



## Information to the Extended Consolidated Report of ENERGA Group for Q1 2014

Gdańsk, 12 May 2014



## SUMMARY OF THE FIRST QUARTER OF 2014:

- 1 Revenues of the ENERGA Group exceeded PLN 2.7 bn, in other words PLN 186 m less than in the comparable period last year. An increase in revenues was recorded by the Generation Segment (+26%) and the Distribution Segment (+8%), while the Sales Segment experienced a decline in the same period (-19%).
- 2 The Group generated EBITDA of PLN 645 m, up PLN 182 m, or 39% YoY. The Distribution Segment contributed 63% of the Group's EBITDA, while the Generation Segment contributed 30% and the Sales Segment 7%. Net profit amounted to PLN 323 million, up 79% YoY.
- 3 The total installed capacity of the ENERGA Group was 1.3 GW and 0,9 GWt. The Group generated 1.3 TWh of electrical energy on a gross basis: 60.2 percent of gross generated energy came from black coal, 20.2 percent from water, 11.3 percent from biomass and 8.3 percent from wind. Gross heat production reached 1,419.2 TJ. The distribution company of the Group, ENERGA-OPERATOR SA, supplied 5.3 TWh of electricity to more than 2.9 million recipients.
- 4 Generating companies of the ENERGA Group produced approx. 40 GWh (3%) less electricity than in the same period of 2013. The decline of electrical energy generation took place both in power as well as combined heat and power plants (by 109 GWh; the key reason being the reduced own generation in ENERGA Elektrownie Ostrołęka SA due to a generator failure in Unit 2) and in run-of-the-river hydro power plants (by 46 GWh; mainly due to worse hydrologic conditions in Q1 2014). Electricity production was positively impacted by the acquisition of wind farms, which produced 103 GWh of additional electricity in Q1 2014.
- 5 At the end of the first quarter, the Group had the installed capacity of over 0.5 GW in renewable energy sources (RES), which generated about 0.5 TWh of gross electricity production.
- 6 The volume of electricity sold to end users fell by approximately 10% YoY (or 0.5 TWh) to approx. 4 TWh. This decline affected all tariff groups, which was a result of a change in the selling strategy and a decision not to extend unprofitable contracts (in tariff groups A and B) and of a lower consumption of electricity by retail buyers. During this period, a decline in electricity sales was also recorded on the wholesale market (by approx. 10%) down to 2.7 TWh.
- 7 At the end of the first quarter, the SAIDI ratio was 107.1 min./customer and was 170% higher than in the comparable period of the previous year. The increase in SAIDI was materially affected by the fact of severe failures caused by detrimental weather conditions (SAIDI for mass failures was 42.3 min./customer). The SAIFI ratio (1.01 interruptions) was 91% higher than in Q1 2013.
- 8 In Q1 2014, the Group's capital expenditures were PLN 195 m, where the highest contribution to this amount consisted of Distribution Segment expenditures of PLN 154 m.





The tables below depict consolidated and standalone financial highlights for the three month periods ended 31 March 2013 and 31 March 2014, while for balance sheet-related data as at 31 March 2014 and 31 December 2013.

## Consolidated financial highlights of the ENERGA Group

	3 months ended 31 March		3 months ended 31 March	
	2014 (unaudited)	2013 (unaudited, restated)	2014 (unaudited)	2013 (unaudited, restated)
	PLN 000s		EUR 000s	
Sales revenue	2,747,979	2,933,814	655,936	702,912
Operating profit	445,726	282,486	106,394	67,681
Profit before tax	404,293	243,096	96,504	58,243
Net profit attributable to parent company shareholders	319,661	192,362	76,302	46,088
Comprehensive income	342,207	180,626	81,684	43,276
Net cash from operating activities	250,264	703,807	59,737	168,625
Net cash from investing activities	(395,656)	(323,134)	(94,442)	(77,420)
Net cash from financing activities	(176,558)	1,830,248	(42,144)	438,509
Net change in cash and cash equivalents	(321,950)	2,210,921	(76,849)	529,714
Earnings per share, basic and diluted (PLN/EUR per share)	0.77	0.47	0.18	0.11
Average weighted number of outstanding common shares used to calculate the basic earnings per share ratio	414,067	414,067	414,067	414,067

	Balance as at		Balance as at	
	31 March 2014 (unaudited)	31 December 2013 (restated)	31 March 2014 (unaudited)	31 December 2013 (restated)
	PLN 000s		EUR 000s	
Non-current assets	12,660,729	12,649,536	3,035,200	3,050,139
Current assets	4,364,282	4,435,020	1,046,264	1,069,401
Total assets	17,025,011	17,084,556	4,081,464	4,119,540



Non-current liabilities	6,475,289	6,520,014	1,552,343	1,572,148
Current liabilities	2,159,600	2,516,247	517,728	606,734
Equity	8,390,122	8,048,295	2,011,393	1,940,658
Equity attributable to parent company shareholders	8,373,040	8,034,479	2,007,297	1,937,326
Share capital	4,521,613	4,521,613	1,083,982	1,090,281
Book value per share (in PLN/EUR per share)	20.22	19.40	4.85	4.68
Number of common shares at the end of the period	414,067	414,067	414,067	414,067

### Selected standalone financial data of ENERGA SA

	3-month period ended 31 March		3-month period ended 31 March	
	2014 (unaudited)	2013 (unaudited, restated)	2014 (unaudited)	2013 (unaudited, restated)
	PLN 000s		EUR 000s	
Sales revenue	14,822	13,586	3,538	3,255
Operating profit	(16,802)	(17,091)	(4,011)	(4,095)
Profit before tax	720,566	583,499	171,977	139,800
Net profit	725,359	586,372	173,141	140,489
Comprehensive income	745,792	586,372	178,019	140,489
Net cash from operating activities	(28,628)	(14,729)	(6,833)	(3,529)
Net cash from investing activities	102,623	791,515	24,496	189,639
Net cash from financing activities	(153,122)	1,370,108	(36,550)	328,264
Net change in cash and cash equivalents	(79,127)	2,146,894	(18,887)	514,374
Earnings per share, basic and diluted (PLN/EUR per share)	1.75	1.42	0.42	0.34
Number of outstanding common shares used to calculate earnings per share	414,067	414,067	414,067	414,067

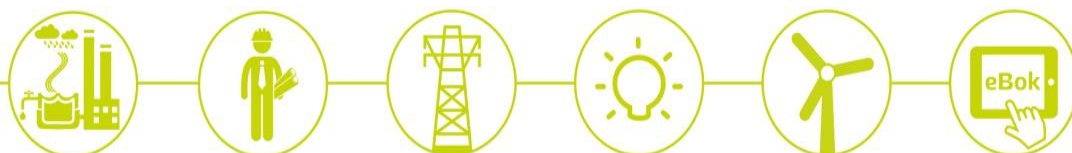


	Balance as at		Balance as at	
	31 Mar 2014 (unaudited)	31 Mar 2013	31 Mar 2014 (unaudited)	31 Mar 2013
	PLN 000s		EUR 000s	
Non-current assets	10,249,991	10,465,281	2,457,265	2,523,457
Current assets	1,803,421	1,099,806	432,340	265,192
Non-current assets classified as held for sale	2,088	-	501	-
Total assets	12,055,500	11,565,087	2,890,106	2,788,649
Non-current liabilities	4,929,024	4,988,638	1,181,652	1,202,893
Current liabilities	320,666	516,431	76,874	124,525
Equity	6,805,411	6,060,018	1,631,580	1,461,231
Share capital	4,521,613	4,521,613	1,083,982	1,090,281
Book value per share (in PLN/EUR per share)	16.44	14.64	3.94	3.53
Number of common shares at the end of the period (in '000)	414,067	414,067	414,067	414,067

\* Data pertains to the situation before the consolidation of ENERGA SA shares.

The above financial data for the periods ended 31 March 2014 and 31 March 2013 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: PLN 4.1713 on 31 March 2014 and PLN 4.1472 on 31 December 2013.
- individual items of 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 the National Bank of Poland on the last day of each month of the financial period: PLN 4.1894 for the period from 1 January to 31 March 2014 and PLN 4.1738 for the period from 1 January to 31 March 2013.



