation units". Work is currently underway on the preparation of all documentation required to start the construction phase of the project.
- Preparation of a project to build a combined cycle plant in Grudziądz with the capacity of approx. 500 MWe. The investment is at the stage of a tender to select the General Contractor. If the required economic prerequisites are satisfied and a decision is made to go ahead with the construction phase, the power plant can be commissioned in 2017.
- Preparation of a project to build a combined cycle power plant in Gdańsk with the capacity of approx. 500 MWe. The investment project is at the stage of preparation of the design documentation and obtaining the required permits and decisions. The application of the Combined Cycle Gas Turbine (CCGT) technology would minimize the negative environmental impact of electricity generation. The completion of the preparation stage for the construction project is scheduled for 2016.
- Preparation of a project to build a combined cycle unit in EC Elbląg with the capacity of ~115 MWe and 83 MWt. The unit is to replace the decommissioned hard coal-fired units. In August an agreement with the General Designer was signed. Currently the work associated with assessment and preparation of the investment project for execution is under way.
- Preparation of a design for construction of the second barrage on the Wisła together with a water power plant with the capacity of approx. 70 MWe The investment plan includes project preparation costs of PLN

150 million. The project will be profitable provided that the majority of hydro-engineering costs are covered with public funds. The execution of this project would not only increase RES capacities but would also reduce the risk of flooding in the Lower Vistula region. 76 MWe. Currently the work associated with obtaining the Environmental Decision is under way.

Assessment of the capacity to execute investment plans

Strategic investments and their financing are managed centrally at the level of ENERGA. On the basis of the analyses conducted, the Company's Management Board determined that the ENERGA Group was able to finance the current and future investment projects with funds generated from the operating activity and through obtaining debt financing.

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 in the perspective of at least one quarter of 2014:

- level of demand for electricity and heat,
- electricity prices at the wholesale and retail market,
- prices of property rights and URE's policy as regards the granting of property rights for biomass co-firing,
- prices of fuels used for production of electricity and heat, especially prices of hard coal and biomass,
- macroeconomic environment, in particular the level of interest rates and FX rates,
- availability and prices of CO_2 allowances,
- changes to the legal environment,
- weather and hydrometeorological conditions,
- outcomes of pending lawsuits.

In longer term, the external factors referred to above will also accelerate the implementation of the ENERGA Group's Investment Program for 2013-2021, which was described earlier.

Potential impact of the regulatory environment

A significant part of the ENERGA Group's business is regulated. The Group's operations are affected by a number of regulations, including the Energy Law, European regulations and international conventions and agreements on such issues as energy efficiency improvements, environmental protection and climate change (including CO_2 emissions) as well as support for specific energy generation technologies (especially based on RES and high-efficiency cogeneration). Furthermore, an important role will be played by regulations aiming at the development of a common European energy market and the construction of European electricity grids.

One of the key acts implementing EU legislation in Poland is the Energy Law together with the ensuing executive regulations. Amendments to the Act in question (the Act of 26 July 2013 Amending the Act Entitled the Energy Law and Other Acts, the so-called 'small 3-pack') came into force in September of last year. Currently, legislative work is underway on a package of three energy bills, i.e. the Energy Law, the Gas Law and the Renewable Energy Sources Act. The new regulations will replace the current Act and will implement into the national legal system the new regulations required by the EU. Also underway is work on the so-called Act on Transmission Corridors aimed at facilitating and accelerating the investment process associated with the construction of new transmission lines (including power lines). This regulation will have a special impact on the Distribution Segment in relation to the execution of the investment plan or the settlement of 'legacies' associated with existing transmission easements.

The Group's business is also affected by decisions made by the President of the Energy Regulatory Office (mainly in respect of the approval of tariffs and other regulatory duties) and other public administration authorities (e.g. the Office for Competition and Consumer Protection – UOKiK) as well as individual administrative decisions, interpretations and recommendations issued by these and other authorities with respect to the Group's business.

Information on material agreements and transactions

Material contracts

In its Information Policy implemented as part of Investor Relations (posted on the corporate website), ENERGA SA has adopted a significance threshold level of 10% of the Issuer's equity. Between 11 December 2013 and the date of this Report, the Company did not disclose the execution of any contracts of material importance in its current reports.

On 19 November 2013, an annex was signed to the long-term coal sales agreement entered into between ENERGA Elektrownie Ostrołęka SA and Lubelski Węgiel "Bogdanka" S.A. in which the parties agreed on the terms of supplies in 2013-2015 with Lubelski Węgiel "Bogdanka" S.A. acting as the sole supplier of coal to ENERGA Elektrownie Ostrołęka SA from 1 January 2014. The execution of the annex resulted in a change in the value of the agreement. No other changes were made to the terms of the agreement.

Credit and loan agreements

On 26 June 2013, ENERGA SA and its subsidiary ENERGA–OPERATOR SA and the European Bank for Reconstruction and Development (EBRD) concluded a loan agreement for PLN 800 m, i.e. exceeding 10% of the Issuer's equity, under which EBRD provided PLN 400 m, and the remainder will be taken up by a consortium of two commercial banks: PKO Bank Polski Spółka Akcyjna ("PKO BP") and ING Bank Śląski SA. Funds received under the agreement will be earmarked to finance the investment program of ENERGA–OPERATOR SA for 2012-2015, which assumes, among others, the development of the distribution network and improvement of its effectiveness, including the implementation of advanced meters, as a part of a new Smart Grid solution. The final maturity of the loan is 18 December 2024. The loan is unsecured and based on customary contractual clauses.

On 10 July 2013, ENERGA SA and ENERGA–OPERATOR signed a PLN 1 billion credit facility agreement with the European Investment Bank ("EIB"). The funds obtained from the Agreement will be earmarked for financing the aforementioned investment program of ENERGA-OPERATOR. The period of the loan availability expires on 10 May 2015. The maturity is 15 years from the date of drawing each tranche. The loan is unsecured and based on customary contractual clauses. The Agreement is governed by the Laws of England and Wales.

Other loan agreements are included in the Company's Consolidated Financial Statements in Note 34.5 – *Available external financing.*

Domestic bond issue program

On 21 September 2012, ENERGA SA concluded with Pekao SA and BRE Bank SA an issue agreement establishing a domestic bond issue program in the amount of PLN 4 billion. The first bond issue under the program in the amount of PLN 1 billion took place on 19 October 2012, with the redemption date of 18 October 2019. The issue was addressed to Polish institutional investors. The structure of the bond issue by investors was as follows: Open-End Pension Funds ("OFE") – 82%, insurance companies – 6% and Mutual Fund Companies ("TFI") – 12%. On 19 November 2012, the bonds were floated on one of the Catalyst markets – on the Alternative Trading System (ASO) platform which is operated by BondSpot S.A. On 20 December 2013, ENERGA SA filed with the Polish Financial Supervision Authority (KNF) a prospectus prepared in connection with the intention to apply for admission and floating of 100 thousand series A bearer bonds with par value of PLN 10 thousand each on the regulated market operated by BondSpot S.A. On 17 January 2014, the prospectus was approved by the

KNF, and on 29 January 2014 the bonds issued by ENERGA SA were floated on the regulated market operated by BondSpot S.A.

The ENERGA Group conducts private bond issues under the agreements concluded in 2012 between ENERGA SA and PKO BP. Detailed information about this matter are presented in note 34.5 *Available external financing*.

Eurobond issue program

On 19 March 2013, as part of the Eurobond Issue Program ("EMTN Program"), the first eurobond issue with the value of EUR 500 m was carried out by ENERGA Finance AB(publ), a 100% subsidiary of ENERGA SA. The EMTN Program was awarded a BBB investment rating from Fitch and Baa1 from Moody's Investors Service. The first issue under the program comprised 5,000 bonds of EUR 100 thousand each, with a 7-year maturity and with an annual coupon of 3.250%. The Eurobonds are listed at the Luxembourg exchange. The funds obtained from the issue of Eurobonds were earmarked for execution of the Investment Program and the operating expenditures.

Loans extended

On 21 and 25 March 2013, ENERGA Finance AB (publ), a subsidiary of ENERGA SA, granted ENERGA SA two loans for total amount of EUR 499,000 thousand. Loan agreements were concluded for the purpose of financing the capital and operating expenditures, and the funds came from the EUR 500,000 thousand Eurobonds issue concluded by ENERGA Finance AB (publ) on 19 March 2013. The maturity date of both loans is 18 March 2020. Interest of the loans was determined on the basis of fixed interest rate.

Guarantees and sureties given

Pursuant to the surety agreement of 15 November 2012, 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. As at 31 December 2013, ENERGA Finance AB (publ) conducted one issue of bonds worth EUR 500 m.

On 19 April 2013, ENERGA SA concluded with PGE Polska Grupa Energetyczna SA a surety agreement under which PGE extended a surety for the period from 30 April 2013 to 30 June 2016 for trade liabilities of ENERGA-OBRÓT SA associated with purchase of electricity, up to PLN 500 m. At the request of ENERGA SA, the surety agreement was terminated with effect from 1 February 2014.

Information on sureties and guarantees granted by ENERGA SA as at 31 December 2013

Date of granting the surety or guarantee	Date of validity 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 granting the surety or guarantee	Amount of the surety or guarantee (PLN 000s)	Amount of liability as at 31 December 2013 secured with a surety or guarantee (PLN 000s)[1)]
2012-11-15	2024-12-31	ENERGA Finance AB/[2]	bondholders	surety agreement/[3]	5,184,000	2,073,600
2013-04-19	2014-02-01	ENERGA-OBRÓT SA	PGE SA	surety	500,000	167,787
2011-11-08	2014-11-07	Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o.	PKO BP SA	surety – agreement to extend a guarantee	6,000	323
2012-03-19	2015-03-18	ENERGA Elektrownie Ostrołęka SA	PKO BP SA	surety – agreement to extend a guarantee	200	200
2012-12-17	2017-09-19	ENERGA Invest SA	PKO BP SA	surety – agreement to extend a guarantee	248	248
2013-04-22	2017-09-19	BREVA Sp. z o.o.	PKO BP SA	surety – agreement to extend a guarantee	2,091	2,091
2013-04-25	2017-09-19	ELEKTROWNIA CCGT GRUDZIĄDZ Sp. z o.o.	PKO BP SA	surety – agreement to extend a guarantee	6,300	6,254
x	**x**	**Total**	**x**	**x**	**5,698,839**	**2,250,503**

[1)] In cases where the amount of the liability secured by a surety exceeds the amount of the surety (where the surety forms part of the security and represents a fraction of the amount of the allowable credit limit), the amount of the surety is presented as the amount of the liability; [2)] On 15 November 2012, an EMTN (Euro Medium-Term Notes) issue program was established for the maximum amount of EUR 1,000,000,000. Under the EMTN Program, ENERGA Finance AB (publ), a company registered under the Swedish law, acting as a wholly-owned subsidiary of ENERGA SA may issue Eurobonds with maturities from 1 year to 10 years. Pursuant to the surety agreement of 15 November 2012, ENERGA SA undertook, unconditionally and irrevocably to guarantee liabilities of ENERGA Finance AB (publ) resulting from Eurobonds up to EUR 1,250,000,000 until 31 December 2024 inclusive. The Ministry of Finance approved the granting by ENERGA of a guarantee up to a total amount of EUR 1,000,000 valid until 31 December 2024 to secure the payment of liabilities arising from the Eurobonds issued by ENERGA Finance AB (publ) ("Guarantee for Eurobonds") (Letter from the Ministry of Finance dated 21 May 2012); [3/] The PLN equivalent of EUR 1,250,000,000, calculated by applying the average NBP exchange rate of 31 December 2013.

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

Transactions with related entities are made based on market prices of goods, products or services delivered resulting from their manufacturing costs. The relevant information is presented in Note 33 of the consolidated financial statements – *Information on related parties.*

HR and payroll situation

Headcount in the ENERGA Group

Average annual headcount and headcount at the end of the year with split into production and non-production employees in the ENERGA Group is presented in the following table.

Headcount in the ENERGA Group as at 31 December 2013

Segment	Headcount as at 31 December 2013 (persons)	including laborers as at 31 December 2013 (persons)	Headcount as at 31 December 2012 (persons)	including laborers as at 31 December 2012 (persons)	Average headcount as at 31 December 2013 (FTEs)	Average headcount as at 31 December 2012 (FTEs)
DISTRIBUTION	6,079	2,381	6,954	3,003	6,602	6,978
GENERATION	1,572	952	1,661	1,044	1,605	1,626
SALES	1,285	155	1,425	155	1,429	1,453
SERVICES	622	18	681	23	657	667
OTHER	226	43	288	77	253	325
TOTAL	**9,784**	**3,549**	**11,009**	**4,302**	**10,546***	**11,049**

** Average headcount excluding unpaid, parental or rehabilitation leave.*

As at the end of 2013, the ENERGA Group employed 9,784 persons. Compared to the end of 2012, the headcount decreased by 1,225 persons or approx. The decrease in headcount occurred in all business segments. The scale of headcount reduction was the largest in the electricity distribution segment (down by 875 persons) and in the sales segment (down by 140 persons). The main reason for this decrease was a continuation the Group's restructuring activities. The programs and rules for individual departures have been established in connection with the social agreement of 19 July 2007 pertaining to securing employee rights and interests in the process of consolidation and restructuring of the Group ("Social Agreement") under which employees received, among other things, a guarantee of employment until 31 July 2017.

In accordance with the Social Agreement, which is effective in most of the Group companies, termination of the employment relationship with mutual consent and payment of a compensation is possible only on the rules defined in the voluntary departure program agreed between the Group's employers and the trade unions being parties to the Social Agreement. The foregoing does not rule out, in the absence of an appropriate arrangement, of the creation of voluntary redundancy options offered to employees by employers unilaterally defining the terms of individual resignations or based on terms agreed with interested employees on an individual basis. All the above voluntary departure options were exercised in the Group. Wherever possible, voluntary departure plans were agreed on with trade unions, and in other cases voluntary departure options were offered to employees in accordance with the provisions of law or individual arrangements were made. The terms of voluntary departures are not the same in all companies of the Group and the rules for calculating benefits paid to employees due to their termination of employment relationships depend, among others, on the average salary paid by the relevant employer. In most cases, benefits associated with the termination of employment contracts may be paid in parts (installments).

A total of nearly 2,800 employees benefited in 2010-2013 from the possibility of termination of employment contracts under the existing rules of voluntary departures or individual arrangements, and the total costs incurred by us for this purpose in this period amounted to approx. PLN 422 m (net of the dissolution of actuarial provisions for employee benefits related to persons taking advantage of voluntary departure plans).

Remuneration systems

In the ENERGA Group, the remuneration system is decentralized and diversified. It is regulated, in addition to the Labor Code, the Company Collective Bargaining Agreements and the Remuneration Bylaws, by the Multi-Company Collective Bargaining Agreement for Employees of the Utilities Sector signed on 13 May 1993 and the Social Contracts entered into with trade unions.

In 2013, there were no significant changes in the remuneration system of any company of the ENERGA Group. The average remuneration increased by 5.7%.

Detailed information on the average monthly remuneration in the ENERGA Group companies broken down by segment is presented in the following table.

Average monthly remuneration in the ENERGA Group companies broken down by business segment

Segments	Average remuneration in 2013 (PLN)	Average remuneration in 2012 (PLN)	Change in average remuneration (%)
DISTRIBUTION	6,298	5,910	6.6
GENERATION	6,095	6,049	0.8
SALES	6,380	5,947	7.3
SERVICES	6,322	5,772	9.5
OTHER	9,435	8,843	6.7
TOTAL	**6,355**	**6,013**	**5.7**

Important information affecting the HR and payroll situation

Rules for setting and monitoring objectives in the ENERGA Group

Strategic objectives were set with Segment Leaders and Directors of the ENERGA SA Centers in the arrangement process in accordance with the ‘top to bottom’ principle which recognizes the Group’s strategic objectives as the basis for setting all objectives for managers covered by the system. The values of performance indicators measuring the achievement of the Group’s objectives were based on the expectations of ENERGA SA, budgetary data and ambitions of the Segments Leaders and the Directors of the Centers. These objectives form the basis for payment of bonuses to the ENERGA Group’s managers.

Employee benefits

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

- ‘Employee tariff’ for electricity, available to employees with one year of professional experience in the utilities sector
- The company social benefits fund authorizing to make charges in the amount three times of the basic charge defined in the Act on Company Social Benefits Fund ("ZFŚS")
- Holidays gift certificates issued to employees for the Easter Holiday, the Power Industry Employee's Day and Christmas
- The Group’s companies have in place their own Employee Pension Plans funded by the employer in an amount equal to 7% of the employees’ remunerations
- Additional Medical Care Program under the agreement concluded with AXA Życie Towarzystwo Ubezpieczeń SA. All employees have the right to receive additional medical benefits under the Financial Package funded by the employer

- Training organized by all employers of the ENERGA Group. 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. The primary areas of training activity in 2013 were: energy sector and distribution, professional/specialized courses, technical training, IT training, business training and training in the fields of finance, taxation and accounting. Additionally, co-funding was provided for employees engaged in specialized postgraduate or MBA studies. Continued in 2013 was a development program of the ENERGA Talents Academy – a series of specially prepared training courses and workshops aimed at developing competencies required for effective project team leadership. In several Group companies, the so-called Manager Academies were also conducted.

In companies covered by the Multi-Company Collective Bargaining Agreement, the following benefits, among others, are guaranteed as part of the remuneration and social packages:

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

Changes of the terms of remuneration

In 2013, there were no significant changes in the prevailing Company Collective Bargaining Agreements with respect to the terms of remuneration.

Group layoffs

In 2013, only one group layoff was effected in the ENERGA Group. A decision to terminate employment relationships with certain employees pursuant to the provisions of the Act of 13 March 2003 on Special Rules for Termination of Employment for Reasons Not Attributable to Employees was made in connection with the liquidation of Kongres Sp. z o.o. and the planned winding up of its business. In these circumstances, the liquidator entered into an agreement on collective dismissals with all trade unions operating in Kongres Sp. z o.o. in liquidation. In the period from 17 April to 31 May, arrangements were signed with employees terminating their employment contracts and notices of final termination were filed only in accordance with the provisions of Social Contract No. 4/1 – G8/2004. The executed group layoff involved 29 staff of Kongres Sp. z o.o.

Collective disputes

As at the end of 2013, there were 30 trade union organizations in ENERGA Group companies operating in more than one company. Nearly 6 thousand staff were members of the trade unions.