## Contents

<b>Summary of the First Quarter Of 2014:</b> .....	<b>2</b>
<b>Consolidated financial highlights of the ENERGA Group</b> .....	<b>4</b>
<b>Selected standalone financial data of ENERGA SA</b> .....	<b>5</b>
<b>1. Description of the ENERGA Capital Group Organization</b> .....	<b>8</b>
1.1. STRUCTURE OF THE GROUP .....	8
1.2. GROUP MANAGEMENT MODEL .....	8
1.3. MAJOR CHANGES OF THE GROUP'S ORGANIZATION AND CORPORATE MANAGEMENT PRINCIPLES.....	9
1.4. CHANGES OF ENERGA SA'S ORGANIZATIONAL STRUCTURE .....	10
<b>2. Operations Of The ENERGA Capital Group</b> .....	<b>11</b>
2.1. DESCRIPTION OF OPERATIONS OF THE CAPITAL GROUP BY OPERATING SEGMENT .....	11
2.2. KEY OPERATIONAL DATA OF THE GROUP.....	12
2.2.1 DISTRIBUTION SEGMENT .....	12
2.2.2 SALES SEGMENT.....	13
2.2.3 GENERATION SEGMENT .....	14
2.3. IMPLEMENTATION OF THE INVESTMENT PROGRAM .....	15
<b>3. Factors And Events Affecting The Achieved Financial Results</b> .....	<b>17</b>
3.1. MACROECONOMIC SITUATION .....	17
3.2. SITUATION IN THE ENERGY MARKET .....	19
3.3. REGULATORY ENVIRONMENT.....	23
<b>4. Assets And Financial Standing Of The ENERGA Group</b> .....	<b>24</b>
4.1. GROUP'S FINANCIAL RESULTS .....	24
4.1.1. CONSOLIDATED PROFIT AND LOSS ACCOUNT.....	24
4.1.2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	27
4.1.3. CONSOLIDATED CASH FLOW STATEMENT .....	30
4.1.4. SELECTED ECONOMIC RATIOS.....	30
4.2. OPERATING SEGMENTS .....	31
4.2.1. DISTRIBUTION .....	31
4.2.2. SALES .....	32
4.2.3. GENERATION .....	33
4.1. PROJECTED FINANCIAL RESULTS .....	36
4.2. FINANCIAL AND MARKET RISK MANAGEMENT.....	36
<b>5. Significant Events During The Reporting Period And Events After The Balance Sheet Date.....</b>	<b>37</b>
5.1. CONVENING THE ANNUAL GENERAL MEETING OF ENERGA SA IN 2014 .....	37
5.2. DISTRIBUTION OF ENERGA SA'S NET PROFIT FOR 2013.....	38
5.3. EXTRAORDINARY GENERAL MEETING OF ENERGA SA IN 2014 .....	38
5.4. AMENDMENTS TO ENERGA SA'S ARTICLES OF ASSOCIATION .....	38
5.5. CHANGE IN THE COMPOSITION OF THE SUPERVISORY BOARD OF ENERGA SA .....	38
5.6. INTRODUCTION OF THE COMPANY'S BONDS INTO TRADING ON THE REGULATED MARKET.....	38
5.7. INFORMATION ON MATERIAL AGREEMENTS AND TRANSACTIONS CONCLUDED WITH RELATED ENTITIES.....	39
5.7.1 MATERIAL AGREEMENTS .....	39
5.7.2 GUARANTEES AND SURETIES .....	39
5.7.3 TRANSACTIONS WITH RELATED ENTITIES .....	39
5.7.4 RATINGS.....	39
<b>6. Shares And Shareholding Structure</b> .....	<b>39</b>
6.1. ENERGA SA'S SHAREHOLDING STRUCTURE .....	39
6.2. COMPANY LISTINGS ON THE WARSAW STOCK EXCHANGE .....	40
6.3. RECOMMENDATIONS FOR THE SHARES IN THE COMPANY .....	41
6.4. SHARES HELD BY EXECUTIVE AND SUPERVISORY PERSONNEL .....	42
<b>7. Factors Affecting The Performance Of The ENERGA Group In The Next Quarter And Later .....</b>	<b>43</b>
<b>8. Other Information Of Importance For Evaluating The Personnel, Assets And Financial Standing Of The ENERGA Group</b> .....	<b>43</b>
8.1. HEADCOUNT IN THE GROUP .....	43
8.2. ENERGA-OBRÓT AN EX OFFICIO SELLER .....	44
8.3. COLLECTIVE DISPUTES AND AGREEMENTS .....	44
8.4. PROCEEDINGS PENDING BEFORE THE COURT, ARBITRATION BODIES OR PUBLIC ADMINISTRATION BODIES.....	44
<b>Glossary Of Terms And Abbreviations</b> .....	<b>46</b>



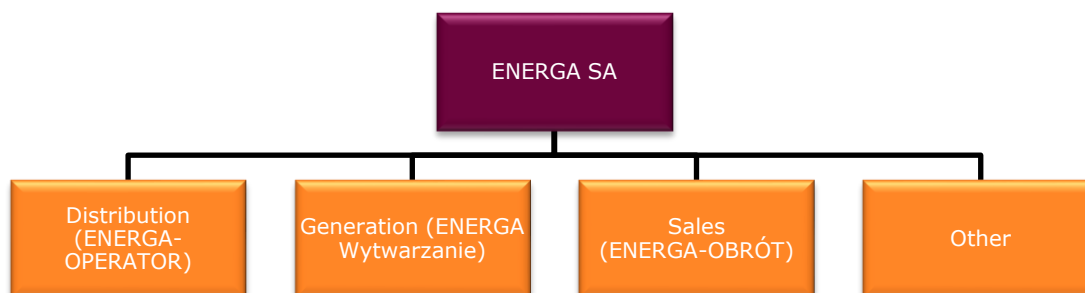
## 1. Description of the ENERGA Capital Group organization

### 1.1. Structure of the Group

As at 31 March 2014, the ENERGA Capital Group ("ENERGA Group", "Group") was composed of the parent company ENERGA SA ("Company", "Issuer") and 49 subsidiaries and 2 associates. As at the date of this Information, the number of the Group companies shrank to 43 subsidiaries and one associate.

The simplified structure of the ENERGA Capital Group at the end of first quarter of this year is shown in the chart below:

**Fig. 1: Simplified organizational structure 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 Condensed Interim Consolidated Financial Statements of the ENERGA Capital Group for the 3 months ended 31 March 2014.

In line with the principles for preparing consolidated statements in place in the ENERGA Group, both direct and indirect subsidiaries are measured by the full method, while investments in associates are recognized using the equity method.

### 1.2. Group Management Model

Since 17 December 2013, the ENERGA Group has been organized and managed based on an internal regulation named Organizational Governance ("Governance"). 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. Consequently, the Group is to 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. As a default, the Governance supports the Group's development based on organic growth and assets held by the Group, and it prepares the Group for participation in mergers and acquisitions. The Governance regulates the following areas: corporate governance, financial policy, investments, HR policy, IT, legal services, 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 Company outlines the Segments within the Group and defines their objectives. It is also responsible for strategic and directional decisions and activities. It monitors and controls Segments' operations, and manages strategic risk throughout the Group. Also, ENERGA SA oversees Segment Leaders, who conduct activities on the operational level and manage their Segments based on the Group's Business Model, define and enforce the achievement of the goals of Segment companies and are fully responsible for performance of the Segments. Each Leader is responsible for the capacity of its Segment to generate dividends for the owner. The activities are effective on the level of the Group, the Segment as well as individual entities.





### 1.3. Major changes of the Group's organization and corporate governance principles

To implement the growth strategy and optimization of the ENERGA Group's structure, the following changes in its organization were introduced in the period of 3 months ended 31 March 2014:

<p><b>8 January 2014:</b></p> <p>Merger of AEGIR 4 Sp. z o.o. (acquiring company) with AEGIR 1 Sp. z o.o., AEGIR 2 Sp. z o.o. and AEGIR 3 Sp. z o.o. (acquired companies).</p>	<p><b>11 February 2014:</b></p> <p>Split-off of EPW Energia Olecko Sp. z o.o.</p> <ul style="list-style-type: none"> <li>• Through a transfer of this company part of assets i.e. branch office under the name of EPW Energia Olecko Sp. z o.o. Branch Office in Kętrzyn - onto a company EPW 1 Sp. z o.o. (indirectly owned by ENERGA SA),</li> <li>• as a result of which PGE Polska Grupa Energetyczna SA („PGE”) became the sole shareholder of the split company, which ceased to belong to the ENERGA Group.</li> </ul>
<p><b>17 February 2014:</b></p> <p>Completion of the liquidation process of Zakład Energetyczny Płock – Dystrybucja Zachód Sp. z o.o. in liquidation.</p>	<p><b>28 February 2014:</b></p> <p>Split-off of EPW Energia Sp. z o.o.</p> <ul style="list-style-type: none"> <li>• Through transferring of two parts of the company assets, i.e. <ul style="list-style-type: none"> <li>• A branch office under the brand name of EPW Energia Sp. z o.o. Branch Office 'Kisielice/ Malbork' Wrocławek and EPW Energia Sp. z o.o. Branch Office 'Galicia' Orzechowce – onto a company PGE Energia Natury Sp. z o.o. with its seat in Warsaw;</li> <li>• A branch office under a brand name of EPW Energia Sp. z o.o. Branch Office 'Pipeline' Pruszcz Gdański onto a company EPW Parsówek Sp. z o.o (an indirect subsidiary of ENERGA SA),</li> </ul> </li> <li>• As a result of the split-off ENERGA Wytwarzanie Sp. z o.o. became the sole shareholder of EPW Energia Sp. z o.o.</li> </ul>
<p><b>27 February 2014:</b></p> <p>Sale by ENERGA-OPERATOR SA of all of its shares (i.e. 100%) held in ENERGA-OPERATOR Produkcja Sp. z o.o. and Przedsiębiorstwo Wielobranżowe Energetyki „ELEKTROINSTAL” Sp. z o.o.</p>	
<p><b>18 March 2014:</b></p> <p>Share capital increase of ENERGA Wytwarzanie Sp. z o.o. up to PLN 1,171,382 thousand. New shares in the increased share capital were assumed by ENERGA SA through a contribution-in-kind in the following form:</p> <ul style="list-style-type: none"> <li>• 100% shares in Ekologiczne Materiały Grzewcze Sp. z o.o.</li> <li>• 100 % shares in Elektrownia Ostrołęka SA</li> <li>• 89.38% shares in ENERGA Elektrownie Ostrołęka SA.</li> </ul>	

Organizational changes carried out within the ENERGA Group in Q1 2014 were primarily aimed at:

- further sorting out and simplification of organizational and capital ties, mainly in the Generation Segment,
- disposal of entities conducting activity unrelated to the segments' core business (Distribution Segment).

In the Generation Segment, the next stages of consolidation of the companies and sorting out of the ownership structure were introduced. In accordance with the adopted assumptions pertaining to integration of acquired assets in the ENERGA Group, the split-off of EPW Energia Sp. z o.o. was carried out and consequently, as of 28 February 2014 (i.e. the company split-off registration), ENERGA Wytwarzanie Sp. z o.o. became the sole owner of the company. The next stage involves a plan to merge wind farms within EPW Energia Sp. z o.o. into ENERGA Wytwarzanie Sp. z o.o. structure. On 14 March 2014, a Merger Plan was prepared to merge ENERGA Wytwarzanie Sp. z o.o. (acquiring company) and EPW Energia Sp. z o.o. (acquired company).

Already after the period to which this Information pertains, on 16 April 2014, an Extraordinary General Meeting of EPW Energia Sp. z o.o. was held at which a resolution was adopted on merging the companies using the so-called simplified method, as defined in Article 515 § 1 of the Commercial Company Code, i.e. without increase of the share capital of ENERGA Wytwarzanie Sp. z o.o. The process will be completed upon registration of the merger in the National Court Register.



On 18 March 2014, the Merger Plan was prepared to merge the following subsidiaries: ENERGA Invest S.A. (as the acquiring company) and EPW 1 Sp. z o.o., EPW 2 Sp. z o.o., EPW 3 Sp. z o.o., EPW Parsówek Sp. z o.o. and AEGIR 5 Sp. z o.o. (acquired companies). Pertinent resolutions regarding the merger were adopted at the General Meetings of these companies on 25 April 2014, and the Court made an entry in the National Court Register on 30 April 2014.

As a consequence of the merger, sale and liquidation processes in the ENERGA Group, by the date of publication of this Report, the number of the Issuer's subsidiaries was reduced from 56 to 43 in relation to the previous reporting period (i.e. as at 31 December 2013). 13 subsidiaries and 1 associate were removed from ENERGA Group's structures during Q1 and by the date of preparation of this Information.

In addition, the first 3 months of 2014 saw intensive work associated with transformation of ENERGA Wytwarzanie Sp. z o.o. into a joint-stock company. The company's significant assets, its high share capital and the scale and broad scope of business activity clearly speak in favor of changing the legal form. The transformation process is expected to be completed by the end of June 2014.

On 14 April 2014, a General Meeting of ENERGA-OPERATOR SA was held, at which a resolution was adopted to increase the company's share capital by PLN 135 m, i.e. up to PLN 1,356,110,400.00; the funds for this purpose were allocated from the supplementary capital of ENERGA-OPERATOR SA, topped up by the net profit generated by the company in 2013. The capital increase registration in the National Court Register took place on 5 May 2014.

#### 1.4. Changes of ENERGA SA's organizational structure

Changes of ENERGA SA's organizational structure prepared and approved in March 2014 are the consequence of implementation of the new organizational rules in the ENERGA Group defined in the aforementioned "ENERGA Group Organizational Governance", including ENERGA SA's role as the parent company in the Group.

The changes introduced in the Company's organization pertain to:

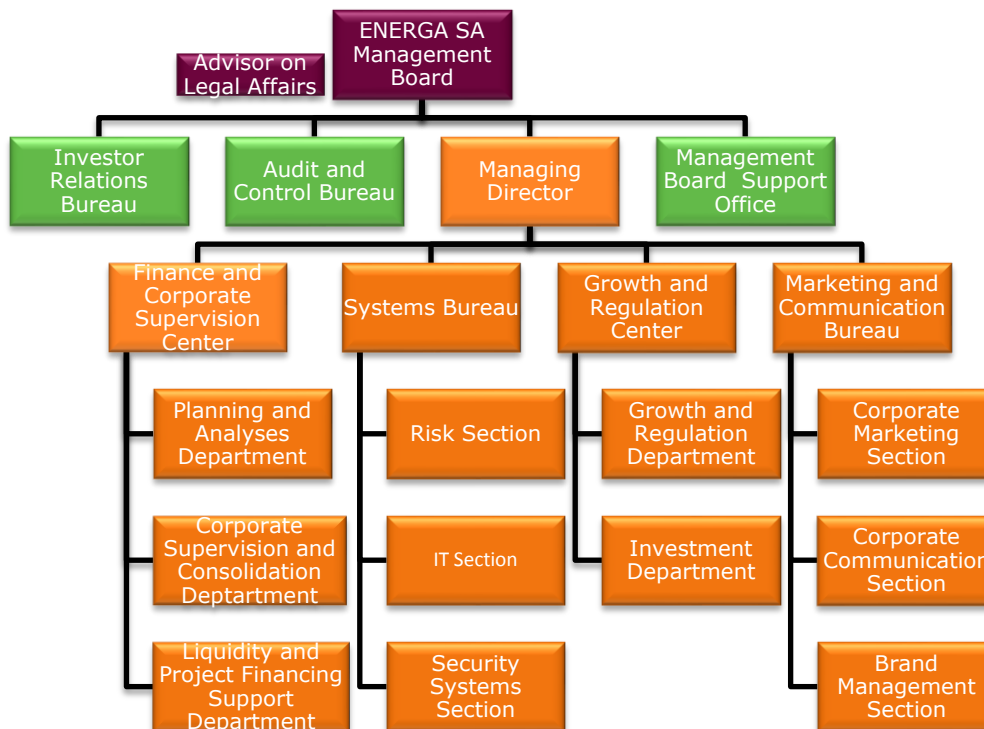
- 1) creation of the Finance and Corporate Supervision Center – the Center was created as a result of integrating two areas – Asset Management and Finance Management. The decision on the merger was made as the strategic issues from the area of finance management and asset management in the ENERGA Group overlapped/complemented each other,
- 2) creation of the Growth and Regulation Center – the Center was created as a result of remodeling of the investment area, i.e. transfer of projects and actions pertaining to execution of investments to the Segment Leader level and leaving the strategic issues, in particular in the regulation area and definition of the directions of strategic investments growth, on ENERGA SA's level,
- 3) creation of the Marketing and Communication Bureau – which was a sorting out measure, based on the assumption that the business support areas will operate in the form of Bureaus and the business areas will be organized in the form of Centers. Consequently, the existing Marketing and Communication Center was transformed into a Bureau,
- 4) creation of the Systems Bureau – a new business support area, grouping together tasks associated with definition, maintenance and development of systems supporting the operation of the organization, i.e. IT, security and risk. The Bureau was created as a result of take-over of the functions and resources of the Risk, Process and Project Management Bureau, IT Center, Institutional Relations Bureau and System Security Bureau. At the same time, the broad scope of the duties of independent organizational cells was limited and adapted to the current needs of the organization,
- 5) maintenance of other Bureaus, i.e.: Investor Relations Bureau, Audit and Control Bureau and Management Board Support Office, with simultaneous adaptation of the duties performed to the scope outlined in the Governance.

A visualization of the changes of ENERGA SA's organizational structure is presented in the drawing below. It presents the Company's organizational chart, where orange marks new organizational



cells in accordance with the organizational structure approved in March 2014, and green marks the organizational cells that remain unchanged.

**Fig. 2: Organizational structure of ENERGA SA binding from April 2014**



## 2. Operations of the ENERGA Capital Group

### 2.1. Description of operations of the Capital Group by operating segment

At the end of 2013, the ENERGA Group was 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. Among Poland’s largest utilities it also held a leading position in terms of the percentage of electrical energy originating from renewable energy sources (RES) in the total volume of electrical energy generated. The Group was 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 operating segments:

**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.

**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 conducted by other companies in this Segment.

**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.

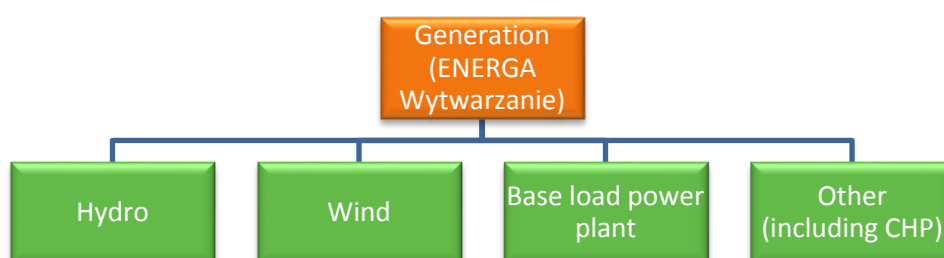
**The Distribution Segment** is key from the standpoint of building the Group’s operating profitability. Distribution of electricity in Poland is a regulated activity, conducted on the basis of



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 March 2014, the distribution grid consisted of power lines with a total length of over 190 thousand km and covered almost 77 thousand km<sup>2</sup>, i.e. about 25% of the country’s landmass.

The **Generation Segment** consists of base load power plants, renewable energy sources and combined heat and power plants (cogeneration, CHP). At the end of March 2014, the total installed generation capacity in the Group’s power plants was approximately 1.3 GW. In Q1 2014, the Group had gross production of 1.3 TWh of electricity. The installed capacity of our power plants relies on diverse energy sources, such as hard coal, hydropower, wind and biomass. In Q1 2014, 60.2% of the Group’s gross energy production originated from hard coal, 20.2% from hydro, 11.3% from biomass and 8.3% from wind.

**Fig. 3: Generation Segment structure by energy sources**



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 (including primarily ENERGA Elektrownie Ostrołęka SA). At the end of Q1 2014, the Group had the installed capacity of over 0.5 GW in renewable energy sources, with a gross production of 0.5 TWh of electricity in Q1 2014.

The **Sales Segment** 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 Q1 2014, the ENERGA Group supplied over 2.9 million customers, out of which over 2.6 million were G tariff customers.

## 2.2. Key operational data of the Group

### 2.2.1 Distribution Segment

#### Distribution of electricity by tariff groups

Distribution of electricity by tariff groups (in GWh)*	Q1 2014	Q1 2013	Change	Change (%)
Tariff Group A (WN)	961	846	115	14%
Tariff Group B (SN)	1,767	1,619	148	9%
Tariff Group C (nN)	1,126	1,060	66	6%
Tariff Group G (nN)	1,403	1,448	(45)	-3%



<b>Total</b>	<b>5,257</b>	<b>4,973</b>	<b>284</b>	<b>6%</b>
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\* Billed sales.