In 2013, trade unions sent a number of statements to individual employers (employer groups) containing requests for taking specific action. Such requests concerned raising wages and salaries in ENERGA Group companies, suspension of processes already underway or revocation of processes already completed, in particular processes involving movements of employees between various ENERGA Group employers, organizational changes, the sale of shares in ENERGA Group companies or liquidation of the employer's status. Some of the Group companies, acting as separate employers, are parties to collective bargaining disputes initiated by trade unions on 23 January 2013 on the issue of wage and salary increases and the Group's pending restructuring process. The trade unions demand to maintain the current level of employment, guarantee continued employment and secure the employees' interests acquired during the restructuring process, and also to determine the wage increases for 2013. Such disputes were reported in 8 employers of the Group, 5 of whom ended their disputes by signing collective bargaining agreements. The branches of ENERGA-OPERATOR in Elbląg, Gdańsk, Kalisz, Koszalin, Olsztyn, Słupsk and Toruń acting as employers are parties to a collective bargaining dispute initiated on 20 September 2013 by the trade union organizations operating in these branches. The dispute was initiated in connection with a restructuring process taking place in the Group and involving the transfer of certain enterprises of ENERGA-OPERATOR SA and Branches acting as employers, along with their staff, to new employers: EKOTRADE SERWIS FM Sp. z o.o. and DGP PROVIDER Sp. z o.o. The dispute concerns a request by the trade unions to accept joint and several liability for breaches of the Social Contract toward employees covered by the transfer to an extent reaching beyond the liability imposed on existing employers by the provisions of the Labor Code as well as demands of accession of companies providing Facility Management services to the Multi-Company Collective Bargaining Agreement for Employees of the Utilities Sector and to the Social Contract. ENERGA Elektrownie Ostrołęka SA acting as an employer is involved in a dispute initiated on 27 November 2012. Requests of the trade unions concerned the cessation of downsizing in ENERGA Elektrownie Ostrołęka SA, the cessation of infringements on trade union freedoms and the conduct of the restructuring process in accordance with the provisions of the Company Collective Bargaining Agreement, including, in particular, in accordance with the provisions of the Social Contract and the Guarantee Agreement forming an integral part of the Company Collective Bargaining Agreement. As a result of negotiations, on 20 March 2013 an agreement was signed ending a dispute with one of the trade unions that was a party to the dispute. The dispute is still underway with two other trade union organizations.

Moreover, on 8 April 2013, a dispute was ended by signing a collective bargaining agreement between ENERGA-OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o. and the trade union organizations operating in this company, initiated on 24 October 2012. The dispute concerned wage and salary increases in the company of this employer. In 2013, a dispute was underway in ENERGA Serwis Sp. z o.o., but it was also ended by signing a collective bargaining agreement.

Risk management in the ENERGA Group

Integrated Risk Management System in the ENERGA Group

Corporate risk management in the ENERGA Group is carried out by management boards of companies, the management staff and the employees of the Group, to identify potential events which may influence the organization and the ability to keep the risk within the prescribed limits, and to ensure the achievement of business objectives. It covers business processes, projects and initiatives implemented at the Group, Segment and Company levels. The conduct of the processes and the application of risk management principles are the responsibility of the ENERGA's Risk Department. Monitoring of the effectiveness of risk management is the responsibility of the Company's Audit Committee.

A uniform approach to risk management in the Group is ensured by the Integrated Risk Management System the shared Risk Management Policy defining the basic concepts, the roles and the rules of delegation and escalation of responsibility.

Integration of risk management with the processes, according to the authorizations and scopes of responsibility, ensures that the system will correspond to the degree of significance:

- Managerial, through defining by the Management Board of the acceptable level of risk on the basis of its profile and exposure
- Management, through management of risk within the set tolerance level, and exercise of management of control factors and mechanisms by the managers who are the owners of business processes whose objectives are affected by the given risks
- Employee, through usage of control mechanisms, such as internal procedures and regulations.

Within the framework of the system, risk inspections are carried out twice a year, as a result of which the risk exposure is updated, the control mechanisms are evaluated, and the acceptable risk level and action plans are validated.

Risk management process employs techniques and tools used in the analysis, evaluation and visualizations of risk, as well as acquisition, processing and archiving of information and internal and external communication. The risk model used in the Group classifies risks into four areas:

- Strategic, encompassing the risks associated with achievement of strategic objectives, including planning and execution of investments or corporate governance
- Financial, encompassing the risks associated with management of finances, including financial liquidity, solvency or reporting
- Operating, which includes the risks associated with achievement of operating objectives, including in relation to infrastructure, processes or resources
- Regulatory and legal, including the risks associated with compliance with the prevailing laws and regulations.

The principal risks in the individual areas include:

Strategic area

Reputation risk – associated with the company's credibility and the trust of key stakeholders, clients and the surroundings. In order to mitigate that risk, the Company builds relations with the surroundings through credibility of reporting and transparency of actions.

Risk of corporate governance – associated with the fact that Polish law does not contain comprehensive regulations on capital groups and the dependencies among the Group's organizational units, which would allow to achieve the assumed strategic and business objectives more effectively.

In 2013, exposure to risk of corporate governance was reduced through adoption of Organizational Governance of the ENERGA Group, unifying the formal and legal documents within the ENERGA Group, i.e. articles of association of the companies, management contracts, and dividing the Group into three main operating Segments: Generation, Distribution and Sales.

Investment risk – tied to investment priorities, incorrect planning assumptions and central coordination and management of investments in the Group. Strategic investments executed by the Group are focused on the development of electricity grids and the improvement and modernization of generation capacity. In connection with the introduced and planned amendments to the legal regulations governing the energy market, changes in energy commodity prices and the situation in the global financial markets affecting interest rates and exchange rates, there is a risk that the expected financial performance parameters of the planned and pending investments may not be achieved.

In order to mitigate that risk, the tools allowing multi-scenario planning and management of investment projects are used.

Finance area

Risk of current 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. Due to centralization of the debt-related activity in ENERGA SA, this entity conducts ongoing monitoring of fulfillment of the covenants and their forecasts in long-term periods, which makes it possible to define the Group's capability to incur debt, determines its investment capacity and affects its ability to pay liabilities on time in longer time horizon.

As at 31 December 2013, the current assets to current liabilities (financial liquidity) ratio was 1.76, which means that the Group is able to pay liabilities on time and that it efficiently manages its financial liquidity.

Risk of insolvency – associated with the possibility of losing the ability to pay liabilities in long time horizon. The main factors increasing the significance of this risk result from unfavorable changes in the value and structure of the Group's assets, the level and structure of non-current liabilities, and the level of obligatory capital expenditures.

At the Group level, risk is managed through centralization of debt activity in ENERGA SA and usage of joint Group's Financial Policy, monitoring, regular updating and testing of the Group's long-term financial model from the standpoint of maintaining the investment rating and the required levels of covenants, planning and regular reporting of liquidity of the main Group companies, and diversification of markets from which the financing is obtained.

As at 31 December 2013, the ENERGA Group's net debt-to-EBITDA ratio, which determines the degree of solvency, was 1.49, which means that the Group is able to pay liabilities in long time horizon. The ENERGA Group's ability to obtain non-current debt financing is confirmed by its ratings.

Currency risk – associated with incurring and servicing ENERGA Group's debt liabilities in foreign currencies, mostly under the EMTN Eurobond Issue Program. Additionally, selected Group entities had foreign currency surpluses resulting from their operating activity or debt issues.

As at 31 December 2013, Eurobonds with a total par value of EUR 500 m have been issued.

The Group monitors the currency risk and manages it primarily through implementation of Hedge Accounting and CCIRS transactions.

Credit risk is associated with the possibility of non-performance of obligations toward the Group by its counterparties and is managed by assessments of counterparty credibility, transaction limits and various forms of security.

Credit risk management involves activities aimed at the identification, measurement and mitigation of the risk of customer default, including the assessment of customer credibility and, if necessary, the obtaining of security, and relates primarily to customers in the electricity market. On the retail market, potential customers are assessed before the establishment of cooperation and current customers are assessed regularly once a quarter. On the wholesale market, assessment of credibility allows the identification of payment and delivery risks. The value of exposure on the risk of transactions executed within the counterparty limits is subject to daily monitoring.

Interest rate risk – exposure of the ENERGA Group to the risk of market interest rate fluctuations is related to current or future non-current debt. According to the policy applicable to this case, risk of variation in interest rates is mitigated by maintaining a portion of debt with fixed interest rate.

As at 31 December 2013, 39% of the Group's financial debt (by par value) earned a fixed interest rate.

In connection with implementation of hedge accounting by the Group, it also identifies interest rate risk related to the concluded CCIRS hedging transaction. Changes in pricing related to changes of future interest rates for EUR and PLN are posted to other comprehensive income and do not encumber the Group's results (its results are encumbered only by the difference between the interest accrued according to fixed interest rate for PLN and EUR).

Operating area

Risk of security of information and IT systems – related to reliability and functionality of the IT systems used by the Group, and the security of data gathered in them.

Significant factors of that risk may include unauthorized actions aiming at breaching the security of IT systems, natural disasters, acts of terror and other incidents which may result in interruptions of power supply to the Group's infrastructure.

In order to mitigate that risk, the functioning of ICT applications and infrastructure is monitored on an ongoing basis, along with the quality, architecture, efficiency and correctness of operation of IT systems and services. Internal organizational solutions were also implemented, which provide user rights management in the systems, access control and supervision over the systems, as well as internal regulations on safety and security of information.

Because the power industry is strongly dependent on the IT systems, and these systems gather and process large volumes of data, this risk is very significant, however, in 2013 the control mechanisms in place prevented the breach of ICT security in the ENERGA Group.

Risk of losses due to business activity or unexpected events – associated with a number of hazards, in particular breakdowns, disasters and other events, including those of a force majeure nature.

This risk is hedged by insurance agreements covering, among other risks, destruction of property, loss of revenues or profits and third party liability, however there are areas in the Group not covered by insurance, for instance due to uninsurability of certain risks or partial insurability resulting from the accepted limits of liability.

Regulatory and legal area

Risk of regulatory environment – related to the impact of the regulatory environment on ENERGA Group's functioning and financial performance.

Risk mitigation is carried out within the framework of the Group's Team on Power Regulation composed of the representatives of ENERGA SA and Segment Leaders. The team, on behalf of the ENERGA Group, analyzes new legislation, prepares proposed amendments and participates in the legislative process.

Additionally, ENERGA Group representatives participate in the work of industry associations (PKEE, PTPiREE, TOE, PSEW, TGPE) aimed at consulting on draft legislation and regulations pertaining to the electricity market.

Significant systemic risk factors

Due to the specific market nature of its business, the ENERGA Group pays special attention to the monitoring of risks determined by external factors over which the Group has no or only limited influence.

Macroeconomic risks

The ENERGA Group's financial results are to a large extent dependent on the macroeconomic situation of Poland, the region and the world economy. In particular, the Group's operations are affected by such factors as the level of and changes in GDP, the volume of industrial production, the inflation rate, the exchange rates, the interest rates, the yields of State Treasury bonds, the fuel prices, the unemployment rate, the amount of and anticipated changes in the average remuneration and the country's fiscal and monetary policies.

In 2013, significant macroeconomic risk factors included a record low inflation rate and the accompanying low level of market interest rates followed by signs of economic revival and recovery from the crisis.

Market risks

Market risk is determined predominantly by the level of and changes in demand for electricity and heat as well as their prices.

The level of demand is affected in particular by weather conditions, the situation of enterprises, the level of consumer affluence, the energy efficiency in the economy and the prices of electricity and heat. In turn, the prices of electricity and heat depend on the prices of fuels burnt to generate electricity and heat, transportation costs, taxes, labor costs, laws regulating the utilities sector and environmental protection issues and the level of interest rates, exchange rates and other factors.

Furthermore, the absence of a liquid market for financial instruments related to trade in electricity on the Polish market limits the ability to hedge the Group against market risk.

In 2013, an important market risk factor was the price of electricity on the wholesale market and increasing competition.

Regulatory risks

The high degree of the economy's dependence on electricity and the need to adapt national legislation to EU regulations implies frequent and significant changes concerning, in particular, the structure and model of operation of the national electricity market, its support mechanisms, the principles of setting the electricity prices, the availability and cost of fuels for electricity generation or environmental protection regulations. Thus, the main regulatory risk factors affecting the utilities sector are the high degree of market regulation, the volatility, vagueness and ambiguity of laws and dependence on decisions made by regulatory authorities.

In 2013, an important regulatory risk factor was the uncertainty about changes in the energy market model, support mechanisms for energy generated from renewable sources and in cogeneration, regulations pertaining to CO_2 allowances and the extent of the tariff approval duty.

Random incident risks

The ENERGA Group's business, in particular in the area of generation and distribution of electricity and heat, is exposed to the occurrence of breakdowns caused by, among other factors, weather anomalies, sudden changes in weather conditions, natural disasters, acts of theft or devastation, terrorist attacks or other events of a force majeure nature that may result in the suspension of fuel supplies, a decrease in the volume of generated electricity, sudden changes in demand for electricity or heat or disruptions in the operation of distribution equipment.

In 2013, significant factors of this risk included hurricane Xavier accompanied heavy snowfall.

ANALYSIS OF THE FINANCIAL AND PROPERTY SITUATION OF THE ENERGA GROUP

Rules for drawing up the consolidated annual financial statements

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives.

All figures, unless indicated otherwise, are expressed in thousands of Polish zloty. Any differences between the totals and the sums of their components are due to rounding.

The consolidated financial statements have been prepared 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.

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

Consolidated statement of profit or loss

PLN 000s	2013	2012	Change	Change (%)
Sales revenue	**11,429,249**	**11,176,799**	**252,450**	**2%**
Cost of sales	(9,455,472)	(9,482,447)	26,975	0%
Gross profit	**1,973,777**	**1,694,352**	**279,425**	**16%**
Other operating income	155,718	134,921	20,797	15%
Selling and distribution expenses	(294,321)	(308,153)	13,832	4%
General and administrative expenses	(412,147)	(376,521)	(35,626)	-9%
Other operating expenses	(228,193)	(238,592)	10,399	4%
Operating profit	**1,194,834**	**906,007**	**288,827**	**32%**
Result on financial activity	(171,886)	(279,888)	108,002	39%
Share of profit (loss) of associates	(582)	214	(796)	-372%
Profit before tax	**1,022,366**	**626,333**	**396,033**	**63%**
Income tax	(273,748)	(166,548)	(107,200)	-64%
Discontinued operations and non-current assets classified as held for sale	(5,640)	(3,365)	(2,275)	-68%
Net profit for the period	**742,978**	**456,420**	**286,558**	**63%**
EBITDA	**1,965,469**	**1,629,246**	**336,223**	**21%**

The Group's revenues in 2013 were PLN 11,429 m which compared to the same period of the previous year represents an increase of approx. PLN 252 m, or 2%. The Distribution Segment and the Generation Segment recorded an increase in revenues, while in the Sales Segment revenues decreased in the same period. The increase in revenues in the Distribution Segment was predominantly due to the new higher distribution tariff approved in 2013 by the President of the Energy Regulatory Office. In the Generation Segment, growth in revenues was driven by the favorable hydrometeorological conditions in 2013 and the acquisition of wind generation assets.

The lower cost of sales was primarily the result of lower fees for the transmission and transit of electricity, lower costs of electricity purchased to cover grid losses and lower costs of employee benefits resulting from the decrease in headcount in the ENERGA Group as at the end of 2013.

The Group's EBITDA increased by PLN 336 m (i.e. 21%) YoY and reached PLN 1,965 m. The increase in EBITDA was predominantly the result of improved performance of the Distribution and Generation Segments.

Accordingly, the net result of the ENERGA Group reached PLN 743 m, which was 63% more than the net profit earned in 2012.

The lower growth in net profit by PLN 50 m YoY compared to the higher YoY EBITDA resulted primarily from an increase in income tax by PLN 107 m and an increase in depreciation by PLN 47 m. This was partly offset by a positive change in net financial income (PLN +108 m) which was affected by the establishment of provisions in 2012 on account of the pending litigation against PSE S.A. in the amount of PLN 60 m and a partial dissolution of this provision in the amount of PLN 32 m in 2013 coupled with an increase by PLN 32 m in interest income from cash and cash equivalents and receivables.

EBITDA adjusted for significant non-recurring events

Adjusted EBITDA of the Group (PLN 000s)	2013	2012
EBITDA	**1,965,469**	**1,629,246**
Revaluation allowances for property, plant and equipment and intangible assets	149,974	123,951
Income and expenses related to the litigation between ENERGA-OPERATOR and PSE with PKN ORLEN S.A.	-	62,514
Employment restructuring costs (including due to voluntary departure programs and rules)	140,509	60,428
Dissolution of provisions for employee benefits for persons leaving the Group	(54,269)	(12,185)
Gains from bargain purchases arising from the acquisition of related companies (DONG)	(17,907)	-
Additional provision for CO_2 emissions pertaining to unobtained free allowances	35,800	-
Adjusted EBITDA	**2,219,576**	**1,863,954**

The Company defines and calculates EBITDA as operating profit /(loss) (calculated as net profit /(loss) on continuing operations for the financial period/year, adjusted by (i) income tax, (ii) the share of profit of the associate, (iii) financial income and (iv) financial costs) adjusted by 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.

Consolidated Statement of Financial Position

PLN 000s	2013	2012	Change	Change (%)
ASSETS				
Non-current assets				
Property, plant and equipment	11,772,576	10,000,916	1,771,660	18%
Investment property	15,189	17,060	(1,871)	-11%
Intangible assets	398,677	378,563	20,114	5%
Goodwill	144,973	28,627	116,346	406%

Deferred tax assets	245,086	209,870	35,216	17%
Hedging derivatives	13,017	-	13,017	-
Other non-current financial assets	17,727	30,668	(12,941)	-42%
Other non-current assets	42,291	31,692	10,599	33%
	12,649,536	**10,697,396**	**1,952,140**	**18%**
Current assets				
Inventories	302,043	376,928	(74,885)	-20%
Current tax receivables	43,427	37,493	5,934	16%
Trade receivables	1,469,543	1,520,668	(51,125)	-3%
Deposits	4,121	26,784	(22,663)	-85%
Other current financial assets	8,891	18,762	(9,871)	-53%
Cash and cash equivalents	2,352,305	2,069,058	283,247	14%
Other current assets	145,574	155,516	(9,942)	-6%
Assets classified as held for sale	109,116	10,168	98,948	973%
	4,435,020	**4,215,377**	**219,643**	**5%**
TOTAL ASSETS	**17,084,556**	**14,912,773**	**2,171,783**	**15%**
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the Parent				
Share capital	4,521,613	4,968,805	(447,192)	-9%
Foreign exchange gains arising on translation	(2,310)	48	(2,358)	-4913%
Reserve capital	447,192	-	447,192	-
Supplementary capital	521,490	471,235	50,255	11%
Cash flow hedge reserve	26,539	-	26,539	-
Retained earnings	2,519,955	2,231,138	288,817	13%
Non-controlling interest	**13,816**	**47,296**	**(33,480)**	**-71%**
Total equity	**8,048,295**	**7,718,522**	**329,773**	**4%**
Non-current liabilities				
Loans and borrowings	1,811,548	2,026,138	(214,590)	-11%
Bonds issued	3,119,453	1,079,219	2,040,234	189%
Non-current provisions	549,499	710,786	(161,287)	-23%
Deferred tax liabilities	544,001	519,686	24,315	5%
Deferred income and non-current grants	489,234	456,010	33,224	7%
Other non-current financial liabilities	4,873	9,010	(4,137)	-46%
Other non-current liabilities	1,406	613	793	129%
	6,520,014	**4,801,462**	**1,718,552**	**36%**
Current liabilities				
Trade payables	889,902	710,651	179,251	25%
Other financial liabilities	234,725	170,488	64,237	38%
Current loans and borrowings	274,177	389,639	(115,462)	-30%
Bonds issued	70,584	-	70,584	-
Income tax liabilities	6,838	34,662	(27,824)	-80%
Deferred income and government grants	32,048	28,933	3,115	11%
Accruals	126,813	116,897	9,916	8%

Provisions	444,108	555,345	(111,237)	-20%
Other current liabilities	355,733	386,174	(30,441)	-8%
Liability related to assets classified as held for sale	81,319	-	81,319	-
	2,516,247	**2,392,789**	**123,458**	**5%**
Total liabilities	**9,036,261**	**7,194,251**	**1,842,010**	**26%**
TOTAL EQUITY AND LIABILITIES	**17,084,556**	**14,912,773**	**2,171,783**	**15%**

As at 31 December 2013, total assets of the ENERGA Group reached PLN 17,085 m and were PLN 2,172 m (15%) higher than on 31 December 2012.