In Q1 2014, the volume of supplied electricity was higher than the one in the same period of 2013, by 6% on average. The increase in the average distribution rate was approximately 3% YoY.

**SAIDI and SAIFI ratios**

	SAIDI				SAIFI			
	Unplanned	Unplanned incl. catastrophic	Planned	Total	Unplanned	Unplanned incl. catastrophic	Planned	Total
	Number of minutes per customer in the relevant period				Disruptions per customer in the relevant period			
Q1 2014	82.5	87.9	19.2	107.1	0.91	0.91	0.10	1.01
Q1 2013	25.5	25.6	14.1	39.7	0.45	0.45	0.08	0.53
Change	57.0	62.3	5.1	67.4	0.46	0.46	0.02	0.48
Change (%)	224%	243%	36%	170%	102%	102%	25%	91%

As at 31 March 2014, the ENERGA Group reached a SAIDI level (planned and unplanned with catastrophic) of 107.1 minutes/customer, which was higher than that of the previous year by 170%. The increase in SAIDI was materially affected by the fact of severe failures caused by detrimental weather conditions (SAIDI for mass failures was 42.3 min./customer). The SAIFI ratio (1.01 interruptions) was 91% higher than in Q1 2013.

**2.2.2 Sales Segment****Sales of electricity by the Sales Segment**

Sales of electricity by the Sales Segment (GWh)*	Q1 2014	Q1 2013	Change	Change (%)
<b>Retail electricity sales</b>	<b>4,280</b>	<b>4,731</b>	<b>(450)</b>	<b>-10%</b>
<b>Electricity sales on the wholesale market</b>	<b>2,690</b>	<b>2,990</b>	<b>(300)</b>	<b>-10%</b>
Electricity sales to the balancing market	213	357	(144)	-40%
Electricity sales to ENERGA-OPERATOR to cover network losses	501	450	52	11%
Electricity sales to foreign customers	19	78	(59)	-75%
Other wholesale	1,957	2,105	(148)	-7%
Total sale of energy	6,971	7,721	(750)	-10%

\* Excluding electricity sold by generators.



In Q1 2014, the volume of electricity sold to end users decreased by approximately 10% (0.5 TWh) when compared to Q1 2013. The decrease pertained to all tariff groups, whereas the most important deviation in terms of volume was recorded in A, B and G tariff groups. This follows from the change of the sales strategy and the resulting decision not to renew unprofitable contracts (in tariff groups A and B) and from reduced consumption of energy by retail buyers. In volume terms, the sales to households (tariff G) in Q1 2014 accounted for 32% of the sales invoiced to end users by ENERGA-OBRÓT (just like in the corresponding period of last year). In the period analyzed, the decrease of energy sales was recorded also in the wholesale market (approx. 10%).

### 2.2.3 Generation Segment

#### Gross production of electricity in the ENERGA Group

Gross production of electricity (GWh)	Q1 2014	Q1 2013	Change	Change (%)
Power plants - coal-fired	689.2	754.1	(64.9)	-9%
Power plants - biomass co-fired	141.2	166.6	(25.4)	-15%
CHP plants - coal-fired	64.1	81.5	(17.4)	-21%
Biomass-fired CHP plants	0.1	1.6	(1.5)	-94%
Power plants - hydro	237.3	283.4	(46.1)	-16%
Pumped-storage plant	15.6	3.4	12.2	359%
Power plants - wind	103.4	0.0	103.4	-
<b>Total production of electricity</b>	<b>1,250.8</b>	<b>1,290.7</b>	<b>(39.9)</b>	<b>-3%</b>
<i>incl. RES</i>	<i>481.9</i>	451.5	30.4	7%

During the first quarter of 2014, the generating companies of the ENERGA Group produced approx. 40 GWh (or 3%) less electricity than in Q1 2013. The decrease in production of electricity took place in both power plants as well as combined heat and power plants (by 109 GWh; the key reason was the reduction of the level of own production in ENERGA Elektrownie Ostrołęka SA due to a failure of the generator in unit no. 2) and the run-of-the-river power plants (by 46 GWh; which was attributable mainly to worse hydrological conditions in Q1 2014). Positive impact on the level of electricity production in Q1 2014 compared to the corresponding period of the year before was exerted by the acquisition of wind farms, which made it possible to generate 103 GWh additional electricity in the reporting period in question (in the same period of 2013, the wind farms generation not then belonging to the ENERGA Group amounted to 76 GWh).

#### Production of heat

Gross heat production (TJ)	Q1 2014	Q1 2013	Change	Change (%)
ENERGA Kogeneracja Sp. z o.o.	751.2	865.3	(114.1)	-13%
ENERGA Elektrownie Ostrołęka S.A.	554.2	618.9	(64.7)	-10%



ENERGA Elektrociepłownia Kalisz S.A.	113.8	201.7	(87.9)	-44%
<b>Total gross heat production</b>	<b>1,419.2</b>	<b>1,685.9</b>	<b>(266.7)</b>	<b>-16%</b>

Lower production of heat in Q1 2014 resulted from exceptionally high temperatures in this part of the year. The aggregated production of heat fell by approx. 267 TJ (16%) compared to the same period of the previous year.

**Volume and cost\* of consumption of key fuels**

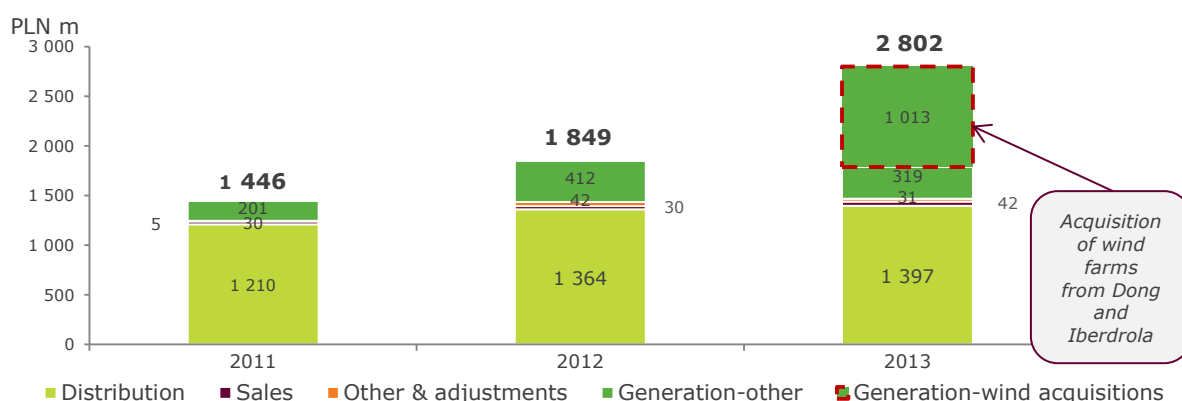
Consumption of fuel	Q1 2014		Q1 2013		Change		Change (%)	
	Quantity	Cost	Quantity	Cost	Quantity	Cost	Quantity	Cost
		(PLN m)		(PLN m)				
Coal [thous. tons]	402.2	106.1	445.9	136.1	(43.7)	(30.0)	-10%	-22%
Biomass [thous. tons]	93.8	36.6	109.4	48.6	(15.6)	(12.0)	-14%	-25%
<b>Total fuel consumption</b>		<b>142.7</b>		<b>184.7</b>		<b>(42.0)</b>		<b>-23%</b>

\* Including the cost of transportation.

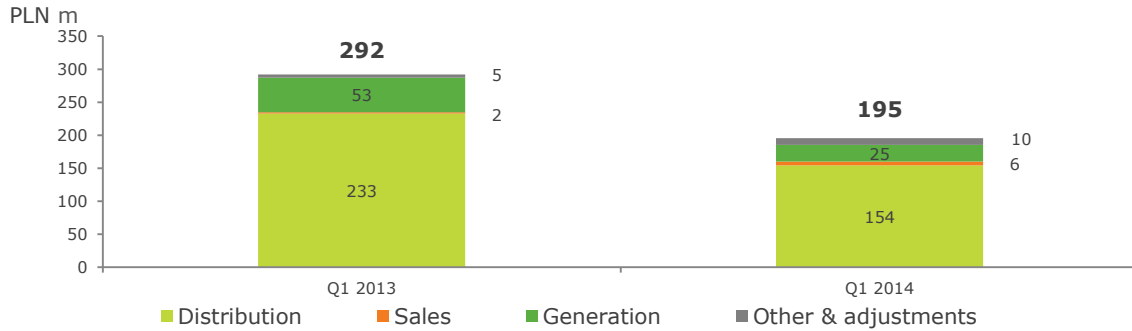
In Q1, the ENERGA Group generators consumed approx. 44 thous. tons, or 10%, less coal than a year earlier. This was related to a drop in production of electricity from coal-fired sources by 10%. The consumption of biomass fell by approx. 16 thousand tons (14%) following a limitation of the biomass co-firing process in the ENERGA Group in Q1 2014 compared to the same period of the previous year. The falling consumption volumes of individual raw material coincided with the falling average consumption prices of individual fuels (14% for coal and 12% for biomass) as a result of which the consumption cost of coal and biomass fell by 22% and 25, respectively. In Q1 2014, the cost of consumption of key fuels was PLN 42 m (23%) lower than in the comparable part of 2013.

**2.3. Implementation of the investment program**

**Fig. 4: Investment outlays incurred in 2011-2013**



**Fig. 5: Investment outlays incurred in Q1 2014 and Q1 2013**



In Q1 2014, the entities comprising the ENERGA Group incurred capital expenditures of PLN 195 m, out of which the Distribution Segment contributed the largest portion of PLN 154 m.

In Q1, the ENERGA Group invested in:

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. Installation work and functional and operational tests of the installations and equipment have been completed. 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.
Installation to reduce NOx emissions in boiler OP-650 no. 1, 2 and 3 in Elektrownia Ostrołęka B Power Plant. The tender procedure to select a general contractor and a general designer is under way.	Construction of a ~26 MWe wind farm in Parsówek. Currently the work associated with preparation of the investment project for execution is under way. Tenders have been announced for the selection of a supplier of wind turbines and for a building contractor. The project is to be completed in 2015.	Construction of a wind farm in Myślino with the capacity of approx. 20 MWe. Contracts have been signed with contractors for construction and power engineering work and with the supplier of turbines. The operational launch is planned for 2015.
Construction of a photovoltaic power plant in Czerników with the approximate capacity of 4 MWe. Currently the work to prepare the investment project for execution and organize a tender for a general contractor is under way. The project is executed as part of the Smart Toruń 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. A decision to go ahead with the construction phase in this project is conditional upon satisfaction of the required economic prerequisites.	Construction of a photovoltaic power plant in Gdańsk with the capacity of approx. 2 MWe. Currently the work associated with preparation of the project for execution is under way. The investment project is at the contractor selection stage.
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.	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. The general designer has completed its tentative design and the environmental design and an application to issue an environmental decision has been filed.	



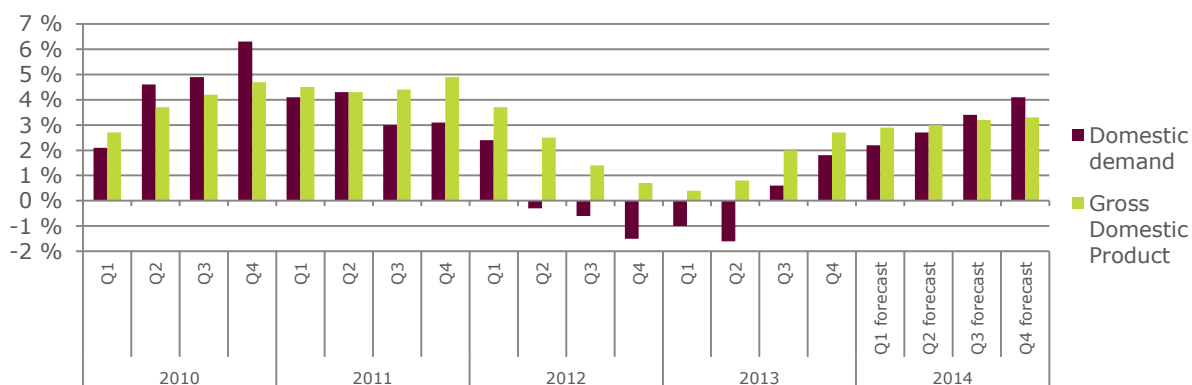


### 3. Factors and events affecting the achieved financial results

#### 3.1. Macroeconomic situation

The Polish economy is in the recovery phase, which is of great importance for the economic and financial standing of the ENERGA Group conducting its business mainly on the domestic market. The economic growth rate in Q4 2013 (data for Q1 2014 have not been published by GUS yet) in YoY terms amounted to 2.7% and was the highest since Q1 2012. According to the estimates of the Market Economy Research Institute ("IBnGR"), the GDP growth rate in Q1 2014 compared to the corresponding quarter of the year before accelerated to 2.9%. In the "Inflation and GDP Projection" carried out by the National Bank of Poland (NBP) in March this year, in 2014-2015, in line with the progressing improvement of the situation abroad and inflow of funds for investments from the European Union's new budget perspective till 2020, further improvement of the overall economic situation in Poland is expected, with the average GDP growth rate of 3.6% YoY. The economic growth will be also supported by the historically low level of NBP interest rates, which are expected to remain unchanged at least till the end of the year.

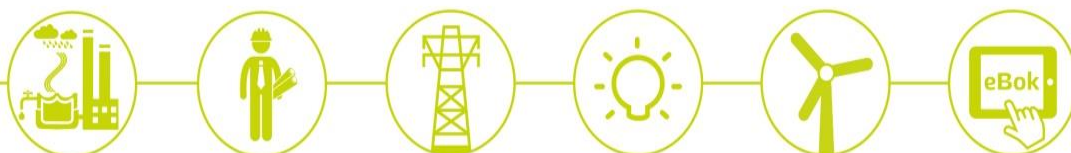
**Fig. 6: GDP and domestic demand growth in Poland by quarter in 2010-2014**



Source: Proprietary material based on the Central Statistical Office's ("GUS") data and IBnGR's forecast.

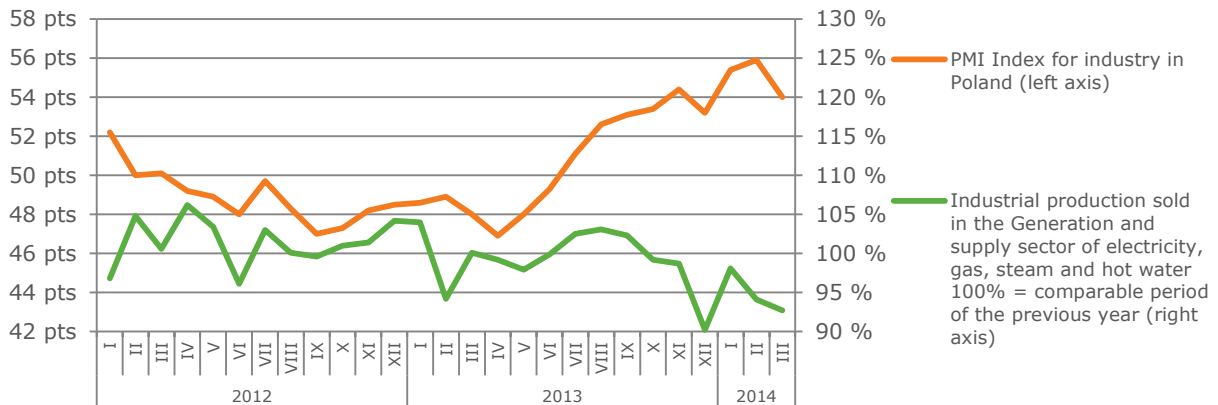
The acceleration of the GDP growth is taking place in the environment of increasing domestic demand associated with significant increase of investment expenditures and foreign demand, additionally stimulating the growth rate. IBnGR estimates that the domestic demand growth rate in Q1 2014 amounted to 2.2% YoY, compared to 1.8% in Q4 2013. In the period from January to March 2014, also expenditures for fixed assets increased by 2.2%. According to NBP estimates, increase of investments in the economy followed mainly from increasing investments in enterprises. A factor of decisive importance for the acceleration of the investment expenditures growth rate was the clear improvement of the macroeconomic situation, hence the prospects of companies' investment activity for the next quarters are good, with an average of 9.5% YoY in 2014-2015. Companies' annual plans assume both an increase of the share of investors undertaking new investments and decisive acceleration of the increase of total annual expenditures. According to IBnGR, the growth rate of total consumption was at the same level as in the last quarter of 2013 i.e. 2.1%, and individual consumption grew slightly slower, i.e. 1.9% (compared to 2.1% in Q4 last year). Consumption demand was supported by favorable characteristics of the labor market. In March 2014, the unemployment rate amounted to 13.5% YoY (compared to 13.9% in February this year and 14.3% the year before), and the average gross salary in the enterprise sector increased 4.8% compared to March 2013.

Sold industrial output in Q1 this year increased grew than in the corresponding period of last year. According to the preliminary data of the GUS, sold industrial output at fixed prices (in enterprises employing more than 9 employees) in March this year was 5.4% higher than the year before and 9.4% higher compared to February this year. After elimination of seasonal factors, sold industrial output was 5.7% higher than in the corresponding period of last year and 0.2% higher than in February this year. Together with the relatively high value of the PMI indicator for industry in



Poland (54 points in March 2014) and increase of new orders in industry, this points to continuation of improvement of the situation in this sector.

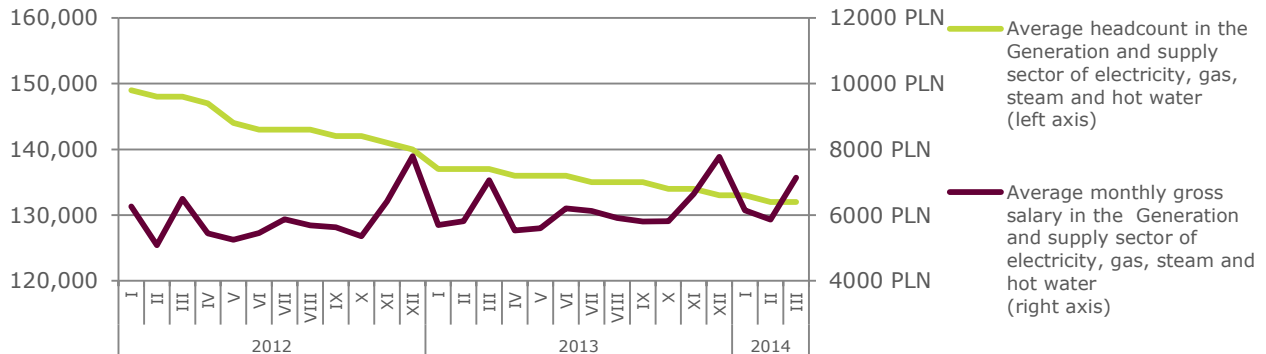
**Fig. 7: PMI indicator for industry in Poland and industrial production sold in the Generation and supply sector of electricity, gas, steam and hot water**



Source: Proprietary material based on Markit Economics and Central Statistical Office's data.