The most significant change was recorded in property, plant and equipment, which increased by the aggregated amount of PLN 1,772 m (18%). This effect was driven by an increase in non-current assets due to capital expenditures in the Distribution Segment of PLN 1,397 m and the acquisition of wind assets from the DONG Group and of Ciepło Kaliskie for PLN 1,052 m, where the contribution was reduced by depreciation of PLN 771 m. These investments were financed with funds obtained from the issue of Eurobonds.

The increase in goodwill compared to the previous year was mainly due to the acquisition of shares in Iberdrola Renewables Polska Sp. z o.o. (currently EPW Energia Sp. z o.o.) As a result of this transaction, goodwill of PLN 105 m was recognized.

As assets held for sale in 2013, the Group presents the assets of its subsidiaries in respect of which steps have been taken to sell them with the intention of completing this process within the next 12 months. This applies mainly to seven subsidiaries operating in the area of support services provided to the distribution system operator (ENERGA-OPERATOR). Furthermore, in this category the Group presents part of the assets of the company holding hotel and recreational facilities.

In liabilities, the bonds issued item changed most radically from PLN 1,079 m (as at 31 December 2012) to PLN 3,190 m at the end of 2013 (i.e. by 196%), which was due to a EUR 500 m issue of Eurobonds in March 2013.

In turn, the balance of loans and borrowings (non-current and current) dropped by PLN 330 m YoY. This was primarily due to the repayment of loans to the following financial institutions: EBRD – PLN 117 m, EIB – PLN 60 m, Nordea – PLN 50 m, and the repayment of a revolving loan by ENERGA SA in the amount of PLN 124 m. Moreover, in the reporting period, the Group launched a tranche of PLN 50 m under the loan agreement with the EBRD for PLN 800 m (funds to finance ENERGA-OPERATOR's investment program).

The Group's equity increased by PLN 330 m, mainly due to the positive result for 2013. Moreover, the Company designated PLN 497 m to be distributed to shareholders as a dividend, which offset the positive result achieved in that period. On 9 September 2013, the Company registered the reverse split of shares, under which 12 shares with the par value of PLN 1 were consolidated into one share with a par value of PLN 12; the amount of the Company's share capital was not affected. Registered at the same time was a reduction in share capital to the amount of PLN 4,521,612,884.88, i.e. by PLN 447,192,483.12, by way of reducing the par value of shares to PLN 10.92 each.

As at 31 December 2013, the equity covered 47% of the Group's assets, while the same ratio at the end of 2012 was 52%. The Group's net debt increased by PLN 1,498 m (105%), reaching the level of PLN 2,923 m (net debt is calculated as the sum of accounts payable under loans and borrowings and long- and short-term debt securities less cash and cash equivalents).

The balance of current and non-current provisions decreased compared to the previous year by PLN 273 m predominantly as a result of a decrease in the provision for post-employment benefits by PLN 125 m (as a result of the decline in headcount and changes in actuarial assumptions), a decrease in the provision for litigation by PLN 99 m (partial dissolution and use of the provision for the litigation against PSE for a total of PLN 123 m) and a reduction in the provision for the duty to present certificates for redemption by PLN 94 m (the impact of lower prices of green certificates and the absence of a duty to redeem yellow or red certificates). This decrease was partly offset by an increase in the provision for liabilities arising from gas emissions by PLN 62 m as a result of the establishment of a provision for the total volume of allowances required for redemption in 2013.

Consolidated Cash Flow Statement

PLN 000s	2013	2012	Change	Change (%)
Net cash flow from operating activities	2,007,226	1,334,667	672,559	50%
Net cash flow from investing activities	(2,786,776)	(1,803,142)	(983,634)	-55%
Net cash flow from financing activities	1,100,890	742,307	358,583	48%
Net increase / (decrease) in cash and cash equivalents	321,340	273,832	47,508	17%
Cash and cash equivalents at the end of the period	2,350,713	2,029,373	321,340	16%

The ENERGA Group's balance of cash as at 31 December 2013 disclosed in the cash flow statement was PLN 2,351 m, up by approx. PLN 321 m (16%) from the end of 2012.

The total net cash flows from ENERGA Group's operating, investing and financing activities in 2013 were PLN 321 m, compared to PLN 274 m in 2012.

Cash flow from operating activities increased by PLN 637 m (50%) compared to the previous year.

Cash flow from investment activity was negative and lower compared to 2012 by PLN 984 m (55%), mainly due to expenditures on the acquisition of subsidiaries: Ciepło Kaliskie and wind assets from the DONG Group and Iberdrola (the total expenditures on the acquisition of subsidiaries in 2013 were PLN 1,216 m). The reduced expenditures towards property, plant and equipment and intangible assets had the opposite effect on the cash flows from investing activities (a decline of PLN 190 m, or 10%).

Cash flows from financing activity in 2013 were positive and stood at PLN 1,101 m, up by PLN 359 m compared to the previous year. Cash flows in 2013 were affected by the issue of the first tranche of Eurobonds in the amount of EUR 500 m, whereas in 2012 bonds worth PLN 1,066 m were issued and loans of PLN 739 m were contracted. Furthermore, in the reporting period, of significant impact on cash flows from financing activity were also the repayments of loans in the amount of PLN 404 m (to the EIB, EBRD and the revolving loan), which were much higher than in 2012 when they amounted to PLN 258 m.

The cash flows achieved by the ENERGA Group in the discussed area are typical for growth companies: positive cash flows from operating activities, negative from investing activities and positive from financing activities. The Group's liquidity is not under threat.

Structure of the annual consolidated statement of financial position

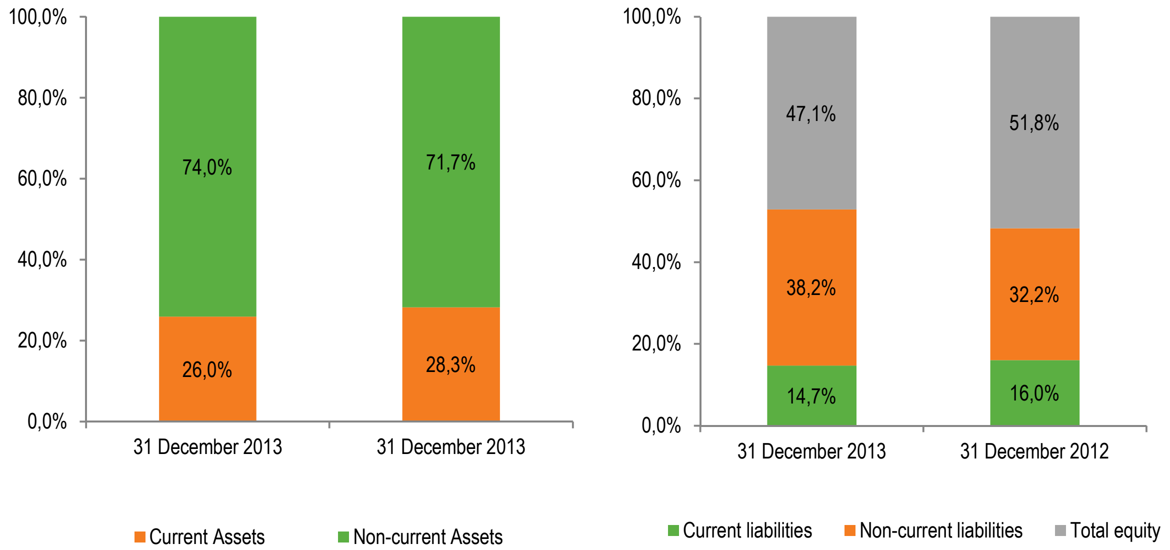
Structure of the annual consolidated statement of financial position

Consolidated Statement of Financial Position	As at 31 December 2013	As at 31 Dec 2012
ASSETS		
Non-current assets	74.0%	71.7%
Current assets	26.0%	28.3%
TOTAL ASSETS	100%	100%

Consolidated Statement of Financial Position	As at 31 December 2013	As at 31 Dec 2012
EQUITY AND LIABILITIES		
Equity attributable to shareholders in the parent company	47.0%	51.5%
Non-controlling interest	0.1%	0.3%
Total equity	47.1%	51.8%
Non-current liabilities	38.2%	32.2%
Current liabilities	14.7%	16.0%
Total liabilities	52.9%	48.2%
TOTAL EQUITY AND LIABILITIES	100.0%	100.0%
Financial liabilities*	30.9%	23.4%
Net financial liabilities	17.1%	9.6%
Net debt-to-EBITDA ratio	1.49	0.88
Current liquidity ratio	1.76	1.76

* *Calculated as the sum of liabilities on loans and borrowings and long- and short-term debt securities*

Fig. 22: Asset and liability structure



As at 31 December 2013, non-current assets represented 74% of total assets and current assets represented 26% of total assets, while at the end of the previous year they represented 72% and 28%, respectively.

In the structure of liabilities and equity, as at 31 December 2013, equity represented 47% compared to 52% as at the end of 2012. The remaining part of liabilities and equity were liabilities representing 53% compared to 48% as at the end of the previous year. In the structure of liabilities, financial liabilities represented the largest share – 31% and 23% as at the end of 2013 and 2012, respectively.

The ratio of net debt to EBITDA in 2013 was 1.49 compared to 0.88 in 2012, reflecting an increase in the Group's financial debt due to the implementation of the Investment Program.

The current ratio stayed at a safe level during this period.

Description of significant off-balance sheet items

Information in this respect is presented in section 'Granted guarantees and sureties' herein and their detailed description is provided in the consolidated financial statements in Note 38: *Contingent assets and liabilities*

Key operational data of the ENERGA Group

Sales of electricity by the Sales Segment outside the ENERGA Group

Sales of electricity by the Sales Segment outside the Group (in GWh)*	2013	2012	Change	Change (%)
Retail electricity sales	**18,248**	**20,482**	**(2,234)**	**-11%**
Electricity sales on the wholesale market	**10,866**	**5,434**	**5,432**	**100%**
Electricity sales to foreign customers	*259*	*217*	*42*	*19%*
Electricity sales to the balancing market	*823*	*537*	*286*	*53%*
Other wholesale	*9,784*	*4,681*	*5,103*	*109%*
Total sale of energy	**29,115**	**25,916**	**3,199**	**12%**

** Sales of electricity outside the Group are different from sales outside the Sales Segment. Sales outside the Group do not include sales of electricity to ENERGA-OPERATOR to cover grid losses, which is included in sales outside the Sales Segment. Furthermore, sales of electricity in both approaches do not include sales of electricity outside the Group by the generators.*

In 2013, the volume of electricity sold by the ENERGA Group decreased by approximately 11% (2.2 TWh) when compared to 2012. The decrease affected all tariff groups, with the most significant deviation recorded in tariff groups A and B. In terms of volume, sales to households (tariff G) in 2013 accounted for 29% of sales invoiced to end customers of ENERGA-OBRÓT (26% in the previous year). The decline in sales volumes in the distinct tariff groups was partially offset by an increase in the volume of electricity sold on the wholesale market. In this subsegment, the volume of sales increased by about 100% (5.4 TWh). The increase in the volume of sales of electricity on the wholesale market was achieved, among other factors, through the resale of surplus electricity resulting from lower demand generated by retail customers and an increase in sales to foreign customers.

Distribution of electricity, by tariff groups*

Distribution of electricity, by tariff groups* (in GWh)	2013	2012	Change	Change (%)
Tariff Group A (WN)	3,948	3,783	165	4%
Tariff Group B (SN)	6,829	6,654	175	3%
Tariff Group C (nN)	4,250	4,172	78	2%
Tariff Group G (nN)	5,418	5,450	-32	-1%
Total distribution of energy	**20,444**	**20,058**	**386**	**2%**

** Billed sales.*

In the entire 2013, the volume of supplied electricity was higher than in the previous year, by 2% on average. The increase in the average distribution rate was approximately 2% YoY.

SAIDI and SAIFI values

	SAIDI			SAIFI		
	unplanned	unplanned incl. catastrophic	planned	unplanned	unplanned incl. catastrophic	planned
	Number of minutes per customer in the relevant period			Disruptions per customer in the relevant period		
Year ended 31 December 2013	235.7	283.9	71.1	2.92	2.95	0.42
Year ended 31 December 2012	221.1	225.1	83.7	3.39	3.39	0.43
Change	14.6	58.8	(12.6)	(0.5)	(0.4)	0.0
Change (%)	7%	26%	(15%)	(14%)	(13%)	(2%)

As at the end of 2013, the ENERGA Group reached a level of SAIDI (planned and unplanned with catastrophic) higher than that of the previous year by 15%. The Group's SAIDI was largely affected by hurricane Xavier (121.1

minutes per customer). The value of SAIFI was lower than that of the previous year by 12% (the impact of hurricane Xavier of 0.33 disruptions per customer). It should be noted that the values of these indicators are much lower than in 2011. This is a result of the Group's consistent policy of investing in the modernization of the distribution grid.

Gross production of electricity in the ENERGA Group

Gross production of electricity (GWh)	2013	2012	Change	Change (%)
Power plants - coal-fired	2,910.6	2,564.4	346.2	14%
Power plants - biomass co-fired	688.6	540.8	147.8	27%
CHP plants - coal-fired	177.2	200.5	(23.3)	-12%
Biomass-fired CHP plants *	3.6	11.6	(8.0)	-69%
Power plants - hydro	1,008.0	733.0	275.0	38%
Pumped-storage plant	28.7	21.5	7.2	33%
Power plants - wind	150.7	0.0	150.7	-
Total production of electricity	**4,967.4**	**4,071.8**	**895.6**	**22%**
incl. renewable sources	*1,850.6*	*1,284.9*	*565.7*	*44%*

** Of which 0.3 GWh in 2013 and 0.5 GWh in 2012 was generated as part of tests of a new unit for biomass firing in ENERGA Kogeneracja which is not included in RES.*

During 2013, generating companies of the ENERGA Group produced approx. 896 GWh (22%) more electricity than the year before. The largest growth, by 38%, occurred in run-of-river power plants (good weather conditions caused the production growth of the Hydro Power Plant in Włocławek by 47%) and by 27% in biomass co-burning units (the year 2013 is the first full year of operation of the biomass co-burning boiler in ENERGA Elektrownie Ostrołęka SA). The largest increase in the volume of gross electricity production was recorded by coal-fired generating units.

Production of heat

Gross heat production (in TJ)	2013	2012	Change	Change (%)
ENERGA Kogeneracja Sp. z o.o.	1,999.4	2,010.6	(11.2)	-1%
ENERGA Elektrownie Ostrołęka S.A.	1,468.4	1,603.8	(135.4)	-8%
ENERGA Elektrociepłownia Kalisz S.A.	480.3	485.2	(4.9)	-1%
Total gross heat production	**3,948.1**	**4,099.6**	**(151.5)**	**-4%**

The low average temperature in the winter/spring season of 2012/2013 had a positive effect on the production of heat by ENERGA Group generators in 2013. Despite the above, the aggregated production of heat fell by approx. 152 TJ (4%) compared to the same period of the previous year. A decrease in heat production was recorded by all generating units, but the biggest difference was at Ostrołęka (-135 TJ, i.e. 8%) affected by changes in demand for reserve power services.

Volume and cost* of consumption of key fuels

Consumption of fuel	2013		2012		Change		Change (%)	
	Quantity	Cost (PLN m)	Quantity	Cost (PLN m)	Quantity	Cost	Quantity	Cost
Coal [thous. tons]	1,576.2	455.1	1,429.0	457.9	147.2	(2.8)	10%	-1%
Biomass [thous. tons]	454.7	198.0	403.4	186.3	51.3	11.7	13%	6%
Total fuel consumption		**653.1**		**644.2**		**8.9**		**1%**

** Including the cost of transportation.*

In the period under review, the ENERGA Group generators consumed approx. 147 thous. tons, or 10%, more of coal than in 2012. This was a result of an increase in electricity generated from coal by 12%. On the other hand, biomass consumption increased by approx. 51 thous. tons (13%). Despite the drop in the average prices of consumed fuels, the increase in the volume of consumption caused an increase in the cost of fuel consumption by the ENERGA Group's generators. In 2013, the cost of consumption of key fuels was higher by PLN 9 m (1%) than in all of 2012.

Financial results by operating segments

EBITDA of the ENERGA Group broken down by Segment

EBITDA (PLN 000s)	2013	2012	Change	Change (%)
DISTRIBUTION	1,560,888	1,217,978	342,910	28%
GENERATION	222,766	157,165	65,601	42%
Renewable Energy	*403,777*	*261,400*	142,377	54%
Baseload power plants	*(204,947)*	*(107,420)*	(97,527)	-91%
CHP	*25,100*	*4,194*	20,905	498%
Consolidation exclusions and adjustments in the segment	*(1,164)*	*(1,009)*	(155)	-15%
SALES	206,579	264,467	(57,888)	-22%
SERVICES	25,494	21,692	3,802	18%
OTHER and consolidation eliminations and adjustments	(50,258)	(32,056)	(18,202)	-57%
Total EBITDA	**1,965,469**	**1,629,247**	**336,222**	**21%**

The factor of the most significant impact on the improvement in the Distribution Segment's EBITDA was an increase in return on invested capital of PLN 131 m (18% YoY) and a higher depreciation included in the tariff (an increase by PLN 61 m, i.e. 12%). In the Generation Segment, a crucial role was played by favorable hydrometeorological conditions and the purchase of wind assets. In turn, the lower EBITDA in the Sales Segment was caused by a decrease in the average selling prices of electricity by approx. 10% coupled with a lower decrease in the average purchase price of electricity by approx. 7%

Electricity Distribution Segment

Results of the ENERGA Group's Distribution Segment

PLN 000s	2013	2012	Change	Change (%)
Revenues	3,796,411	3,684,311	112,100	3%
EBITDA	**1,560,888**	**1,217,978**	**342,910**	**28%**
of which depreciation:	640,380	607,680	*32,700*	5%
EBIT	920,508	610,298	310,210	51%
Net profit	612,012	320,070	291,942	91%
CAPEX	1,396,785	1,363,619	33,166	2%

PLN 000s	As at 31 December 2013	As at 31 December 2012	Change (PLN 000s)	Change (%)
Cash	606,098	715,429	(109,331)	-15%
Financial debt	2,917,002	3,058,363	(141,361)	-5%
Headcount at the end of the period (people)	6,079	6,954	(875)	-13%

During 2013, the electricity Distribution Segment contributed approx. 79% to ENERGA Group's EBITDA (approx. 75% in 2012).