In the sector of companies generating and supplying electricity, natural gas, steam and hot water, a 7.3% decline in sold production was recorded when compared to March last year. It should be noted that this decrease was caused by, among other things, lower demand resulting from higher temperatures in 2014. The average headcount in this sector in March 2014 dropped 3.6% and the average monthly gross salary was 1% higher than in the corresponding period of last year.

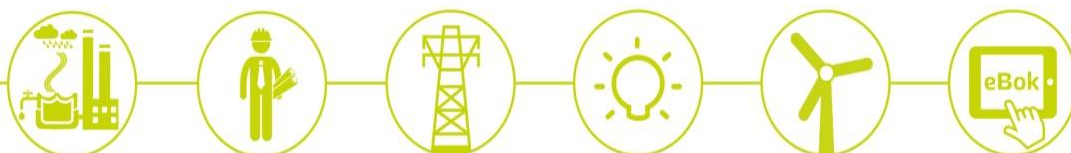
**Fig. 8: Average headcount and gross monthly salary in Generation and supply sector of electricity, gas, steam and hot water**



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

Export was still the main motor of economic growth in Poland, although its impact on GDP growth weakened in relation to previous quarters. In IBnGR's opinion, in the first three months of this year exports increased 3.6% YoY (in Q4 2013 the growth was 6.3%). The existing Ukrainian-Russian crisis has negative impact on the businesses targeting eastern markets. This is a new risk factor which should be taken into account by Polish entrepreneurs, however considering the value of Polish exports to Russia and Ukraine in relation to the GDP (3.2% in 2013), it should not strike Polish economy out of the growth cycle.

The economic growth in Poland is also supported by improving situation abroad. According to the World Bank, the pace of GDP growth in the United States in 2013 accelerated to 1.8% YoY. In the Eurozone, in turn, GDP growth in this period was slightly below zero, i.e. -0.4% YoY. In 2014-2015, according to NBP forecasts, GDP growth rate in the US economy will increase to the average level of 2.8 YoY, and the situation in the Eurozone will be still characterized by only moderate improvement, on the average level of 1.3% YoY.

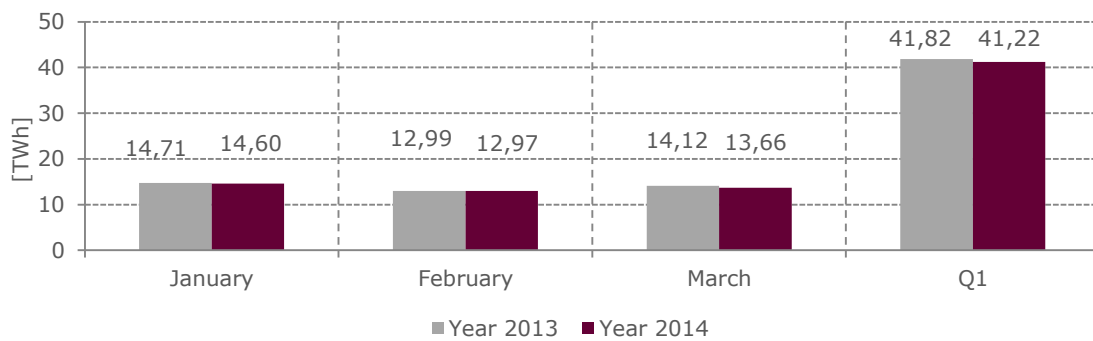


### 3.2. Situation in the energy market

#### Domestic consumption of electrical energy

Domestic consumption of electricity in Poland, according to the data published by Polish Power Grid ("PSE") after Q1 2014, was 1% lower than in Q1 2013. The biggest decrease of domestic electricity consumption in relation to the corresponding period of 2013 was recorded in March and amounted to 3%. Lower electricity consumption resulted primarily from the weather conditions (higher temperatures) and surplus of import of electricity over exports.

**Fig. 9: Domestic consumption of electrical energy in Poland in Q1 2014 and Q1 2013**

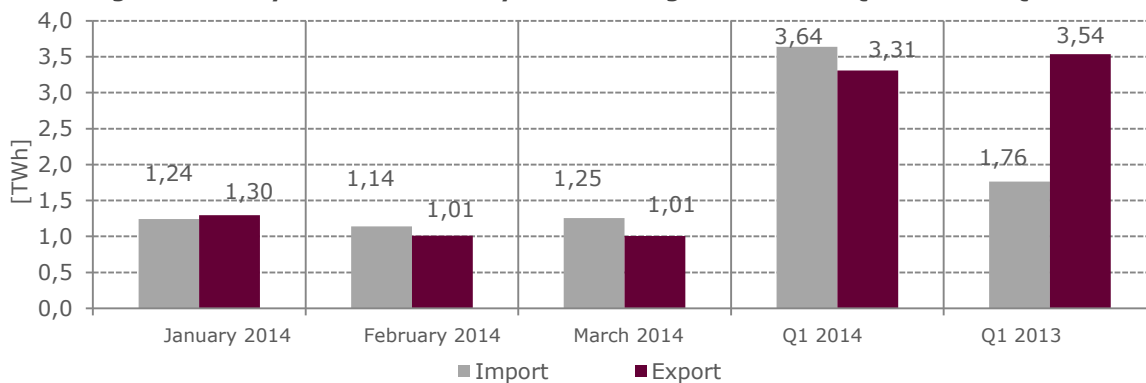


Source: [http://www.pse-operator.pl/index.php?modul=8&id\\_rap=212](http://www.pse-operator.pl/index.php?modul=8&id_rap=212)

#### Inter-system exchange

In Q1 2014, one could notice significantly higher electricity imports (compared to 2013). The imports were big enough to exceed energy exports from Poland in terms of volume (for the first time since 2005). The decisive factor was the low energy price in the neighboring countries. A surplus of exports over imports was recorded only in January 2014 (approx. 4%) whereas in other months imports were slightly higher.

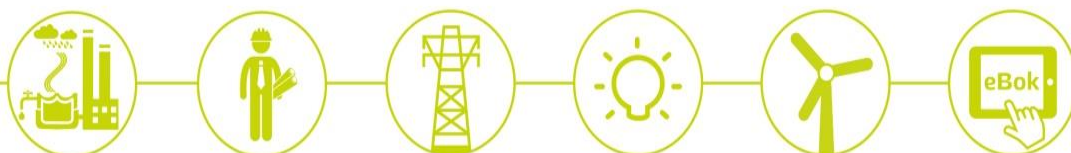
**Fig. 10: Monthly volumes of intersystem exchange in Poland in Q1 2014 and Q1 2013**



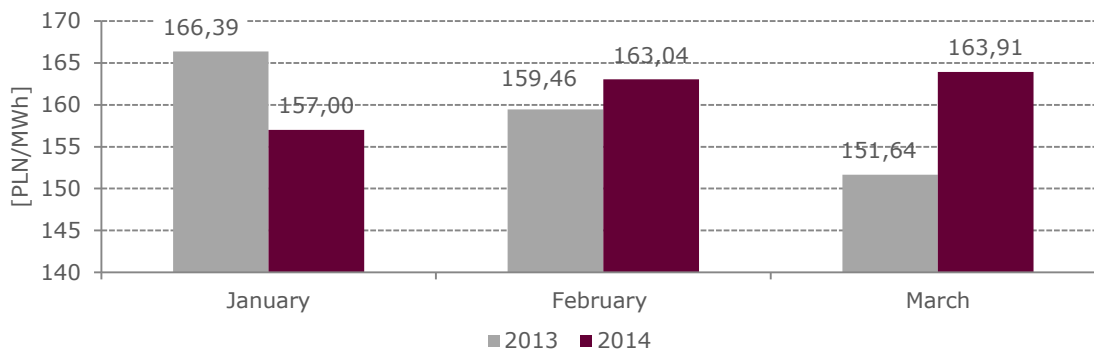
Source: [http://www.pse-operator.pl/index.php?modul=8&y=2013&m=1&id\\_rap=222](http://www.pse-operator.pl/index.php?modul=8&y=2013&m=1&id_rap=222)

#### SPOT market for electrical energy in Poland

The average prices in the SPOT market in Q1 2014 were higher than the 2013 prices by more than 2 PLN/MWh. This year's higher SPOT prices were attributable mainly to the introduction of a surcharge for operating reserves, which entailed the most expensive generators leaving available capacity for PSE (decrease of supply). The existing system causes increase of the prices in the SPOT market, especially at peak hours.



**Fig. 11: Electricity prices on the spot market in Q1 2014 and Q1 2013**

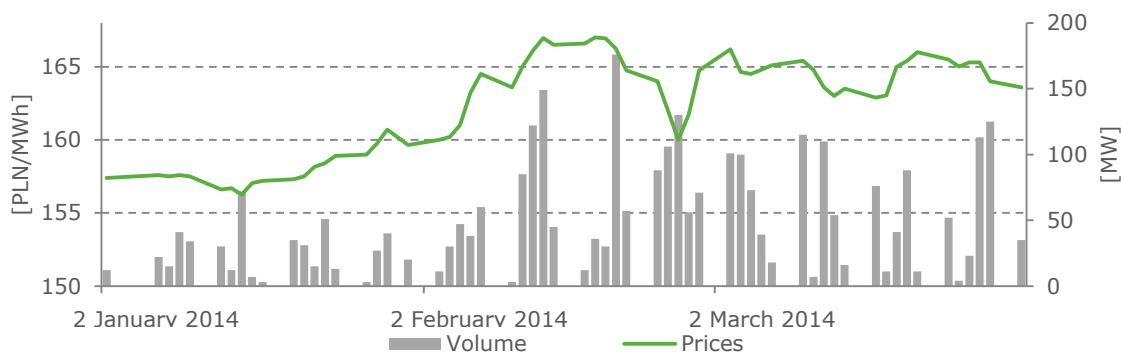


Source: <http://wyniki.tge.pl/wyniki/rdn/ceny-sredniowazone/>

### Electricity forward market in Poland

To assess the forward market in Poland, the annual forward contract for delivery of base energy in the whole 2015 was used as a reference product. The prices of this product were higher than product prices in the same period of the previous year. We can see that introduction of the co-payment for the operating reserve resulted in increases of forward products. Even the volatility of CO<sub>2</sub> emission allowance prices does not affect the forward market as much as the prices of the SPOT market, which are experiencing a growth trend.