In 2013 revenues of the electricity Distribution Segment were approx. 3% higher than than in the same period of the previous year. The higher revenues were driven by growing average distribution rate due to an increase in distribution tariffs and a higher volume of distributed electricity (an increase of almost 2%). Revenues from connection fees were PLN 95 m, or 12% less than in 2012.

EBITDA growth was 28% YoY. EBIT increased by PLN 310 m (51% YoY). The greatest contribution to the improvement in operating performance was provided by a PLN 131 m increase in return on invested capital (18% YoY) and higher depreciation included in the tariff (an increase by PLN 61 m, or 12%). The increase in return on invested capital was the result of an increase in the Regulatory Asset Base ("RAB") by PLN 2,016 m (impact on EBITDA of PLN 194 m) and a decrease in the weighted average cost of capital by approx. 0.7 percentage points (PLN -63 m contribution to the result). Additionally, the results for 2012 were lower due to the impact of a non-recurring event – recognition of a provision for the litigation against PSE S.A. of PLN 63 m (principal amount).

Net profit in 2013 was higher in annual terms by PLN 292 m. This was a consequence of a better operating result of the Segment and the result on financing activity, offset by a higher mandatory tax burden. A decrease in the loss on financing activity of PLN 104 m YoY resulted from the establishment of a provision in 2012 for the litigation against PSE S.A. in the amount of PLN 60 m (interest) and then the dissolution of the unused part of this provision in the reporting period (PLN 27 m).

The Distribution Segment's capital expenditures were greater than in the previous year by PLN 33 m and reached PLN 1,397 m.

Compared to the balance as at 31 December 2012, financial debt decreased by PLN 141 m as a result of the redemption of debt securities issued in previous years. Cash was 15% lower than at the end of 2012.

In 2013, the Distribution Segment continued the implementation of employment restructuring processes. Accordingly, headcount decreased by 875 persons compared to the previous year.

Generation Segment

Results of the ENERGA Group's Generation Segment

PLN 000s	2013	2012	Change	Change (%)
Revenues	1,549,364	1,511,518	37,846	3%
EBITDA	222,766	157,165	65,601	42%
of which depreciation:	*107,883*	*100,037*	*7,846*	*8%*
EBIT	114,883	57,128	57,755	101%
Net profit	67,469	23,293	44,176	190%
CAPEX	1,331,891	412,364	919,527	223%

PLN 000s	As at 31 December 2013	As at 31 December 2012	Change (PLN 000s)	Change (%)
Cash	385,833	396,600	(10,767)	-3%
Financial debt	1,555,834	378,167	1,177,667	311%
Headcount at the end of the period *(people)*	1,572	1,661	(89)	-5%

Generation Segment EBITDA

EBITDA (PLN 000s)	2013	2012	Change	Change (%)
Renewable Energy	403,777	261,400	142,377	54%
Baseload power plants	(204,947)	(107,420)	(97,527)	-91%
CHP	25,100	4,194	20,906	498%
Segment consolidation exclusions and adjustments	(1,164)	(1,009)	(155)	-15%
Total Generation	**222,766**	**157,165**	**65,601**	**42%**

Contribution of the Generation Segment on the overall level of the ENERGA Group's EBITDA was 11% in 2013, up from 10% in 2012.

The Segment's sales revenues were 3% higher compared to the previous year mainly due to an increase in the volume of gross production by the Segment's generating assets (by 16%[1]), which was possible especially due to favorable hydrometeorological conditions and the acquisition of generating wind assets. Among the adverse factors affecting the sales results of the Generation Segment in 2013 were primarily the decreases in the average selling prices of electricity coupled with a lower value of sales of electricity as a commodity compared to the previous year as well as the decreasing selling prices of property rights arising from certificates of origin.

Furthermore, ENERGA Elektrownie Ostrołęka and ENERGA Kogeneracja took into account the provision for CO_2 allowances of PLN 63 m, i.e. in an amount corresponding to the volumes of these companies' CO_2 emissions in 2013. This amount includes emission allowances worth PLN 36 m granted to these companies free of charge, because until 31 December 2013 the accounts of the Group's companies were not credited with any free CO_2 allowances arising from the published allocation and no pertinent regulations were adopted under which the transfer of such allowances might take place.

The increase in the volume of gross production of electricity from energy fuels (9% YoY in total for electricity and heat) caused an increase in the volume of consumption of energy fuels (coal and biomass). This translated into an increase in the cost of these fuels despite a drop in the average unit cost of consumption of key fuels by 9%.

[1] *The total volume of production calculated as the sum of the volumes of production of electricity and heat converted from GJ into MWh.*

Capital expenditures in the Segment were significantly larger during the reporting year compared to 2012 (by approx. PLN 920 m). These included an increase in expenditures on property, plant and equipment related to the purchase of wind farms and Ciepło Kaliskie in the amount of PLN 1,052 m.

The increase in financial debt in relation to the end of 2012 was mainly due to the issue of bonds by ENERGA Wytwarzanie (formerly ENERGA Hydro) in the amount of PLN 1,100 m to be used for the purchase of wind farms.

The lower headcount as at the end of 2013 compared to the previous year was due to significant reductions in headcount in the CHP and Baseload Power Plants Subsegments.

Renewable Energy Sources (RES) Subsegment

PLN 000s	2013	2012	Change	Change (%)
Revenues	545,124	351,591	193,533	55%
EBITDA	403,777	261,400	142,377	54%
of which depreciation:	45,120	31,865	13,255	42%
EBIT	358,657	229,535	129,122	56%
Net profit	262,923	190,670	72,253	38%
CAPEX	1,064,294	67,009	997,285	1,488%

PLN 000s	As at 31 December 2013	As at 31 December 2012	Change (PLN 000s)	Change (%)
Cash	304,081	246,300	57,781	23%
Financial debt	1,211,462	90,500	1,120,962	1,239%
Headcount at the end of the period (people)	279	268	11	4%

The impact of the RES Subsegment on the Generation Segment's total EBITDA in 2013 was 181% compared to 166% in 2012. This high share is the result of the negative EBITDA generated by the Baseload Power Plants Subsegment which suppressed EBITDA for the whole Generation Segment.

Revenues of the whole subsegment were higher by PLN 194 m compared to the previous year. This was associated in particular with higher sales of electricity from own generation due to more favorable hydrometeorological conditions for hydroelectric power plants (an increase in gross production by approx. 282 GWh, i.e. 37%) and the acquisition of wind farms in mid-2013. In the wake of the increased electricity production, revenues from the sale of property rights arising from certificates of origin also increased, but growth in volume was partly offset by a drop in the selling prices of these rights.

The above factors also contributed to the achievement of an increase in EBITDA by 54% in the RES Subsegment compared to the previous year. The increase in EBITDA was affected predominantly by an increase in the production of hydroelectric power plants which recorded EBITDA of PLN 365 m and the production of wind farms purchased in mid-2013 with EBITDA of PLN 41 m.

Capital expenditures in renewable energy sources were significantly greater than at the end of 2012, which resulted from an increase in spending on property, plant and equipment due to the purchase of wind farms for a total of PLN 1,013 m.

The increase in financial debt and the balance of cash compared to the end of 2012 resulted from the issue of bonds by ENERGA Wytwarzanie Sp. z o.o. (formerly ENERGA Hydro) in the amount of PLN 1,100 m to be used for the purchase of wind farms.

Headcount was higher by 11 persons. This entailed, among others, an expansion of the wind farm business and a takeover of the Leader's responsibilities for the Generation Segment.

Baseload Power Plants Subsegment

PLN 000s	2013	2012	Change	Change (%)
Revenues	889,654	1,038,456	(148,802)	-14%
EBITDA	(204,947)	(107,420)	(97,527)	-91%
of which depreciation:	50,466	60,163	(9,697)	-16%
EBIT	(255,413)	(167,583)	(87,830)	-52%
Net profit	(203,035)	(162,546)	(40,489)	-25%
CAPEX	132,929	212,654	(79,725)	-37%

PLN 000s	As at 31 December 2013	As at 31 December 2012	Change (PLN 000s)	Change (%)
Cash	62,736	61,195	1,541	3%
Financial debt	202,990	144,630	58,360	40%
Headcount at the end of the period *(people)*	939	946	(7)	-1%

The impact of the Baseload Power Plants subsegment on the Generation Segment's total EBITDA in 2013 was -92% compared to -68% in 2012. The negative EBITDA generated by this subsegment in the most recent two years was primarily the result of non-recurring events such as impairment charges to property, plant and equipment (in 2013, such charges amounted to PLN 152 m compared to PLN 123 m in 2012 – a description of the basis for a decrease in the recoverable amount of property, plant and equipment of the Generation Segment companies and the impairment test performed is presented in Note 13 to the Consolidated Financial Statements of the ENERGA Group for 2013).

The PLN 67 m decrease in EBITDA (net of the impact of impairment charges to non-current assets) of the System Power Plants subsegment in 2013 compared to the previous year was primarily due to a 14% drop in the subsegment's sales, which was the result of a decline in the average selling price of electricity by ENERGA Elektrownie Ostrołęka by 11% and a decrease in the market price of green certificates. The sales volume remained at a similar level to that of the previous year (down by 1% YoY), yet the structure of sales changed. The volume of sales in the balancing market also decreased due to the low selling prices of electricity in this market coupled with an increase in forced sales of electricity by 44% resulting from an increase in the minimum technical requirement for the operation of units in power plant B. On the cost side, there was a decrease in the cost of electricity purchased for resale by approx. PLN 121 m due to changes in the structure of sales and a fall in trading volumes in the balancing market. The costs of consumption of key fuels remained at a similar level compared to the previous year (an increase by 3%), because a significant increase in the production volume (by 12%)[2] was offset by a drop in the unit cost of consumption (in the case of coal, this drop was as much as 10%). Furthermore, ENERGA Elektrownie Ostrołęka took into account the provision for CO_2 emissions in the amount of PLN 57 m, i.e. the amount corresponding to the volume of the company's CO_2 emissions in 2013. This amount includes emission allowances worth PLN 32 m granted to this company free of charge, because until 31 December 2013 the company's account was not credited with any free CO_2 allowances arising from the published allocation and no pertinent regulations were adopted under which the transfer of such allowances might take place. The value of capital expenditures decreased by approx. PLN 80 m in 2013 due to the decision to suspend the power plant C construction project in 2012 at Elektrownia Ostrołęka. Furthermore, in 2012, a project was launched aimed at enabling heat generation in Ostrołęka's power plant B, to be completed in March 2014.

[2] *The total volume of production calculated as the sum of the volumes of production of electricity and heat converted from GJ into MWh.*

CHP Subsegment

PLN 000s	2013	2012	Change	Change (%)
Revenues	166,115	157,614	8,501	5%
EBITDA	25,100	4,194	20,906	498%
of which depreciation:	12,439	8,136	4,303	53%
EBIT	12,661	(3,941)	16,602	421%
Net profit	8,599	(4,058)	12,657	312%
CAPEX	137,548	135,020	2,528	2%

PLN 000s	As at 31 December 2013	As at 31 December 2012	Change (PLN 000s)	Change (%)
Cash	19,017	89,104	(70,087)	-79%
Financial debt	141,382	143,037	(1,655)	-1%
Headcount at the end of the period *(people)*	354	447	(93)	-21%

In 2013, the CHP subsegment contributed approx. 11% of the Generation Segment's EBITDA compared to 3% in the previous year.

The CHP subsegment's sales were up PLN 8.5 m compared to 2012. This increase was due, in particular, to the approx. PLN 3.2 per GJ increase in the average selling price of heat which, coupled with a volume of sales similar to that of the previous year, generated approx. PLN 7 m worth of additional sales of thermal energy. An additional factor which contributed to the improvement of the results of this subsegment was an increase in the value of sales of thermal energy distribution services coupled with additional revenues resulting from the acquisition of Ciepło Kaliskie in April 2013.

The increase in the CHP subsegment's EBITDA was also affected by a reduction in the cost of fuel consumption (PLN 7 m) and compensation due for a delay in the delivery of biomass-fired unit BB20 (PLN 10 m) in Elbląg.

Moreover, ENERGA Kogeneracja took into account the provision for CO_2 emissions of PLN 6 m, i.e. in an amount corresponding to the volumes of this company's CO_2 emissions in 2013. This amount includes emission allowances worth PLN 4 m granted to this company free of charge, because until 31 December 2013 the company's account was not credited with any free CO_2 allowances arising from the published allocation and no pertinent regulations were adopted under which the transfer of such allowances might take place.

The fall in headcount in 2013 was predominantly due to 26 persons taking advantage of voluntary redundancy programs (in ENERGA Kogeneracja and ENERGA OPEC) and the transfer, in 2013, of repair services (80 people) from the CHP Subsegment to the System Power Plants Subsegment.

Sales Segment

Results of the ENERGA Group's Sales Segment

PLN 000s	2013	2012	Change	Change (%)
Revenues	7,106,555	7,178,634	(72,079)	-1%
EBITDA	**206,579**	**264,467**	**(57,888)**	-22%
of which depreciation:	*26,631*	*24,562*	*2,069*	8%
EBIT	179,948	239,905	(59,957)	-25%
Net profit	170,077	191,771	(21,694)	-11%
CAPEX	42,163	30,407	11,756	39%

PLN 000s	As at 31 December 2013	As at 31 December 2012	Change (PLN 000s)	Change (%)
Cash	452,394	246,150	206,244	84%
Financial debt	1,768	2,365	(597)	-25%
Headcount at the end of the period (people)	1,285	1,425	(140)	-10%

In 2013, the Sales Segment contributed approx. 11% of the ENERGA Group's EBITDA compared to 16% in the previous year.

The Sales Segment's revenues were lower than in 2012 and stood at PLN 7,107 m. In 2013, the volume of electricity sold by the Sales Segment to end users decreased by approximately 11% (2.2 TWh) when compared to the previous year. The decline affected all the tariff groups, while the most significant deviation occurred within tariff groups A and B. The decline in sales volumes within the tariff groups was partially offset by the increasing quantities of energy sold on the wholesale market. In this market, the Sales Segment recorded an increase in the volume of sales by approx. 64% (5.0 TWh), including sales of electricity to ENERGA-OPERATOR to cover grid losses within the Capital Group.

In 2013, the average selling prices to end users decreased by approximately 4%. A drop in the average selling prices was recorded in all tariff groups, having taken into account the decision made by the President of the Energy Regulatory Office to reduce tariff G by approx. 4% starting from July 2013. In turn, on the wholesale market, the average selling prices were lower by more than 9%.

In 2013, the duty was introduced to redeem white certificates (at a cost of approx. PLN 40 m). At the same time, there was no duty in 2013 to redeem any red or yellow certificates, which contributed to a decrease in the cost of electricity sold.

In December 2013, provisions of approximately PLN 56 m were established in the Sales Segment's companies for activities aimed at optimizing the Segment's operations. At the same time, ENERGA Obsługa i Sprzedaż received compensation from ENERGA-OPERATOR for restricting the performance of an agreement for the provision of services by EOiS, which offset the impact of the established provision on the results generated by the Segment.

These factors contributed to a decline in EBITDA by approx. 22% compared to 2012 to the amount of PLN 207 m.

Liquidity of the Segment improved. Compared to the end of 2012, cash as at 31 December 2013 increased by PLN 206 m (84%). The Segment's headcount in annual terms decreased by 140 persons, partly as a result of the restructuring actions taken.

Projected financial results

ENERGA SA's Management Board has not published projections of individual or consolidated financial results for the financial year 2013.

Ratings

On 10 October 2013, Fitch Ratings affirmed the Company's long-term ratings at the previous level of BBB (foreign rating) and A(pol) (local rating). The outlook for the ratings is stable. The Agency stated that the affirmation of the Company's ratings reflected the high share of the regulated distribution business in ENERGA's EBITDA, which contributed to cash flow predictability. The agency also determined that significant progress was made in obtaining external sources of financing for capital expenditures and for ensuring sufficient liquidity. It also pointed to additional factors, in the form of a relatively stable regulatory environment and acceleration of the development of generation capacity from renewable energy sources by the Company.

On 16 December 2013, Moody's Investors Service rating agency affirmed the Company's ratings: investment – at the Baa1 level, for unsecured debt – Baa1, and temporary at (P)Baa1 level awarded for the EMTN Program of the subsidiary ENERGA Finance AB (publ) with a total value of EUR 1 billion, guaranteed by ENERGA. The rating outlook was changed from negative to stable.

Confirmation of the Company's ratings by Moody's resulted from high share of regulated distribution activity, which is the basic source of the ENERGA Group's cash streams under the conditions of persevering low wholesale prices of electricity. Moody's predicts that despite limiting the weighted average cost of capital in 2014, the results of the Distribution Segment will remain strong as a result of the asset base growth driven by the investment program.

Change of rating outlook to stable occurred after the Company's IPO, which resulted in decrease of the State Treasury's shareholding from 84.2% to more than 50%. Considering the fact that the State Treasury is still a dominating 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 (BCA) at the baa2 level. Stable outlook also reflects the agency's expectation that the Company will manage its financial profile in accordance with the guidelines determined for the current ratings.

Ratings assigned

	Moody's	Fitch
Company's long-term rating	Baa1	BBB
Rating outlook	Stable	Stable
Date of assigning the rating	23 December 2011	19 January 2012
Date of most recent change of rating		12 October 2012
Date of most recent confirmation of rating	16 December 2013	10 October 2013

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.

In order to optimize financial surpluses of Group companies, ENERGA Trading SFIO money market fund dedicated to the ENERGA Group is utilized. ENERGA SA has an active program of issuing short-term bonds which may be subscribed for by the subsidiaries. This constitutes an optimal tool for management of the ENERGA Group's surpluses.

Information about the audit firm auditing the financial statements

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

The agreement between ENERGA and KPMG was concluded on 15 October 2013. The object of the agreement is to audit the Company's financial statements and the consolidated financial statements for 2013.

Auditor's fee for services provided to the Company

PLN 000s	Year ended 31 December 2013	Year ended 31 December 2012
Compulsory audit	40	57
Other assurance services	3,349	750
TOTAL	3,389	807

SHARES AND SHAREHOLDING STRUCTURE

ENERGA SA's shareholding structure

On 3 September 2013, the Extraordinary General Meeting of ENERGA SA adopted resolutions on a reverse split of ENERGA SA shares and reduction of the Company's share capital. The reverse split was effected with a proportional reduction of the total number of the Company's series A, B and C shares from 4,968,805,368 to 414,067,114. The reduction of the share capital was effected through reduction of the par value of all existing shares in the Company from PLN 12 (which was the new par value of the shares following from the reverse split) to PLN 10.92 each. The decrease of the share capital was carried out without any distributions to shareholders, including to the State Treasury, and resulted in shifting the funds from the share capital to supplementary capital.

The end of 2013 marked a significant change in ENERGA SA's shareholding structure. The State Treasury, which had been the dominating shareholder until then, made a decision to carry out the Company's Initial Public Offering. Prior to sale of shares in ENERGA SA, the State Treasury held 348,562,067 shares in the Company representing 84.18% of ENERGA SA's share capital and entitling to 493,490,067 votes at the General Meeting, which constituted 88.28% of the total number of votes.

As at 31 December 2013 and the date of preparing this Report, the Company's share capital according to an entry in the National Court Register was PLN 4,521,612,884.88 and was divided into 414,067,114 shares with par value of PLN 10.92 each, including: 269,139,114 series AA ordinary bearer shares and 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.

Issuer's shares by series and types

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

Shareholding structure of ENERGA (at at 31 December 2013 and the date of preparing this Report)

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

** According to the shareholder's notification of 12 December 2013, on 6 and 10 December 2013 the State Treasury concluded share purchase transactions for a total of 141,522,067 shares in the Company. 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. On 27 January 2014, State Treasury Minister informed the Company that as a result of return transfer of 6,286,317 series AA ordinary bearer shares of the Company outside the regulated market by one of stabilizing managers (stabilization activities were completed in December 2013), the State Treasury's shareholding in ENERGA SA increased. 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.*

Agreements pertaining to potential changes in the shareholding structure

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.

Purchase of treasury stock

In 2013, the Company did not purchase any treasury stock.

Employee stock ownership programs

In 2013, the Company had no employee stock ownership programs.

Company listings on the Warsaw Stock Exchange

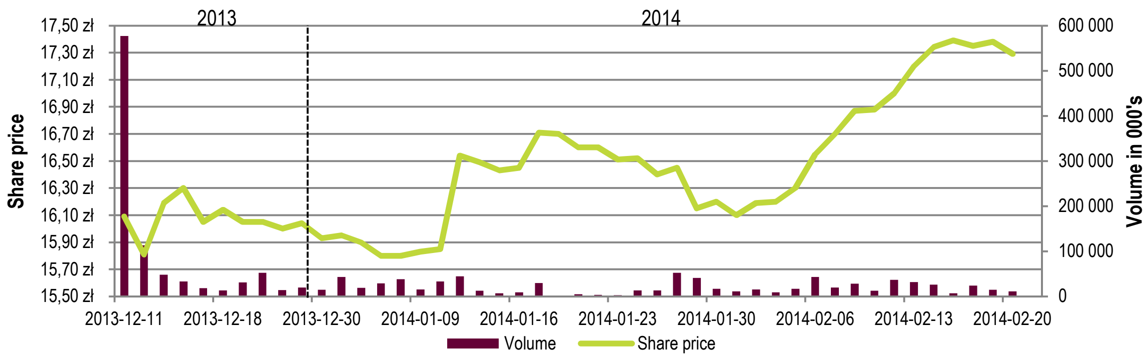
Data for ENERGA as at 31 December 2013

Data	Value
Issue price	PLN 17.00
Number of shares	414,067,114
Minimum	PLN 15.30
Maximum	PLN 16.95
Stock price at the end of the period	PLN 15.93
Minimum at closing	PLN 15.80
Maximum at closing	PLN 16.71
Average turnover	84,939,000
average volume	5,216,985
Average number of trades	3,712

Source: In-house study based on the data from gpwinfostrefa.pl

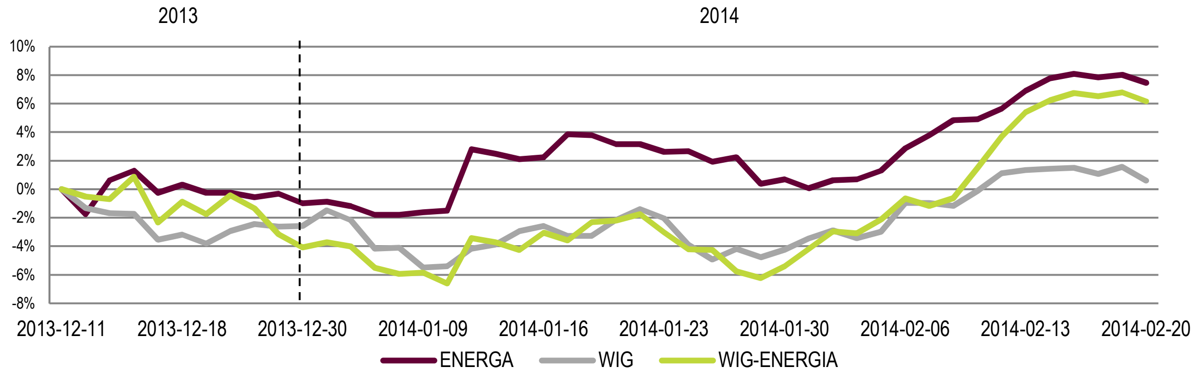
In the period from 11 December 2013 (i.e. date of IPO) to 31 December 2013, the list price of ENERGA SA ranged from PLN 15.30 to 16.95. At the end of the period, the list price was PLN 15.93 and was approx. 6.3% lower than the list price at IPO and approx. 1% lower than the closing price at the beginning of the period. The maximum price of Company's shares was PLN 16.95, and the minimum price of PLN 15.30 was recorded on the IPO date. During that period, WIG dropped by approx. 2.6% and WIG-Energia industry index dropped by 4.1%. From 1 January to 20 February 2014, the maximum price of Company's shares was PLN 17.39, and minimum – PLN 15.80.

Fig. 23: ENERGA SA quotations from the date of IPO to 20 February 2014



Source: In-house study based on the data from gpwinfostrefa.pl

Fig. 244: Changes in ENERGA quotations in comparison with changes in WIG and WIG-ENERGIA indices



Source: In-house study based on the data from gpwinfostrefa.pl

As at 31 December 2013, the Company comprised the following stock market indices:

- **WIG -** The WIG index includes all companies listed on WSE Main Market, which meet the base criteria for participation in the indices;
- **WIG-Energia** – WIG-Energia index is an industry index, which is comprised of companies which participate in the WIG index and are at the same time categorized as "power sector" companies;
- **WIG-Poland –** the index is comprised only of shares of domestic companies listed on WSE Main Market, which meet the base criteria for participation in the indices.

On 10 February 2014, a memo was posted on the website of the Warsaw Stock Exchange, advising that after the 21 March 2014 session the Company was included in mWIG40 index.

Investor relations in ENERGA SA

In connection with the intention of the Ministry of Treasury ("MoT") to privatize ENERGA SA, at the beginning of 2013 the preparations for that process were resumed in the Company. Within the organizational structure, the Investor Relations Office was established, reporting directly to Executive Vice President of the Management Board, Chief Financial Officer. At the first stage of its activity, the Office carried out a series of training sessions and workshops for the employees of the Company and all companies from the ENERGA Group, and it drafted internal regulations. This also included oversight over the content of the investor relations sub-site on the Company's corporate website dedicated to investors and analysts, which was launched in March. Since the date of the IPO, the investor relations sub-site has been fully operational. In 2013, ENERGA SA also began to publish the financial results according to the scope of financial reporting required of public companies.

The Company communicates with the capital market participants through an increasing number of communication tools, including the following:

- Current and periodic reports as part of the performance of reporting duties
- One-on-one meetings in the Company's office and outside of it, and teleconferences and videoconferences which are an alternative to one-on-one meetings
- Quarterly presentations of financial performance for the investors, analysts and financial media, made directly or through interactive webcasts and teleconferences, starting from the annual report for 2013
- Quarterly presentations for the investors
- Ongoing contact via phone and e-mail (via the address investor.relations@energa.pl dedicated specifically to the investors with possibility of direct contact with Company employees responsible for investor relations),
- Bilingual investor relations sub-site (www.ir.energa.pl) on the Company's corporate website (www.grupa.energa.pl), which is updated on an ongoing basis
- Investor chats (addressed mainly at individual investors),

- Meetings with individual investors during a specially organized Investor's Day
- Participation in domestic and foreign investor's conferences
- Roadshows with institutional investors, at least once a year, after publication of annual report
- Participation in the "Citizen Shareholders. Invest Knowingly" program
- Other tools depending on needs, such as short video presentations and video comments of Management Board representatives to financial results and other events important to the Company, and *factsheet* of the reporting period posted on the website after publication of financial results.

In order to create the basis for effective communication with capital market participants, the Office drafted internal regulations, including also informational policy applicable to investor relations, which is posted on the website. The persons, to whom the Policy is addressed, may familiarize themselves with the rules applied by the Company in investor relations.

Despite the fact that the Company has been listed on the WSE only for a short period of time, the investor relations are fully operational. Recently, the Company undertook a regular dialog with equity analysts who issue investment recommendations for their clients.

Recommendations for the shares in the Company

After the balance sheet date, the analysts of brokerage houses and investment banks issued the following recommendations for ENERGA SA shares:

Recommendations issued for the shares of ENERGA

Date	Institution	Recommendation	Target price	Share price on the date of issuing the recommendation
13 Jan 2014	JP Morgan	Overweight	PLN 19.00	PLN 16.54
13 Jan 2014	PCBs	Buy	PLN 17.50	PLN 16.54
13 Jan 2014	BofA Merrill Lynch	Buy	PLN 18.00	PLN 16.54
13 Jan 2014	UniCredit	Buy	PLN 17.90	PLN 16.54
17 Jan 2014	PKO Dom Maklerski	Buy	PLN 18.20	PLN 16.71
23 Jan 2014	mDom Maklerski	Buy	PLN 19.90	PLN 16.60
7 Feb 2014	Citigroup	Buy	PLN 19.00	PLN 16.55

REPRESENTATION ON THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

On 28 November 2013, ENERGA SA joined the Electronic Information Relay System ("ESPI") and started to send the information through that system according to the requirements stipulated in the relevant regulations. Next, the Management Board of Warsaw Stock Exchange, pursuant to Resolution No. 1426/2013 of 10 December 2013, resolved to float series AA shares of the Company as of 11 December 2013 following the regular procedure on the WSE's main market. As of 11 December 2013, ENERGA SA became a public company.

This Representation on the Company's application in 2013 of corporate governance principles included in document entitled "Code of Best Practice for WSE Listed Companies" was prepared on the basis of § 91 sec. 5 item 4 of Regulation issued by the Finance Minister on 19 February 2009 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent (Journal of Laws of 2009 no. 33, item 259) and on the basis of § 29 sec. 5 of WSE Bylaws, and it constitutes a separate part of the Management Board's Report on the Issuer's activity in 2013, which is a part of ENERGA SA's Annual Report.

The Company and its authorities are 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 "Best Practice for WSE Listed Companies" ("Corporate Governance Rules", "Best Practice" or "DPSN") and were posted on WSE's website (http://corp-gov.gpw.pl) and the Company's website in the "Investor Relations" tab. The Company has not decided to adopt other corporate governance rules than those indicated above.

Corporate governance rules not used in the Company

1) I. 12, II item 1 sub-item 9a and IV.10 of DPSN – until this day the Company was not broadcasting the General Meeting via the Internet, it was not recording the meeting, and it was not posting it on its website.

   Pursuant to part I item 1 of Best Practice, the Company should conduct a transparent and effective information policy using traditional methods and modern technology and the most modern means of communication to procure speed, safety and effective information access. Using such methods to the broadest extent possible, a company should in particular: (...) provide for the appropriate communication with investors and analysts by utilizing modern methods of web-based communication for this purpose.

   Pursuant to part 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.

   On the other hand, pursuant to part IV item 10 of Best Practice, the Company should provide the shareholders with a possibility of participation in the General Meeting using the means of electronic communication involving live broadcast of the General Meeting and two-way communication in real time, as part of which the shareholders may take the floor during the General Meeting while being in a place other than the location of the General Meeting.

   With respect to the foregoing rules, the Company's Management Board points out that at the moment the Company's Articles of Association do not envisage the possibility of participation in the General Meeting via means of electronic communication as defined by the Commercial Company Code.

   ENERGA SA announces that in 2013, since it was not a public company, it did not follow that recommendation, however it does not rule out the possibility of following it in the future. The Issuer believes that the rules of participation in and exercising of the voting right at the General Meeting, prevailing in the Company, allowed proper and efficient exercising of voting rights attached to Company shares, however due to the fact that technologies have been developed and are available, which allow to exercise the voting right in person or via the proxy during the Shareholder Meetings in the location other than the place of holding the General Meeting using the means of electronic communication, the Company is analyzing the possibility of implementing that recommendation while first and foremost taking into account the adequate level of information security.

It should be added that the current General Meeting Bylaws envisage recording of the General Meeting provided that the General Meeting expresses its consent for it and with the reservation that every person, whose presentation or statement is recorded in such way, may ask for his/her presentation or statement not to be distributed or published.

2) I.9 of DPSN – equal representation of women and men in the Management Board and the Supervisory Board.

The Company clarifies that it provides equal opportunities for women and men to be appointed to the positions in the Management Board and the Supervisory Board, however at the present moment there is no equal representation of women and men in ENERGA SA's managing and supervisory authorities. The Company's Supervisory Board is composed of both men and women. In 2013, there were two women on the Supervisory Board: Ms. Agnieszka Poloczek and Ms. Iwona Zatorska-Pańtak. Last year, there were no women on the Company's Management Board.

Selection of candidates for relevant positions in the Company is preceded by detailed analysis of experience, competences, skills and substantive preparation of each candidate. These are the only criteria (besides the commonly binding regulations in that respect), which are taken into consideration in the recruitment procedure for positions in the Management Board.

Irrespective of the above, the Issuer makes every effort to maintain equal representation of women and men in management reporting directly to the Issuer's Management Board. In 2013, the percentage of women on the management staff was 62%.

The Issuer also would like to advise that the Ministry of Treasury ("MoT") drafted the Supervision Professionalization Program, which outlines expectations and standards to be followed by supervisory board members representing the State Treasury. The program contains Best Practices related to providing equal representation of women and men in the companies' authorities (introduced in March 2014), with the aim of uniform utilization of the potential of the entire population in the interest of entrepreneurs, in particular companies with a State Treasury shareholding.

In addition, the Company's Management Board declares that the Company will make every effort to ensure equal representation of women and men because it believes that mixed teams are more effective.

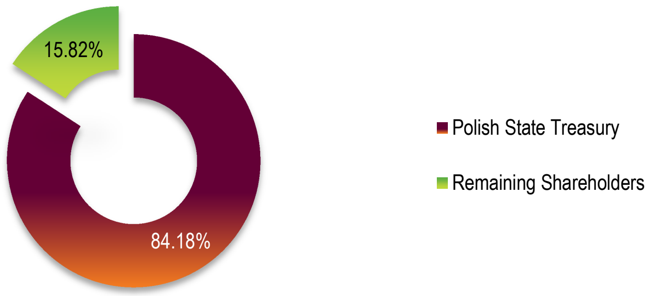
3) c) III.8 DPNS – to the extent it refers to existence of Supervisory Board's committees whose tasks and operation should be governed by Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors.

The Company does not have any committees indicated in Annex I to Commission Recommendation of 15 February 2005, i.e. the Nomination Committee and the Remuneration Committee. Since March 2013, the Audit Committee has been operating within the framework of the ENERGA SA Supervisory Board, which is composed of three Supervisory Board members. At the same time the Issuer does not rule out the possibility of establishing the nomination and remuneration committee to ensure the execution of this practice in its entirety.

Shareholders holding significant blocks of shares

The end of 2013 marked a significant change in ENERGA SA's shareholding structure. The State Treasury, which had been the dominating shareholder until then, made a decision to carry out the Company's Initial Public Offering on 11 December.

Fig. 25: Shareholding structure one day before the Company's first listing (as at 10 December 2013)

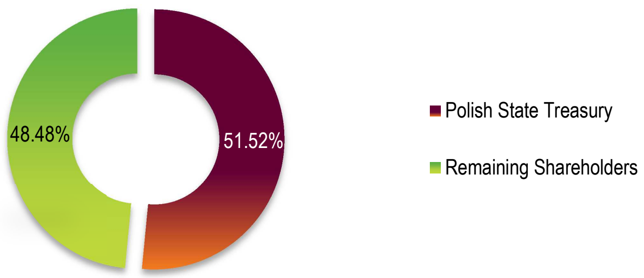


Shareholding structure of the Company at 31 December 2013 and as at the date of this Report

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

** According to the shareholder's notification of 12 December 2013, as a result of transactions involving sale of a total number of 141,522,067 Company's shares, carried out on 6 and 10 December, the State Treasury held 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. On 27 January 2014, State Treasury Minister informed the Company that as a result of return transfer of 6,286,317 series AA ordinary bearer shares of the Company outside the regulated market by one of stabilizing managers (stabilization activities were completed in December 2013), the State Treasury increased its involvement in ENERGA SA. In addition, the State Treasury held 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.*

Fig. 26: Shareholder structure of ENERGA SA as at the date of preparing this Report



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.

Since the date of floating the Company's shares on the regulated market, 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 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) uniform text of the Articles of Association, within four weeks from the date of entering the amendments to the Articles of Association in the business register.

In addition, the State Treasury has the personal right to appoint and dismiss members of the Company's Supervisory Board, and indicate the Supervisory Board Chairman. Detailed information in this respect is presented in a subsequent section.

Restrictions regarding the exercise of voting rights

The Company's Articles of Association contain a restriction on the voting rights of 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. On 17 February, the Extraordinary General Meeting of ENERGA SA approved, upon the request of the shareholder – the State Treasury, the amendment consisting in that 10% of total number of votes was increased to 20% of total number of votes at the General Meeting. As at the date of preparation of the Report, the amendment to the Articles of Association has not yet been registered in the Business Register of the National Court Register.

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 added up:

1) Commercial Company Code,
2) Competition and Consumer Protection Act of 16 February 2007 (Journal of Laws of 2007 No. 50, item 331, as amended),
3) Accountancy Act of 29 September 1994 (uniform text: Journal of Laws of 2013, item 330, as amended),
4) Act on Transparency of Financial Relations between Public Authorities and Public Enterprises and Financial Transparency of Certain Enterprises of 22 September 2006 (Journal of Laws of 2006, No. 191, item 1411),

in such a way that the number of votes of such shareholders is added.

If as a result of accumulation it becomes necessary to restrict the voting rights in the manner described above, this will be made 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.

Each shareholder, to which it applies, is obligated to notify the Management Board or the Chair of the General Meeting of the existence of a parent or subsidiary relationship, if it intends to participate in the General Meeting.

A person who failed to perform or inadequately performed the reporting duty referred to in the preceding sentence may exercise the voting right only on one share until the omission in performing the reporting duty is remedied; exercise of the voting right by such person on the remaining shares is ineffective. These provisions do not apply to the State Treasury and to the shareholders acting with the State Treasury based on agreements on joint exercise of voting rights ensuing from the shares.