**Fig. 12: Price of a forward contract – base with delivery in 2015, during Q1 2014**



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

### Property rights market

In accordance with prevailing regulations, in Q1 2014, trading companies selling electricity to end users, were obligated to obtain and submit certificates of origin for redemption – “green certificates” (PMOZE\_A), “purple certificates” (PMMET) and energy efficiency (“white”) certificates (PMEF). Below is a breakdown of volume-weighted average indices established in Q1 2014 together with indication of the percentage-based redemption obligation imposed as of 2014 for individual types of property rights and the unit values of substitution fees:

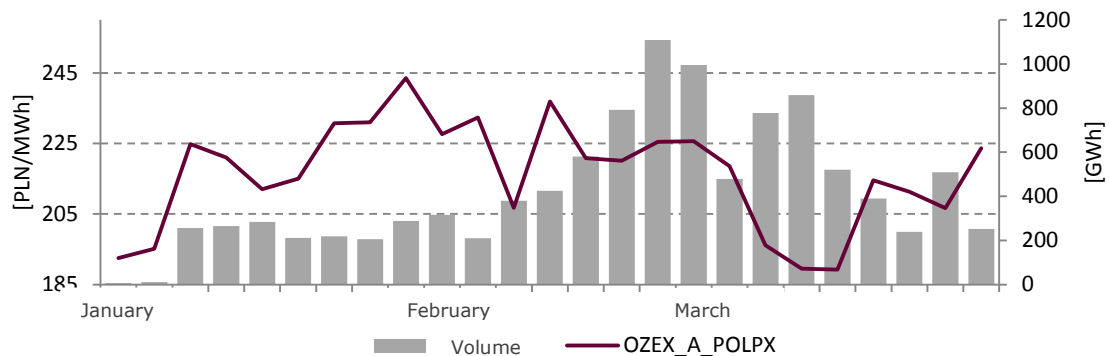
Type of certificate	Index [PLN/MWh]	Mandatory redemption percentage [%]	Substitution fee [PLN/MWh]
OZEX_A POLPX (PMOZE_A)	215.38	13.00	300.03
KMETX (PMMET)	59.69	1.10	63.26
EFX (PMEF)	960.60*	1.50	1,000.00*

Source: proprietary material based on TGE data; mandatory redemption percentage according to executive regulations; unit substitution fees according to information from the President of ERO; \* unit [PLN/TOE]



A detailed analysis of prices and volumes of products listed on Towarowa Giełda Energii commodity exchange in Q1 2014 is presented below:

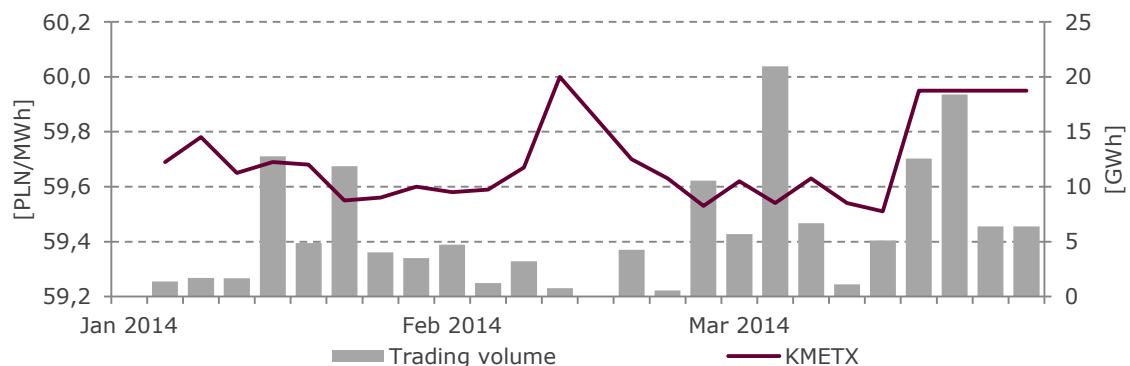
**Fig. 13: Analysis of prices and volumes at TGE trading sessions (PMOZE\_A)**



Source: proprietary material based on TGE data <http://www.tge.pl/pl/437/nowe-indeksy-dla-zielonych-certyfikatow>

2014 started with dynamic increases of the prices recorded in the market of “green” property rights. This situation was associated primarily with the elapsing deadline for performance of the obligation to obtain and submit for redemption property rights for 2013. The second half of February brought a reversal of the existing growing trend. The first half of March brought further price decreases which, however, were not as drastic as the month before. 31 March 2014 was the deadline for performance of the statutory obligation to obtain and submit for redemption of certificates of origin for 2013.

**Fig. 14: Analysis of prices and volumes at TGE trading sessions (PMMET)**



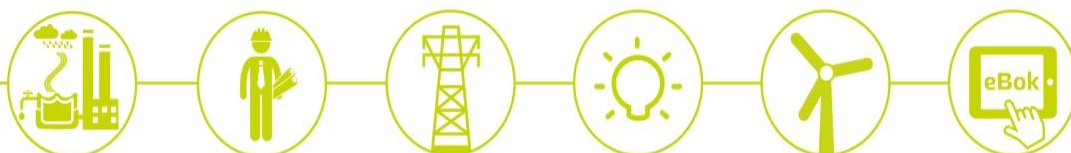
Source: proprietary material based on TGE data.

In the case of "purple" certificates, Q1 2014 was characterized by increased activity of market participants in comparison to earlier periods. This situation was associated with the elapsing deadline for performing the obligation for 2013. In this period the KMETX index was on a level similar to the substitution fee set for 2013, i.e. 60.00 PLN/MWh. After taking into account transaction costs (0.58 PLN/MWh), the cost of purchase of PMMET at the Polish Power Exchange turned out to be higher than the cost of the substitution fee.

In the first quarter, the first transaction was recorded on a new instrument aimed at supporting energy efficiency, the so-called “white” certificates. In this period, with negligible trading volumes, the average index settled down at 960.60 PLN/toe.

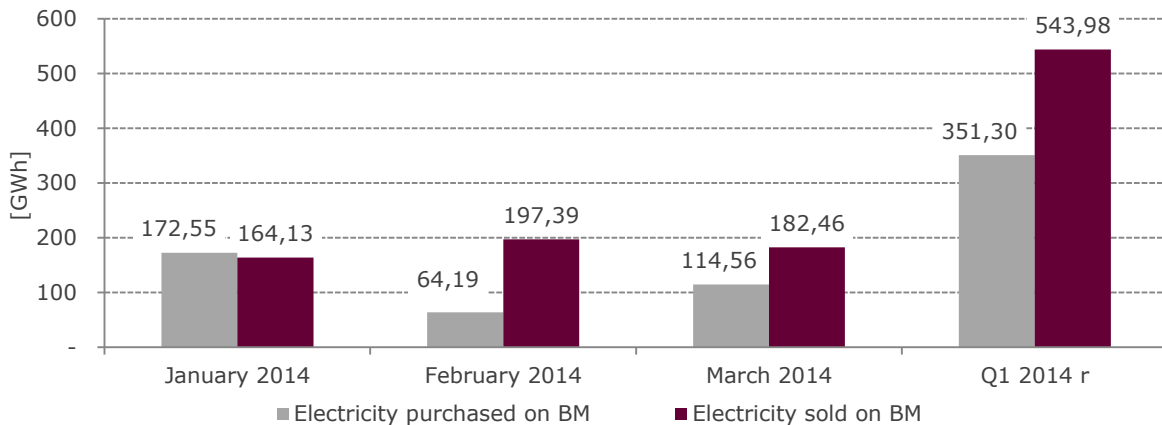
### Balancing Market

In the Polish balancing market one can notice that from the standpoint of the direction of the flow of energy, supply to the balancing market prevailed – 543.98 GWh (where the maximum deliveries



took place in February), while collections from the market amounted to 351.30 GWh (where the maximum was recorded in January 2014).

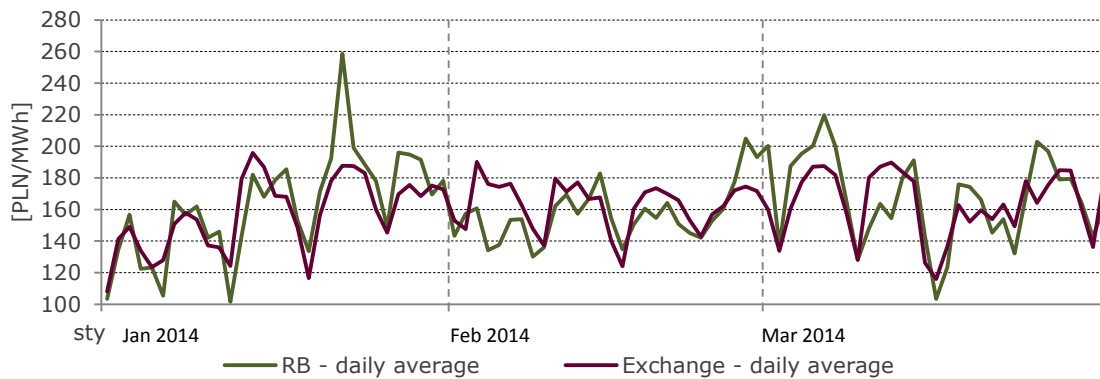
**Fig. 15: Electricity volumes on the balancing market in Q1 2014 and Q1 2013**



Source: <http://www.pse-operator.pl/index.php?modul=11>

Comparing the first quarter of 2014 to 2013, one can notice that there were decisively more purchases of electricity from the Balancing Market this year. As for sales, one could notice over-contracting of buyers in 2013 as the sales reached 906 GWh, whereas the quantity of energy from 2014 was 544 GWh. The arithmetic mean of the settlement price for the period in question was 162.25 PLN/MWh, peak: 181.45 PLN/MWh and off-peak: 130.24 PLN/MWh. In the analyzed period, February turned out to be the most stable month in which prices were in the range of 130-165 PLN/MWh (putting aside the end of the month, i.e. 27, 28 February 2014). The level of prices was also affected by disconnections of generating units caused by repairs, failures and production from renewable sources.