According to the Articles of Association, 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. Besides the foregoing mechanism and the mechanisms defined in the commonly prevailing regulations, including the Commercial Company Code, there are no additional mechanisms which would specifically restrict the exercising of voting rights.

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 Issuer's securities.

Rules for amending the Company's Articles of Association

The amendments to the Articles of Association require a resolution adopted by the Company's General Meeting and an entry in the business register. The Company's General Meeting may authorize the Supervisory Board to agree upon the uniform text 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. The amendments to the Company's Articles of Association go into effect as of the moment of entry in the business register.

On 3 September 2013, the Extraordinary General Meeting of ENERGA SA was held, which adopted, among other things, the resolutions to amend the Articles of Association. Their purpose was primarily to prepare the Company's IPO and adjust to the requirements applicable to public companies. In addition, the scope of State Treasury's powers described in item 3.2. of this Representation was changed. Amendments to the Articles of Association also included the reverse split of the Company's shares, share capital reduction and turning some of the shares into preferred shares.

The foregoing amendments to the Articles of Association were entered in the Business Register of the National Court Register on 9 September 2013.

In 2013, four Shareholder Meetings of ENERGA SA were held on the following dates: 27 March, 23 April, 3 and 9 September (after the meeting was adjourned on 3 September 2013).

The most important matters examined by the General Meeting in the financial year 2013 included:
1) expressing the consent for acquisition of fixed asset components in the form of long-term bonds issued by ENERGA Hydro Sp. z o.o.,
2) expressing the consent for acquisition of fixed asset components related to development and deployment of the Sales Support System encompassing the billing system and the CRM system in the ENERGA Capital Group,

3) approval of individual and consolidated financial statements for the financial year 2012, with distribution of profit and exonerating Management Board members and Supervisory Board members on the performance of their duties,
4) making a decision on amendments to the Company's Articles of Association in connection with the Company's IPO and the process of floating the Company shares on the regulated market at the Warsaw Stock Exchange,
5) making a decision on a reverse split of Company's shares, amendments to the Company's Articles of Association and authorizing the Company or the Company's subsidiary to purchase Company's shares in accordance with Article 362 § 1 item 8 of the Commercial Company Code in connection with Article 362 § 4 of the Commercial Company Code,
6) making a decision in the matter of reduction of the Company's share capital through reduction of the nominal value of the Company's shares,
7) making a decision to determine the series of Company's shares,
8) making a decision in the matter of dematerialization of Company's shares, registration of Company's shares in the securities depository, authorizing the Company's Management Board to conclude an agreement with Krajowy Depozyt Papierów Wartościowych SA (KDPW) for registration of shares, and seeking admission and floating of the Company's shares on the regulated market operated by WSE.

On 17 February 2014, the Extraordinary General Meeting of ENERGA SA was held, which adopted, among other things, a resolution to amend the Articles of Association consisting in that 10% of total number of votes was increased to 20% of total number of votes at the General Meeting. As at the date of preparation of the Report, the amendment to the Articles of Association has not yet been registered in the Business Register of the National Court Register.

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 functioning of the General Meeting are defined in the General Meeting Bylaws prevailing in the Company.

The General Meeting is held in Warsaw or in the Company's registered office in Gdańsk.

Ordinary General Meeting should be held within 6 months from the end of the Company's financial year. The following matters should be examined by the General Meeting:
1) reviewing and approving the Management Board report on the Company's activity and the financial statements for the previous financial year
2) adopting a resolution on distribution of profit or coverage of loss and
3) discharging the members of the Company's governing bodies on the performance of their duties.

The Extraordinary General Meeting is convened in cases specified in the Commercial Company Code.

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. By principle, the properly convened General Meeting is valid irrespective of the number of shares represented thereat. 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 raised an objection to adopt a resolution.

Pursuant to the Articles of Association, the General Meeting is convened by the Management Board at its own initiative, at the written request of the Supervisory Board or at the request of a shareholder or shareholders representing at least one-twentieth of share capital, or at the request of the State Treasury for as long as it is a Company shareholder.

In addition, pursuant to the Commercial Company Code, shareholder or shareholders of the Company representing at least one-twentieth of the Company's share capital may request convening an Extraordinary General Meeting and placing certain matters on the agenda of that meeting.

If, within two weeks of the date of filing the request with the Management Board, the Extraordinary General Meeting is not convened, the court of registration may authorize the shareholders who made such request to convene the Extraordinary General Meeting. The court shall appoint the chairman of the General Meeting.

Pursuant to the Commercial Company Code, a shareholder or shareholders of the Company representing at least one-twentieth of the Company's share capital may request placing certain matters on the agenda of the closest General Meeting. The request should contain a justification or draft resolution pertaining to the proposed item on the agenda and be submitted to the Management Board no later than twenty one days before the set date of a General Meeting. The Management Board is obligated to announce changes to the agenda made upon request of the shareholders immediately, but no later than eighteen days before the set date of a General Meeting. The announcement is 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.

Pursuant to the Commercial Company Code, a shareholder or shareholders of the Company representing at least one-twentieth of the Company's share capital may submit to the Company – before the date of the General Meeting – the draft resolutions concerning the items included in the agenda of the General Meeting or the items which will be included in the agenda, in writing or using the means of electronic communication. The Company will immediately post the draft resolutions on the website. Any Company shareholder may, during the General Meeting, submit draft resolutions on issues included in the agenda.

Participating in and exercising the voting rights at the General Meeting

Only the persons who are Company's shareholders sixteen days before the date of a General Meeting (date of registration of participation in a General Meeting – "record date") have the right to participate in the General Meeting.

Company's shareholders may participate in the General Meeting and exercise their voting right in person or by proxy. The Shareholder, which intends to participate in the General Meeting via the proxy, must give that proxy the power-of-attorney in writing (without the pain of invalidity) or in the electric form; the power-of-attorney in the electronic form does not have to be provided with secure electronic signature verified through a valid qualified certificate. In addition, the Company should be notified about granting the power-of-attorney in the electronic form using the means of electronic communication specified in the General Meeting announcement.

If the proxy at the General Meeting of is a Management Board member, a Supervisory Board member, a liquidator, a Company employee, or member of governing bodies or employee of the company or cooperative which is the Company's subsidiary, the power-of-attorney may give the right of representation only at one General Meeting. The proxy is obligated to disclose to the shareholder any circumstances indicating the existence or the possibility of a conflict of interest. No further powers-of-attorney may be granted. The proxy, who is a Management Board member, a Supervisory Board member, a liquidator, a Company employee, or member of authorities or employee of the company or cooperative which is the Company's subsidiary, will vote according to the instructions given by the Company shareholder.

A Company's shareholder may not, either personally or by proxy or while acting in the capacity of a proxy of any other person, vote on resolutions concerning his/her liability towards the Company on whatever account, including exonerating on the performance of his/her duties, being released from any of his/her liabilities towards the Company, or any dispute between him/her and the Company. A shareholder of a public company may vote as the proxy when adopting resolutions concerning him/her, as mentioned above.

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* of the Representation. In addition, information concerning the preference of series BB shares is found in item *Shareholders holding significant blocks of shares* of this Representation.

Votes shall be cast in an open ballot. Secret ballot will be ordered during the 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 Commercial Company Code, 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.

According to the Articles of Association, the resolutions of the General Meeting for the following:

1) introduction of shares of various types, establishment of shares of new type,
2) changing of the preference of shares,
3) merger of the Company through establishment of a new company or through acquisition by another company,
4) split-up of the Company, except for split-up through spinning-off,
5) dissolution of the Company, transfer of the registered office or main plant abroad,
6) transformation of the Company,
7) reduction of share capital through redemption of part of shares unless the reduction takes place simultaneously with increase of share capital,

require a majority of four-fifths of votes cast.

The resolution on significant change of the Company's line of business may be adopted without buyout of shares held by shareholders who oppose such change.

Powers of the General Meeting

The General Meeting is authorized to make decisions, by way of resolutions, in the matters concerning the Company's organization and functioning. The most important powers of the General Meeting defined by the Commercial Company Code and the Articles of Association include in particular:

1) reviewing and approving the Management Board's report on the Company’s activity and the financial statements for the financial year ended, and exonerating members of the Company’s authorities on the performance of their duties,
2) making a decision on distribution of profit or coverage of loss;
3) changing the Company’s line of business;
4) making a decision to amend the Company’s Articles of Association;
5) making a decision to increase or decrease the Company's share capital;
6) making a decision to authorize the Management Board to purchase treasury stock for redemption;
7) adopting resolutions on merger, split-up or transformation of the Company;
8) adopting resolutions on dissolution or liquidation of the Company;
9) making a decision on issuing convertible bonds or bonds with a pre-emptive right, and on issuing subscription warrants;

10) adopting resolutions on selling or leasing a business or an organized part thereof and establishing a limited material right thereon;
11) making a decision to create, use and liquidate the Company's capitals and funds;
12) appointing or dismissing Supervisory Board members;
13) making a decision to deprive current Company shareholders of their pre-emptive rights, in whole or in part;
14) Company's purchase of treasury stock;
15) making a decision on setting the amount of remuneration of Supervisory Board members;
16) making any decisions concerning claims to remedy damages incurred during the establishment of the Company or in its management or oversight;
17) making decisions in matters related to the Company concluding a credit, loan, surety or 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;
18) making decisions in matters related to the Company's subsidiary concluding a credit, loan, surety or other similar agreement with a Management Board member, a general proxy or a liquidator of the Company, or in favor of any such person;
19) making the decisions in matters related to usage of supplementary capital;
20) purchasing real property, perpetual usufruct or share in real property or in perpetual usufruct, the value of which exceeds PLN 20 m;
21) purchase of fixed asset components, except for real estate or right of perpetual usufruct, and except for purchase and subscription for shares in other companies, worth more than PLN 20 m;
22) disposal of fixed asset components, 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;
23) changing the dividend date, indicating the dividend date or spreading the payment of dividend into installments.

Supervisory Board

Personnel composition

In financial year 2013, the ENERGA SA Supervisory Board was composed of the following persons:

- Zbigniew Wtulich – Supervisory Board Chairman
- Marian Gawrylczyk – Supervisory Board Deputy Chairman
- Agnieszka Poloczek – Supervisory Board Secretary
- Iwona Zatorska-Pańtak – Supervisory Board Member
- Roman Kuczkowski – Supervisory Board Member
- Mirosław Szreder – Supervisory Board Member.

As of 16 January 2014, Bogusław Nadolnik was appointed to the Supervisory Board by the State Treasury Minister.

Zbigniew Wtulich graduated from Warsaw University of Life Sciences (Faculty of Drainage and Water Engineering), and completed postgraduate studies in real estate valuation. His professional career is as follows: worked in the Office of Water and Drainage Projects in Warsaw (1984-1988), in the Regional Drainage Projects Enterprise in Mińsk Maz. (1988-1991) as construction engineer, in "Amrak" International Company as engineer, and in the Agricultural Property Agency of the State Treasury (1994-1997). Then he worked on different positions in the Ministry of Treasury, including Assets Recordkeeping Department and Reprivatization and Releasing Department. In 2008-2010 he served as supervisory board deputy chairman of PGE Górnictwo i Energetyka S.A. From 2010 until present time he has been the head of sub-department in the State Treasury's Department of

Assets. Served on the ENERGA SA Supervisory Board since March 2011, initially as Deputy Chairman and now as Chairman.

Marian Gawrylczyk graduated from the University of Gdańsk (Faculty of Economy and Transportation). Worked as President of the Management Board at Odralogistics Sp. z o.o., and at Warszawskie Zakłady Fotochemiczne FOTON S.A. (2000-2001), in Polska Żegluga Śródlądowa Sp z o.o. (2004-2005), in Mistral Energia Sp. z o.o. (2005-2006), in ABBEYS Europejskie Doradztwo Finansowe Sp. z o.o. (2007-2008) and in Polskie Towarzystwo Ubezpieczeniowe S.A. as advisor to the management board (2010-2011). In 1994-2013, he served as Vice President of the Foundation for Promotion of Polish Municipalities. Currently, he is the CEO of Sigma Real Estate Sp. z o.o. (since 2009), Signum Corporate Finance Sp. z o.o. (since 2008), advisor to the President of Polish Tourism Organization, and management board's proxy on strategy and development at PKP Cargo S.A. Serves on the supervisory boards of the following companies: EGESA Grupa Energetyczna S.A. (since August 2012), Vitosilicon S.A. (since 2012) and leadbulet S.A. (since 2010).

Agnieszka Poloczek graduated from Maria Curie-Skłodowska University in Lublin (Faculty of Law and Administration), and completed postgraduate studies at Kozmiński University in Warsaw (accounting and finance of enterprises). After completion of legal training as a judge finalized with examination to become a judge, she was entered in the list of attorneys kept by the Bar Association in Warsaw In 1998-2008, she worked in the Court Representation Department and the Legal and Trial Department of the Ministry of Treasury. Before assuming the duties of the ENERGA SA Supervisory Board Secretary, she served in the supervisory boards of: Międzynarodowa Korporacja Gwarancyjna Sp. z o.o. as chairwoman and Przedsiębiorstwo Komunikacji Samochodowej w Nysie Sp. z o.o.

Iwona Zatorska-Pańtak graduated from the Nicolaus Copernicus University in Toruń (Faculty of Economic Sciences and Management) and the University of Warsaw's Postgraduate European Studies. Since 2000, he has been an employee of the State Treasury Ministry, having worked in: Capital Funds Department, Financial Institutions Department, Corporate Governance and Privatization II Department and Key Companies Department. Currently she is the sub-department head at the Strategic Projects Department. Has many years of experience in serving on supervisory boards of companies with a State Treasury shareholding (including Krajowa Spółka Cukrowa S.A. in Toruń, Zakłady Chemiczne "ALWERNIA" S.A. in Alwernia, Górnośląskie Przedsiębiorstwo Wodociągów S.A. in Katowice, Zakłady Urządzeń Galwanicznych i Lakierniczych "ZUGIL" S.A. in Wieluń, Tomaszowskie Przedsiębiorstwo Budowlane "TOMBUD" S.A. in Tomaszów Maz.). Currently, in addition to the Supervisory Board of ENERGA SA, she also serves on the supervisory board of KGHM Polska Miedź S.A.

Mirosław Szreder graduated from the University of Gdańsk (Faculty of Economic Cybernetics and IT), and is the professor of economics. In 2001-2008, he served as Vice President of the Main Board of Polish Statistical Association. In 2002-2008, he served as Dean of the University of Gdańsk's Faculty of Management, and in 2007-2012 he also served as Secretary of the Committee on Statistics and Econometrics of the Polish Academy of Sciences. Was the editor-in-chief of "Przegląd Statystyczny" scientific quarterly (2008-2012). In 2012, he was elected Vice-Rector on Development and Finance of the University of Gdańsk for the 2012-2016 term. Is the member of International Association for Statistical Education. Lectures on statistical analysis, marketing and probability theory. Had many lectures at the University of Leicester (UK). Mirosław Szreder has been the Company Supervisory Board member since 2008.

Roman Kuczkowski graduated from the University of Engineering in Bydgoszcz (holds the diploma in electrical engineering), and postgraduate studies on organization and management at the Nicolaus Copernicus University in Toruń Worked for Toruń Power Company (1964-1974 and 1989-2004) and Power Companies of Northern Region in Bydgoszcz (1974-1989), where he was the deputy director on employee matters, and then the director on investment projects. Since 1989 he worked as director and then President of Toruń Power Company. Prior to retirement in August 2006, he was the department director at Koncern Energetyczny ENERGA SA. He also served as member of the Coordination and Preparatory Task Force on Restructuring of Power Sector at the Minister of Industry, and member of the Transfer Prices Council at the Minister of Industry, and then at the Minister of Economy (1992-1998). Has been the ENERGA SA Supervisory Board member since February 2008.

Bogusław Nadolnik graduated from the Warsaw School of Economics (Management and Marketing), and completed postgraduate studies in internal audit and control at ORGMASZ Organization and Management Institute in Warsaw and Międzynarodowe Centrum Szkolenia i Doradztwa Sp. z o.o. In 1990–1992, he completed the Small Business Management Program at Georgetown University, Washington D.C. (USA). After returning to Poland in 1994, we worked as senior specialist in the Organizational Department of the Prime Minister's Cabinet, and then acting Director of the Prime Minister's Cabinet in the Ministry of Agriculture and Food Economics. In 1996–2006, he worked in the Ministry of Treasury as deputy director of the State Treasury Finance Department, deputy director of the Budget and Finance Department, and acting director of the Public Aid Department. In 2007–2008, he served as Secretary of Legionowo County in the Legionowo County Office. In 2008, he transferred to the Ministry of Agriculture and Rural Development, where he served as Undersecretary of State. Until 2013, he was Vice President of the Agriculture Modernization and Restructuring Agency. Served on supervisory boards of many companies with a State Treasury shareholding. Currently, he is the Director of Post-Privatization Activities Department in the Ministry of Treasury.

The current term of the Supervisory Board ends on 27 April 2014.

Rules for appointing and dismissing Supervisory Board members

The Supervisory Board may consist of five to twelve persons. According to the Articles of Association, the number of Supervisory Board members is determined by the General Meeting. Supervisory Board members are appointed and dismissed by the General Meeting, and the State Treasury is entitled to appoint and dismiss Supervisory Board members according to the following rules:

1) if the General Meeting decides that the Supervisory Board will have an even number of members, the State Treasury will appoint one-half of Supervisory Board members plus one Supervisory Board member,
2) if the General Meeting decides that the Supervisory Board will have an odd number of members, the number of Supervisory Board members appointed by the State Treasury will be calculated in the following way: (a) divide the number of Supervisory Board members by two, and then (b) round up to the closest whole number, so that the State Treasury will have an absolute majority of votes in such Supervisory Board,
3) Supervisory Board members will be appointed and dismissed through written representation of the State Treasury submitted to the Management Board. The representation will be considered to be submitted as at the moment of its delivery.

In addition, the State Treasury has the right to name one Supervisory Board member from among the members of the Supervisory Board appointed by the State Treasury, who will serve as Supervisory Board Chairman. The foregoing right applies also if the Supervisory Board is elected by separate group voting following the procedure set forth in Article 385 of the Commercial Company Code. Supervisory Board Chairman will be named by way of a written representation submitted to the Management Board, which will be considered to be submitted as at the moment of its delivery.

State Treasury’s personal rights, referred to above, will expire on the date on which the State Treasury's share in the share capital is lower than 20%.

In the period in which the State Treasury is the Company shareholder, only the persons who passed the exam referred to in Article 12 sec. 2 of the Commercialization and Privatization Act of 30 August 1996 (uniform text: Journal of Laws of 2013 No. 216) may be appointed as Supervisory Board members representing the State Treasury. Supervisory Board member submits resignation to the Company's Management Board.

The Supervisory Board appoints from amongst its members the Supervisory Board Deputy Chairman and Secretary and dismisses him/her. The Supervisory Board Deputy Chairman and Secretary should be elected during the first meeting of the Supervisory Board of the new term. According to the Supervisory Board Bylaws, Supervisory Board Chairman convenes, organizes and chairs Supervisory Board meetings, represents the Supervisory Board before third parties and submits representations of will on its behalf.

According to the Articles of Association, Supervisory Board members may not perform activities which would collide with their duties or could arouse suspicion that they are biased or self-interested. During the period, in which the Company's shares are listed on the regulated market operated by the WSE, at least two Supervisory Board members should 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 (2005/162/EC), taking into account the requirements following from the Code of Best Practices for Warsaw Stock Exchange Listed Companies ("Independent Supervisory Board Members"). These criteria are met by the following persons: Mirosław Szreder, Roman Jacek Kuczkowski and Marian Gawrylczyk. A candidate for an independent Supervisory Board member will submit to the Company, before being appointed to the Supervisory Board, a written representation on meeting the independence criteria. If circumstances occur in which the independence requirements are not satisfied, the Supervisory Board member will be obligated to immediately inform the Company thereof. The Company will publish information about the current number of independent Supervisory Board members. Without prejudice to the State Treasury's right to appoint Supervisory Board members, if the number of Supervisory Board members decreases as a result of expiry of the mandate of a Supervisory Board member or if at least two Supervisory Board members do not meet the requirements of independent Supervisory Board members, the Company's Management Board will be obligated to immediately convene the General Meeting with an item on the agenda concerning the supplementation or change of the composition of the Supervisory Board. Until the changes in the composition of the Supervisory Board, consisting in adjusting the number of independent members to the requirements of the Articles of Association, are made, the Supervisory Board and its members will continue their operation in previous composition and will retain the ability to hold meetings, adopt resolutions and take any other factual and legal actions.

In the period from 1 January to 31 December 2013, the ENERGA SA Supervisory Board held 12 meetings and adopted 87 resolutions. The Supervisory Board also adopted resolutions by voting using remote means of direct communication. Among other things, it issued opinions on matters forwarded by the Management Board to the General Meeting of the Company, determined the manner of exercising the voting rights during the meetings of subsidiaries in the scope resulting from the Company's Articles of Association, and evaluated individual and consolidated financial statements for the financial year 2012 with the motion to distribute profit. Important issues, which the Supervisory Board dealt with in 2013, included the following:

1) approval of the material and financial plan, and analysis of the current economic and financial situation,
2) approval of the plan of sponsorship activities for 2013 and analysis of its fulfillment,
3) analysis of work related to development and deployment of the Sales Support System encompassing the billing system and the CRM system in the ENERGA Capital Group,
4) selection of an auditor authorized to audit the Company's and Group's financial statements for financial years 2013 and 2014,
5) analysis of the level of salaries in the ENERGA Group as compared to the rest of the industry, and analysis of salaries,
6) acquisition projects concerning purchase of shares in Iberdrola Renewables Polska Sp. z o.o. as well as inland wind assets of DONG Energy Wind Power A/S in Poland,
7) analysis of investment programs executed and planned in the ENERGA Capital Group,
8) analysis of benefits from cost optimizing activities carried out in the ENERGA Group,
9) overseeing the Eurobonds issue process,

10) opining the "Long-term Strategic Investments Plan of the ENERGA Group for 2013-2021",
11) opining the ENERGA Group's Strategy for 2013–2020,
12) approval of the ENERGA SA Management Board Bylaws – edition III,
13) amendment to the Supervisory Board Bylaws,
14) defining the conditions and economic parameters for granting annual bonuses for 2013 to ENERGA SA Management Board members, and granting the bonuses for 2012,
15) appointing the Audit Committee in the Company, and adopting the Audit Committee bylaws defining the rules of its functioning,
16) analysis of efforts aiming at achieving the optimal structure of the ENERGA Capital Group, and improving the Group's profitability,
17) analysis of changes in the authorities of ENERGA SA's subsidiaries,
18) analysis of the status of deployment of smart grid elements (AMI) in the ENERGA Group.

ENERGA SA Management Board members are invited to each Supervisory Board meeting. In addition, Company employees substantively responsible for the discussed issues participate in the meetings.

Supervisory Board's powers

According to the Articles of Association, the Supervisory Board's powers include in particular the following:

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 consolidated financial statements of the capital group, the Supervisory Board's opinion on the issue of economic justification for the Company's capital exposure to other commercial companies, made in the given financial year,
5) once a year preparing and presenting to the Ordinary 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) defining the scope and deadlines for the Management Board to submit annual/long-term material and financial plans, other long-term plans and strategies of the Company and its Capital Group,
9) approving the strategy of the Company and its Capital Group,
10) approving the annual/long-term material and financial plans and investing activity plans of the Company and its Capital Group,
11) adopting bylaws defining in detail the Supervisory Board's functioning,
12) approving the Management Board bylaws,
13) approving the organizational bylaws of the Company's enterprise,
14) approving the rules for sponsorship activity conducted by the Company,
15) setting the rules and remuneration of the President and Management Board members, subject to absolutely binding provisions of law,

16) seconding Supervisory Board members to temporarily perform the duties of Management Board members who are unable to perform their duties, and determining their remuneration, with the reservation that total remuneration collected by the seconded Supervisory Board member together with remuneration for being seconded to temporarily perform the duties of a management board member cannot exceed the remuneration of a Management Board member in place of whom a Supervisory Board member was seconded.

The Supervisory Board's duties also include several other tasks described in detail in the Company's Articles of Association posted on the corporate website.

Manner of the Supervisory Board's functioning

The Supervisory Board conducts constant oversight over the Company's operations in all areas of its activity. The detailed manner of the Supervisory Board's functioning is outlined in the Supervisory Board Bylaws.

By principle, the Supervisory Board adopts resolutions at its meetings. The Supervisory Board will hold its meetings no less frequently than once per two months. The Supervisory Board meetings are convened by the Chairman or authorized Supervisory Board member by presenting the detailed agenda. In addition, the meeting should be also convened at the request of each Supervisory Board member or at the request of the Management Board. All Supervisory Board members must be invited at least seven days prior to the meeting in order for the Supervisory Board meeting to be effectively convened, however for valid reasons the Chairman may shorten that period to two days while at the same time immediately notifying Supervisory Board members about convening the meeting on shorter notice via relevant means of communication. Moreover, according to the Supervisory Board Bylaws, Supervisory Board members may participate in the meeting and vote on resolutions adopted during that meeting using remote means of direct communication, such as teleconferences and videoconferences, with the reservation that there is at least one Supervisory Board member present at location specified by the person convening the meeting and there exists 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. 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. Supervisory Board may adopt resolutions by following a written procedure or via remote means of direct communication, including in particular via e-mail. A resolution will be valid if all Supervisory Board members have been notified of the content of the draft resolution. 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.

Audit Committee

According to the Articles of Association, during the period when the Company's shares are listed on the regulated market operated by the WSE, the Supervisory Board elects the Audit Committee from amongst its members. Pursuant to the Act on Auditors and the Articles of Association, the Audit Committee is composed of at least three members, including at least one member who satisfies the independence criteria and holds accounting or financial audit qualifications within the meaning of the Act on Auditors. According to the Articles of Association, this person should meet the requirements envisaged for independent Supervisory Board members. If the Supervisory Board consists of no more than five members, the tasks of the Audit Committee will be performed by the Supervisory Board members.

On 20 March 2013, the following persons were appointed to the first Audit Committee:

1) Mr. Mirosław Szreder,
2) Ms. Iwona Zatorska-Pańtak,

3) Mr. Marian Gawrylczyk.

Committee members elected Mirosław Szreder as the Chairman. Mirosław Szreder meets the criteria contemplated in the Act on Auditors as well as the Commission Recommendation of 15 February 2005.

Until 31 December 2013 and until the moment of preparing this information, the composition of the Committee has not changed.

The principles of the Audit Committee's operation are set forth in the Articles of Association of ENERGA SA and the Audit Committee Bylaws approved by 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.

In 2013, the Committee held four meetings with all members in attendance, and it carried out the foregoing tasks.

In the course of performance of their duties, Members of the Audit Committee hold meetings with participation of the auditor auditing individual and consolidated financial statements, and the Company employees responsible for risk management and internal audit areas.

Management Board

Personnel composition

In 2013, the Company's Management Board was composed of the following persons:

- Mirosław Bieliński – President of the Management Board
- Roman Szyszko – Executive Vice President of the Management Board, Chief Financial Officer
- Wojciech Topolnicki – Executive Vice President of the Management Board, Strategy and Investments

Mirosław Bieliński graduated from the University of Gdańsk (Faculty of Production Economics) and postgraduate studies of finance and accounting of the University of Gdańsk. He started his professional career in one of the first consulting firms in Poland, i.e. Doradca Consultants Ltd. Sp. z o.o. as a consultant and then as

partner. Since 2002, he participated in carrying out large projects combining consulting and management. In 2002-2003, he was the management board member of Ratusz Dom Inwestycyjny Sp. z o.o. (later BIK Service Sp. z o.o.), and then management board member and partner of TPS Sp. z o.o., and in 2005-2008 the President of the Management Board of Pharmag S.A. and MP59 Sp. z o.o. (2006-2008). Since 2008, he served as the President of the Management Board of ENERGA SA, a company managing the ENERGA Group. In May 2012, he was appointed by the Company's Supervisory Board as the President of the Management Board for the third term in a row. Is a supervisory board member of ENERGA-OPERATOR SA, ENERGA OBRÓT SA, ENERGA Wytwarzanie Sp. z o.o. and Towarowa Giełda Energii S.A.

Roman Szyszko graduated from the University of Gdańsk (Faculty of Economics and Social Sciences) and the Finance Department of the University of Strathclyde (UK). After writing the scientific research paper in the Market Economy Research Institute in Gdańsk, in 1999-2001 he was the Management Board member of Bank Komunalny S.A. (Nordea Bank Polska), where he managed capital investments and operations on bank money market. Next, he served as the President of the Management Board of Ebroker and provided advice in long-term financial planning. In 2005-2008, he was a management board member of Dexia Kommunalkredit Polska SA bank, where he was responsible for organizing the sales of long-term financial products to local government entities and enterprises providing public utility services. Since 2008, he has been the Executive Vice President of the Management Board, Chief Financial Officer at ENERGA SA. In May 2012, he was appointed by the Company's Supervisory Board for the third term. He is the Supervisory Board member of ENERGA-OBRÓT SA, ENERGA-OPERATOR SA and ENERGA Wytwarzanie Sp. z o.o.

Wojciech Topolnicki graduated from the Gdańsk University of Technology (Faculty of Management and Economics) and L'université de Rouen (France). In 1998, he began working in the asset management department of Credit Commercial de France bank in Lyon (France). After gaining experience in audit and business consulting in Arthur Andersen Sp. z o.o., since 2002 he was the deputy financial director and financial controller in EADS PZL Warszawa-Okęcie S.A. In 2006-2008, he ran his own business activity and was involved in renewable energy projects. From 2008 to 2011 he served as Executive Vice President of the Management Board for Finance and Development at PGE Polska Grupa Energetyczna S.A., where he was responsible for, among other things, drafting the group's investment program and the company's IPO on the WSE. In May 2012, he was appointed by the Supervisory Board as the Executive Vice President of the Management Board, Strategy and Investments of ENERGA SA. Is the member of the supervisory boards of ENERGA Wytwarzanie Sp. z o.o., ENERGA-OPERATOR SA, ENERGA-OBRÓT SA and EPW Energia Sp. z o.o.

The current term of the Management Board ends on 31 May 2015.

All the Management Board members work in the Company's registered office at al. Grunwaldzka 472, 80-309 Gdańsk.

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. According to the Articles of Association, Management Board members are appointed by the Supervisory Board for a joint three-year term, and it designates one of those members as President of the Management Board and one or more of them as Executive Vice-President of the Management Board. According to the Articles of Association, when the State Treasury has one-half of shares in the Company or less, Management Board member may be:

1) dismissed or suspended also by General Meeting,
2) suspended in performance of his/her duties by the Supervisory Board for important reasons.

Management Board member submits resignation to the Supervisory Board. Representation on resignation should be made in writing.

The Supervisory Board may also second Supervisory Board members to temporarily perform duties of Management Board members.

For as long as more the one-half of shares in the Company is owned by the State Treasury or other state-owned legal entities, the Supervisory Board will appoint Management Board members after completing a qualification 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).

Management Board's powers

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

The powers of the Management Board comprise all the Company's matters which are not reserved by the regulations of law or the Company's Articles of Association for the authorities. 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. 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.

The powers of the individual Management Board members were divided into processes constituting the supplementation of the organizational structure, where each member is the leader. And so:

1) The President of the Management Board exercises functional oversight over the processes defined as:
    a) Management of the Capital Group,
    b) Management of the Capital Group's brand,
    c) Management of the organizational governance,
    d) Audit and control,
    e) Security management.
2) The Executive Vice President of the Management Board, Chief Financial Officer exercises functional oversight over the processes defined as:
    a) Management of finances and financial controlling,
    b) Management or risks, processes and projects.
3) The Executive Vice President of the Management Board, Strategy and Investments exercises functional oversight over the processes defined as:
    a) Management of the ENERGA Capital Group's investments,
    b) IT management.

Manner of the Management Board's functioning

By principle, the Management Board resolutions are adopted at the meetings. The meetings are held on the set date as needed, but no less frequently than once every two weeks. According to the Management Board Bylaws, the Management Board meeting is 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. By principle, the meetings are chaired by the President of the Management Board. According to the Management Board Bylaws, the Management Board meetings are held in the Company's registered office or at another location indicated by the person convening the Management Board meeting. Moreover, the Management Board Bylaws admit the possibility of Management Board members' participation in the meeting and voting on resolutions adopted during that meeting using remote means of direct communication, such as teleconferences and videoconferences, with the reservation that there is at least one Management Board member present at location specified by the person convening the meeting and there exists a technical possibility of ensuring a connection.

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

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 2013, the Management Board held 52 meetings during which 371 resolutions were adopted.

Key activities and decisions of the Management Board in 2013 included:

1) floating the Company's shares on the regulated market operated by the WSE;
2) adoption of the ENERGA Group's Strategy for 2013-2020;
3) continuation of the Sales Service System Business Model project in the ENERGA Group encompassing the billing system and the CRM system in the ENERGA Capital Group, taking into account the best solutions in the power sector;
4) acquisition of attractive renewable energy projects, including in relation to wind energy;
5) continuation of the process of reorganizing and tidying up the structures of the ENERGA Capital Group;
6) continuation of the execution of the key investment projects in the ENERGA Capital Group, i.e.
   a) ENERGA-OPERATOR SA's investment program involving expansion and modernization of the distribution network, including implementation of the Smart Grid,
   b) ENERGA ProGaz program, whose purpose is to develop generating assets based on natural gas,
   c) ENERGA CHP program – construction of co-generation power units fired with biomass, natural gas and coal,
   d) ENERGA WIND program – development of wind power industry,
   e) construction of a barrage on the Wisła river.

Level of remuneration for persons discharging executive and supervisory functions

Management Board

ENERGA SA's rules of remunerating Management Board members are defined in Resolution No. 85/III/2012 adopted by the Company's Supervisory Board on 14 September 2012. According to a resolution referred to above, agreements for provision of services related to management of the Company are concluded with the Management Board members provided 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. Individual remunerations of the Company's Management Board members in 2013 are presented in the table below.

Remunerations of persons comprising the ENERGA SA Management Board in the period from 1 January to 31 December 2013

Full name	Position	Remuneration(1)	Bonus(1),(2)	Other perks	Total
Mirosław Bieliński	President of the Management Board	960,000.00	220,680.13	3,360.00	1,184,040.13
Roman Szyszko	Executive Vice President of the Management Board, Chief Financial Officer	885,975.61	210,861.87	4,560.00	1,101,397.48
Wojciech Topolnicki	Executive Vice President of the Management Board, Strategy and Investments	900,000.00	161,761.10	14,935.18	1,076,696.28
Total					3,362,133.89

(1) Without charges, paid out, includes remunerations on account of serving in the supervisory authorities of the companies of the ENERGA Capital Group; (2) bonus may be granted by the Supervisory Board by way of a separate resolution if the manager achieves the objectives of particular importance to the Company. The Supervisory Board may grant the manager the annual bonus in the amount of up to 50% of the annual basic salary.

Agreements concluded with managers, which include compensation

Agreements concluded between the Company and the managers contain the provision on payment of no-competition damages for 12 months from the last day of employment. These agreements also specify a 3-month termination notice period if the manager is dismissed for the reasons not attributable to the manager and if the management agreement is terminated. The manager will remain at the Company's disposal to hand over the duties for three months from the date of the elapse of the term of employment and expiration of the contract. On that account, the manager will be entitled to remuneration for each month of remaining at the Company's disposal.

Supervisory Board

According to the Articles of Association, Supervisory Board members are entitled to monthly remuneration in the amount specified by the General Meeting. The Company will also cover the costs incurred in connection with performance of the functions entrusted to Supervisory Board members, in particular the costs of transport to the Supervisory Board meeting, costs of exercise of personal oversight, and costs of food and lodging.

The amount of remuneration of Supervisory Board members is stated in the General Meeting resolution no. 2 of 29 January 2007. According to the aforementioned resolution, the amount of monthly remuneration of Supervisory Board members is equal to one average monthly salary in the corporate sector without profit-sharing in the fourth quarter of the previous year, as announced by the President of the Central Statistical Office, regardless of the function in the Supervisory Board. The remuneration will not be due for the month, in which the Supervisory Board member did not attend any of the formally convened meetings for unjustified reasons. Remunerations of the ENERGA SA Supervisory Board members in 2013 are presented in the table below.

Remunerations of persons comprising the ENERGA SA Supervisory Board in the period from 1 January to 31 December 2013

Full name	Position	Remuneration	Other benefits	Total
Zbigniew Wtulich	Supervisory Board Chairman	41,454.96	0	41,454.96
Marian Gawrylczyk	Supervisory Board Deputy Chairman	41,454.96	0	41,454.96
Agnieszka Poloczek	Supervisory Board Secretary	41,454.96	0	41,454.96
Mirosław Szreder	Supervisory Board member	41,454.96	0	41,454.96
Roman Kuczkowski	Supervisory Board member	41,454.96	0	41,454.96
Iwona Zatorska-Pańtak	Supervisory Board member	41,454.96	0	41,454.96
Bogusław Nadolnik*	Supervisory Board member	0	0	0
Total		248,729.76	0	248,729.76

** Mr. Bogusław Nadolnik was appointed to the Supervisory Board as of 16 January 2014.*

The number and nominal value of the Company's shares and shares in the Company's related parties held by persons discharging management and supervisory functions

As at 31 December 2013 and as at the date of preparing this Report, persons discharging management and supervisory functions in the Company held the following amounts of shares in the Company and shares in Company's affiliated entities:

Number of Company shares and shares in related entities held by persons discharging management functions

Full name	ENERGA shares		Shares in entities related to ENERGA	
	Number of shares	Par value in PLN	Number of shares	Par value in PLN
as at 31 December 2013 and the date of this report				
Mirosław Bieliński	1,775	19,383	0	0
Roman Szyszko	0	0	0	0
Wojciech Topolnicki	0	0	0	0

Number of Company shares and shares in related entities held by persons discharging supervisory functions

Full name	ENERGA shares		Shares in entities related to ENERGA	
	Number of shares	Nominal value in PLN	Number of shares	Nominal value in PLN
as at 31 December 2013 and the date of this report				
Zbigniew Wtulich	0	0	0	0
Marian Gawrylczyk	0	0	0	0
Agnieszka Poloczek	0	0	0	0
Iwona Zatorska-Pańtak	0	0	0	0
Roman Kuczkowski	8,795	96,041.4	0	0
Mirosław Szreder	0	0	0	0
Bogusław Nadolnik*	0	0	0	0

** Mr. Bogusław Nadolnik was appointed to the Supervisory Board as of 16 January 2014 on the basis of the representation of the State Treasury Minister.*

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

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.

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 edition of the Group's Policy was approved and introduced into usage in July 2013, and the applied edition of the Company's Policy is dated November 2012.

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.

An important element of the internal control system is the internal audit function. The Company has an internal audit cell, which carries out the audit and control tasks and provides consulting services to the ENERGA Group. These tasks are carried out according to the Rules for conducting audits in the ENERGA Capital 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 external advisor's report from the evaluation of the internal control system for 2013 identified the following best practices in the accounting and finance area:

- Existence of the approved prevailing accounting policy and the process of updating it.
- Controls in the process of consolidation of the financial statements (verification of completeness of received information, verification of mathematical correctness of the consolidation and exclusions, usage of dedicated tool).
- Process of acceptance of the Company's financial statements by the Company's Management Board.

The Supervisory Board is responsible for selecting an auditor to audit individual and consolidated financial statements of ENERGA SA. 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 the Company's financial statements for more than five years in a row. The ENERGA SA Management Board intends to submit to the Supervisory Board's Audit Committee the proposal to adopt a rule of changing the auditor of the Company's financial statements every five years.

The Company also meets the requirements of "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 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. The auditor selection procedure and concluding suitable agreements with it must be made in the third quarter of the year preceding the year for which the Company will prepare the financial statements.

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 Management 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 risks affecting the achievement of business objectives are analyzed on 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 Department'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.

OTHER SIGNIFICANT INFORMATION

Proceeds from the issue of shares

In the period covered by this Report, ENERGA SA did not issue any shares and did not obtain any proceeds from the sale of shares by the State Treasury as part of its Initial Public Offering held in 2013.

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

As at 31 December 2013, the ENERGA Group was a party to 3,929 court procedures, and their total value did not exceed 10% of ENERGA SA's equity. The Group was a plaintiff in 2,214 cases whose total value of the subject matter of the dispute was approx. PLN 112.3 m. We were the defendant in 1,714 cases whose total value of the subject matter of the dispute was approx. PLN 398.9 m.

As at 31 December 2013, the total value of claims related to placement of electric power devices on third party's real properties without the legal title, awarded by a legally binding court ruling, was PLN 6.8 m (there were 1,164 cases). The value of the subject matter of the dispute in 1,912 pending court cases was PLN 262.6 m. On the basis of the available data regarding the currently pending procedures, we assume that the amount to be paid after the foregoing disputes are resolved may be PLN 77.04 m, with the reservation that that amount may change if new court cases related to placement of electric power devices on third party's real properties without the legal title are commenced against ENERGA-OPERATOR.

ENERGA Group's activity related to corporate social responsibility

The adoption by the Company's Management Board of the Strategy of sustainable development and corporate social responsibility in the ENERGA Capital Group ("CSR Strategy") was an important element of the activities, which in 2013 focused mostly on tidying up and coordinating the efforts related to corporate social responsibility. The basic assumption of the CSR Strategy is the support for achievement of the Group's predefined business objectives outlined for 2013-2020 and strengthening the Group's position in relations with the stakeholders.

The CSR Strategy focuses on the four main areas of the Group's operation, such as: Service and Sales, Distribution, Production and Cooperation. The task of the Group companies is to monitor the most important areas, in which they conduct their activity and over which they have influence, in a credible manner and in accordance with the set ratios. The purpose of the priorities set within the Group is to motivate the individual companies to set ambitious goals for themselves – taking into account the specificity of their operations – to reduce the negative consequences of their activity and to maximize benefits from activities undertaken for the benefit of the community and the environment. The companies execute the CSR Strategy on the basis of internally accepted plans, and they report progress in their performance through the designated coordinators. The Team on coordination of CSR-related activities within the Group, which was established upon ENERGA SA's initiative, monitors the activities related to corporate social responsibility and plans the priorities for the given year.

Such approach strengthens the reporting of non-financial data in the Group, and allows to include as many as 15 Group's key companies in the process. At present, the work on publication of the third CSR Report of the ENERGA Capital Group for 2013 is very advanced. In line with current practice, the report will be prepared according to guidelines of GRI (*Global Reporting Initiative*), which outline the rules for measurement and reporting of economic, environmental and social aspects of operations. This year, the Report will be verified from the standpoint of implementation of GRI guidelines to confirm that the required scope of standard information and ratios was presented for the given reporting level. The credibility of the 2013 CSR Report will be additionally confirmed by verification performed by an independent external audit firm, which will evaluate the data reporting process from the qualitative standpoint.

We will present the actions taken, best practices and the achieved results in the ENERGA Group's Sustainable Development Report for 2013, which will be posted on the ENERGA Group's corporate website at www.grupaenerga.pl in "For Community" tab.

Environmental Protection

The ENERGA Group's business exerts a significant impact on the environment, in particular through emissions of pollutants into the air, generation of waste, introduction of sewage into waters or soil and emissions of noise from power lines and stations, which impact is subject to environmental regulations. The Group holds all legally required authorizations to use the environment. Analyzed and evaluated on an ongoing basis are all risks associated with the implementation of new regulations and on this basis activities are planned aiming at the continued operation of the ENERGA Group's installations. Furthermore, implemented since 2012 in the Group's companies on a project basis has been an environmental management system consistent with the Eco-Management Audit Scheme (EMAS) aimed at improving the effectiveness of environmental processes in these companies.

Research and development

As part of its business, the ENERGA Group conducts extensive activities related to supporting research and development efforts in the energy sector by:

- supporting scientific centers and conferences as well as educational initiatives and projects (e.g. the Olsztyn Festival of Science and Arts and the European Night of Scientists in Olsztyn),
- cooperating with various research centers and institutions of higher education, including: the Energy Institute in Gdańsk, the Science and Technology Park in Gdańsk and the Pomeranian Science and Technology Park,
- the ENERGA Innovations program targeted at innovators, employees of small and medium-sized enterprises and research and development centers as well as undergraduate students pursuing a well-motivated innovative idea,
- the *Acta Energetica* journal presenting the results of research and implementation projects in the energy sector.

The following innovative projects being implemented by the Group deserve special attention:

- a research and development project focused on new technologies the aim of which is to create a smart building/apartment management system,
- the Smart Toruń project the aim of which is to demonstrate the benefits of and popularize smart grid technology solutions and auxiliary devices forming the smart grid,
- a project aimed at studying the reaction of customers to the introduction of new products and services based on AMI and dynamic pricing programs, conducted in consultation with the Energy Regulatory Office and PSE,
- a research and development project in the field of electric vehicles aimed at creating points for charging electric vehicles and collecting electricity from electric vehicles, thereby creating conditions for the development of electric vehicles (EVs) in Poland and the creation of an energy storage system based on mobile energy storage units.

Environmental protection and research and development will be presented in detail in the ENERGA Group's Sustainable Development Report for 2013, which will be posted on the ENERGA Group's corporate website at www.grupaenerga.pl in "For Community" tab.

Awards and recognitions for the ENERGA Group

In 2013, ENERGA and other entities from the Group received several valuable prizes and market recognitions. In February, during the formal meeting of the participants of the Polish Power Exchange and the Warsaw Commodity Clearing House, ENERGA-OBRÓT received three prestigious prizes:

- "Platinum Megawatts 2012" – for being the most active entity in international trade in 2012,
- Paweł Gorczyński, Director of the Energy Trade Department, was awarded the title of the Broker of the Year for the highest number of executed orders on the Next-Day Market and Current-Day Market in 2012,
- "Clearances 2012" – for the most effective management of non-pecuniary collaterals.

In March 2013, the ENERGA Foundation was awarded the "SUMMA BONITAS" statuette granted by the "Help the Children" Foundation with its registered office in Warsaw, and the title of the Honorary Philanthropist of the Hospice Foundation and Hospice priest E. Dudkiewicz SAC for benevolence and helping other human beings.

In the same month, during the Women's Day concert in the National Philharmonic Hall in Sopot, the city mayor Jacek Karnowski granted the ENERGA Group the 2012 Patron of Culture title.

In April, ENERGA Elektrownie Ostrołęka SA ranked fourth in the 2012 Pillars of Polish Economy in Mazowieckie voivodship, which ranks economically stable companies which are important employers working for development of local communities and entrepreneurship.

During the jubilee gala of the KTR Polish Advertising Contest, which recognized the best advertising projects in 2012, ENERGA SA received the KTR prize for campaign "ENERGA. Just turn it on", and the prize in the TV and cinema category went to the Company's advertising spot, in which a canary, a dog and a cat encourage to save electricity and use the services of the most environmentally-friendly power supplier in Poland.

In May 2013, the employees of the ENERGA Group, who developed an innovative technology of generating heat and electric power in municipalities, received the Prime Minister's prizes for outstanding scientific and technological achievements. Jointly with the scientists from the team of Professor Jan Kiciński from the Institute of Fluid-Flow Machinery of the Polish Academy of Sciences in Gdańsk they are implementing in the municipality of Żychlin the concept of a municipality which is self-sufficient from the energy standpoint. Prizes were awarded during the formal ceremony held in the Prime Minister's Office.

ENERGA–OPERATOR was recognized for being the most effective and the most innovative Polish power grid operator in 2013. This was confirmed by the Operator of the Year 2013 title granting to it in the Energy World Leaders Contest.

The ENERGA Group was the recipient of the CSR Silver Leaf prize for 2012, for, among other things, striving for corporate governance, human rights, jobs, consumers, the market and social involvement. The distinction is granted to the enterprises from the list of 500 largest companies of *Polityka* weekly, which display responsible and sustainable approach to business activity conducted.

In June 2013, ENERGA received for the second time the title of the High Reputation Brand in the PremiumBrand survey, which is the largest research project on the Polish market, and which comprehensively analyzes the attitudes of consumers and the business environment to the individual brands. The contest was organized by the MMT Management group, and Dom Badawczy Maison carried out the project. The brands participating in this year's edition of the PremiumBrand project were analyzed according to 7 categories: Energy, Construction materials, Finance, Commerce, Telecommunication, Number games and Food.

According to the first June report on the subject of the enterprises' role in development of voivodships, prepared by PKPP Lewiatan, ENERGA was considered the "Most valuable company of Pomorskie voivodship", and it was ranked highest in terms of headcount, capital expenditures and net profit.

ENERGA-OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o. ranked third in *Gazeta Finansowa's* "Ranking 200", which ranks the most dynamic companies.

In October, the ENERGA Group's *Emisja* bulletin was recognized in the contest of "Company Bulletins 2013" organized by Agape consulting and publishing agency. In the same month, the ENERGA Foundation was granted the Lions Club Gdańsk Amber's "Amber heart" statuette in recognition of its support for the scholarship program for talented youth from low-income families attending schools of Pomorskie voivodship.

In December 2013, the ENERGA Group received the Special Prize of the Economic Forum awarded by the Forum's Program Council for carrying out the largest in more than two years initial public offering of shares on the Warsaw Stock Exchange, whose value was PLN 2.4 billion.

Gdańsk, 6 March 2014

Signatures of ENERGA SA Management Board Members

Mirosław Bieliński
President of the ENERGA SA Management Board

Roman Szyszko
Executive Vice President of the Management Board, Chief Financial Officer

Wojciech Topolnicki
Executive Vice President of the ENERGA SA Management Board, Strategy and Investments

MANAGEMENT BOARD'S REPRESENTATION

The ENERGA SA Management Board hereby represents that:

- 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 Capital Group and its financial result. The Management Board Report on the activity of the ENERGA Capital Group contains a true presentation of developments, achievements, and situation of the Capital Group, including a description of key risks and threats;

- KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, an entity authorized to audit the financial statements, which audited the consolidated financial statements of the ENERGA Capital Group for the financial year ended 31 December 2013, 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

Mirosław Bieliński
President of the ENERGA SA Management Board

Roman Szyszko
Executive Vice President of the ENERGA SA Management Board for Financial Matters

Wojciech Topolnicki
Executive Vice President of the ENERGA SA Management Board, Strategy and Investments

Gdańsk, 6 March 2014

Illustrations

Glossary of terms and abbreviations

ATS	Alternative Trading System organized by BondSpot S.A., one of the Catalyst trading platforms
BASE	Contract for the supply of 1MWh during every hour of the day
Billing	Itemized bill, statement of all fees for added services which a subscriber uses in a given settlement 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
BondSpot S.A.	Subsidiary of the Warsaw Stock Exchange running a regulated over-the-counter market and electronic trading platforms for securities and financial instruments, also on an unregulated market
CAGR	Compound Annual Growth Rate
CAPEX	Capital expenditures
Catalyst	The Catalyst bond market is run on the transaction platforms of the Warsaw Stock Exchange and BondSpot.
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

CRO	Settlement prices of the deviations
CO_2	Carbon dioxide
CRM, Customer Relationship Management	System to manage customer relationships
EIB	European Investment Bank
EBIDTA (Earnings before interest, taxes, depreciation and amortization)	ENERGA SA defines and calculates 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) the share of profit of the associate, (iii) financial income and (iv) expenses) adjusted by depreciation (posted to profit and loss account). EBITDA has not been defined by IFRS and it should not be treated as an alternative for measures and categories consistent with IFRS. In addition, EBITDA does not have a single definition. The method of calculating EBITDA by other companies may significantly differ from the method in which ENERGA SA calculates it. As a result, EBITDA presented herein cannot be compared to EBITDA presented by other companies.
EBIT	Earnings before interest and taxes
EBRD	European Bank for Reconstruction and Development
ENERGA SA, ENERGA, Company	Parent company in the ENERGA Capital Group
EMTN	Program to issue Euro Medium Term Notes
EU	European Union
EUA	European Union emission allowance
EU ETS (European Union Greenhouse Gas Emission Trading Scheme)	EU emissions trading scheme. The rules governing its operation are stated in ETS Directive.
EUR	Euro, currency used in countries belonging to the European Union's Eurozone
WSE	Warsaw Stock Exchange S.A.
ENERGA Capital Group, ENERGA Group, Group	Capital Group dealing with the distribution, supply and generation of electrical and thermal energy. It also conducts activity related to street lighting, design, procurement of materials, grid-related services, specialized transport, hotel and IT services
Tariff group	Group of customers off-taking electrical energy or heat or using electricity or heat supply services with respect to which a single set of prices or fee rates along with their terms and conditions are applicable
GUS	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
IPO	Initial Public Offering
IRGIT	*Izba Rozliczeniowa Giełd Towarowych S.A.* (Clearing House of Mercantile Exchanges)
KNF	Polish Financial Supervision Authority
Cogeneration, CHP	Technological process of simultaneous combustion of heat and electrical or mechanical energy in the course of the very same technological process
Covenants	Contractual clauses providing safeguards
KRS	National Court Register
KTR	*Krajowe Towarzystwo Reklamowe* (National Advertising Association)
kWh	Kilowatt hour, unit of electrical energy generated or used by equipment with 1 kW of power in an hour; 1 kWh = 3,600,000 J = 3.6 MJ
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
Off-peak	Contract for the supply of 1MWh of energy in low demand hours from 0:00-7:00 and 22:00-24:00
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.
Distribution System Operator, DSO	Utility dealing with the distribution of gaseous fuels or electrical energy, 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 energy systems
Transmission System Operator, Electrical power TSO, TSO	Utility dealing with the transmission of gaseous fuels or electrical energy, responsible for grid operation in the gaseous transmission system or in the electrical energy transmission system, the current and long-term operational safety of this system, the operation, maintenance, refurbishment and required expansion of the transmission grid, including connections with other gaseous systems or other electrical energy systems
OTC	Over-the-counter market
OZEX_A	Volume-weighted average price using all transactions pertaining to the PMOZE_A contract on an exchange session
PEAK	Contract for the supply of 1MWH of energy during every peak hour 7:00- 22:00
PGE	PGE Polska Grupa Energetyczna SA
GDP	Gross Domestic Product
PKEE	Polish Electricity Committee
PLN	Polish zloty, national currency
PMOZE_A	Property rights to certificates of origin for electrical energy generated in RES whose period of generation, as specified in the certificate of origin, commenced after 1 March 2009
pp.	Percentage point
Property rights	Negotiable rights constituting a commodity arising from certificates of origin for energy generated from renewable energy sources and cogeneration
PSEW	Polish Wind Energy Association
PTPiREE	Polish Society of Electricity Transmission and Distribution
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 electrical energy: transmission or distribution and generation or the sale of this energy
PSE	*Polskie Sieci Elektroenergetyczne Spółka Akcyjna* with its registered office in Warsaw, entered in the register of entrepreneurs of the National Court Register under file number KRS 0000197596; company designated by ERO President decision No. DPE-47-58(5)/4988/2007/BT of 24 December 2007 to be the electrical power transmission system operator in the Republic of Poland for the period from 1 January 2008 until 1 July 2014
MPC	Monetary Policy Council
y/y	Year to year
SAIDI	System Average Interruption Duration Index
SAIFI System Average Interruption Frequency Index)	System Average Interruption Frequency Index
SFIO	Specialized Open-end Mutual Funds
Smart Grid	Electric power system intelligently integrating the actions of all the participants in the processes of generation, transmission, distribution and usage to deliver electricity in an economical, reliable and safe manner. It entails comprehensive energy solutions making it possible to combine, facilitate reciprocal communication and control in an optimum way elements of power grids that have been diverse to date
SPOT	Day-Ahead Market (DAM) – energy market operating in the “day ahead” time interval (DA) providing for energy supply on day D
Certificate of origin	Certificate of origin from renewable sources and certificate of origin from 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 electrical energy 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 electrical energy in a renewable energy source (known as a green certificate)
Tariff G	Tariff group for individual customers – households
Polish Power Exchange, TGE	Polish Power Exchange S.A., a mercantile exchange on which commodities admitted to be traded on the exchange are traded, i.e. electrical energy, 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 electrical energy, liquid or gaseous fuels and the quantity of pollution emissions
TGPE	Economic Society of the Polish Power plants
TOE	Energy Trading Association
TWh	Terawatt hour, a multiple unit of electrical energy in the International System of Units. 1 TWh is 109 kWh
EU	European Union
Unbundling	Process of legally and organizationally splitting distribution activity (electricity distribution services performed by a distributor) from generation activity (generation of electricity by power plants) and electricity supply and sales activity (sellers)
UOKiK	Office of Competition and Consumer Protection
ERO	Energy Regulatory Office
WACC	Weighted average cost of capital
WIBOR Warsaw Interbank Offered Rate)	Warsaw Interbank Offered Rate
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