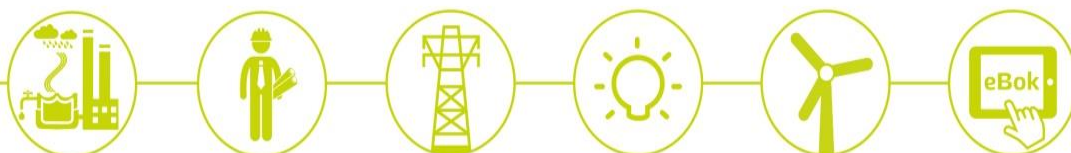
**Fig. 16: Statement of prices on the balancing market and the SPOT market (Exchange) in Q1 2014**



Source: <http://www.pse-operator.pl/index.php?modul=11>

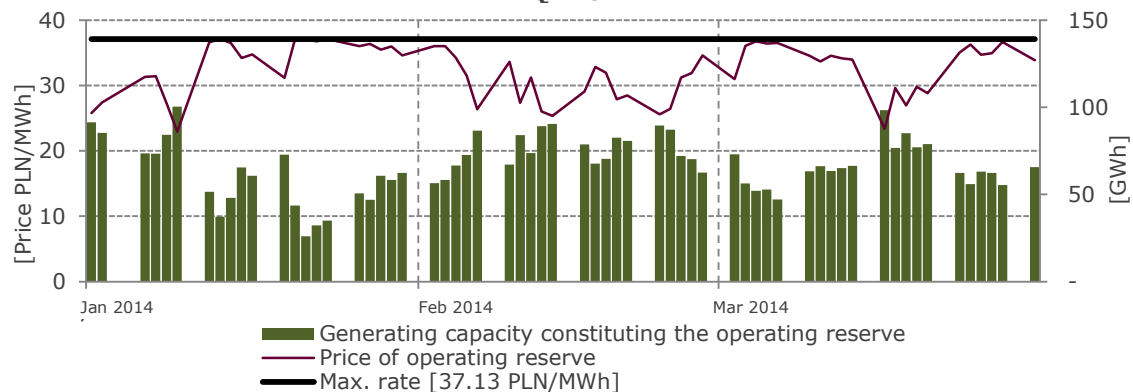
### Operating reserve

As of the beginning of 2014, the catalogue of system services provided to PSE was expanded to include an operating reserve. The operating reserve is made up by generation units which have free capacity not covered by sales contracts (in the ENERGA Group this is ENERGA Elektrownie Ostrołęka SA). The size of the operating reserve is 18% of the average maximum hourly gross demand for power for individual months of the previous year. The units participating in the operating reserve receive a fee for their readiness to work for the operator in peak hours (7-22) determined on the basis of average fixed costs without the cost of amortization, management and sales, which in 2014 amounts to 37.13 PLN/MWh. In the event of a higher number of units reported as available the price is proportionally reduced. The chart below presents the prices and generation capacities which make up the aforementioned reserve. One can notice that the maximum rate was not often reached due to the amount of the capacities made available by



generators for the reserve. On the other hand, the minimum price for the reserve did not drop below 22 PLN/MWh.

**Fig. 17: Listing of prices and generating capacity constituting operating reserve in Q1 2014**

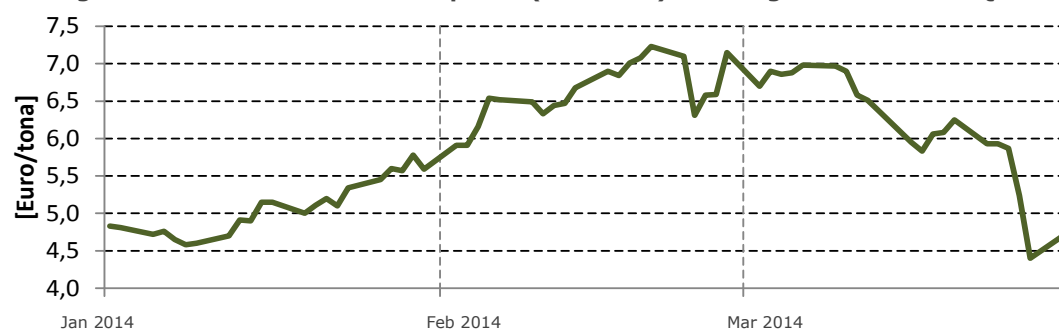


Source: [http://www.pse.pl/index.php?data=2014-01-02&modul=21&id\\_rap=30](http://www.pse.pl/index.php?data=2014-01-02&modul=21&id_rap=30)

### Emission allowance market

The EUA emission allowance market with delivery in December 2014 was characterized by high volatility in Q1 of this year. The main reason was the final approval of the backloading (i.e. a plan to freeze the auction of some of the existing surplus of CO<sub>2</sub> emission allowances) by the European Parliament (still in December 2013). Additionally, the volatility resulted also from delays in delivery of free installation allowances (the settlement obligation for the previous year elapsed on 30 April 2014) in the first months of this year. The end of the quarter was characterized by a decrease of emission allowances caused by receiving the allowances by some of the countries, including Poland.

**Fig. 18: EUA emission allowance prices (DEC 2014) referring to emissions in Q1 2014**

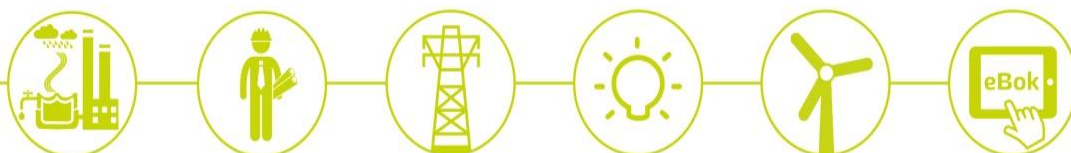


Source: <http://www.barchart.com/detailedquote/futures/CKZ13>

### 3.3. Regulatory environment

Below is a list of legal acts which entered into force in Q1 2014 and by the date of preparation of this Information, and bills of new legal acts the work on which was continued in the period in question:

- **Bill of the RES Act of 28 March 2014 (Version 6.3):** the purpose of the act is to optimize the costs of the existing RES support system and implement Poland's energy policy till 2030. The act comprehensively regulates the mechanisms and instruments supporting energy generation in RES. From the ENERGA Group's perspective, the most important change that the bill introduces is exclusion of water power plants with the capacity over 5 MW from the support system, which means that, as at today, the impact of this legal act on the Group's activity is negative.
- **Draft assumptions for the bill of the Water Law of 28 March 2014:** the new bill still emphasizes the need to introduce fees for utilization of inland water for energy purposes, as part of implementation of the Framework Water Directive into the Polish law. Introduction of fees, if any, may have negative impact on the profitability of conventional generation



installations and water power plants, including the installations of both types operated in the ENERGA Group.

- **The MP bill of an act amending the construction law and the zoning act (Parliamentary Paper 758) and bill of an act amending certain acts in connection with strengthening the tools for landscape protection (Parliamentary Paper 1525):** the bills provide for, among other things, introduction of a number of limitations regarding location of energy-related facilities (RES installations, mainly wind farms). If the acts introducing the limitations come into force, they may have adverse impact on the operations of the ENERGA Group, both for the existing wind farms and the investment plans in this respect.
- **The amendment of the Energy Law:** which was signed on 7 April 2014 by the President of the Republic of Poland, results in resumption of the system supporting high-efficiency cogeneration (CHP) in Poland, i.e. gas fuel-fired plants or plants with total installed capacity below 1 MW (the so-called "yellow certificates" – PMGM) and in other coal-fired cogeneration units (the so-called "red certificates" – P MEC). As at the end of 2018, the obligation to redeem certificates from electricity production from cogeneration installations expires. The new regulations will enter into force by the end of April this year. In accordance with Article 6 of the act, within 14 days of its entry into force, the ERO President will announce substitution fees prevailing in 2014. The impact of the new regulation will apply to the Generation and Sales Segments. For the Generation Segment, they may entail additional revenues from red certificates in Q4 2014. In the Sales Segment, the costs associated with performance of the red certificate redemption obligation will be noticeable as of May 2014. The total effect of entry of the above changes into force for the ENERGA Group may be negative.

## 4. Assets and financial standing of the ENERGA Group

### 4.1. Group's financial results

#### Description of the rules for preparing the interim condensed consolidated financial statements

The Condensed Interim Consolidated Financial Statements of the ENERGA SA Capital Group for the 3 months ended 31 March 2014 were prepared:

- in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union;
- on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives;
- 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 ENERGA Group to continue its business activities as a going concern.

The accounting (policy) principles used to prepare the Extended consolidated financial statements were presented in Note 6 to the Extended consolidated financial statements of the ENERGA SA Group consistent with IAS 34 for the 3 months ended 31 March 2014.

#### 4.1.1. Consolidated profit and loss account

	3 months ended 31 March 2014	3 months ended 31 March 2013	Change	Change (%)
PLN 000s				
<b>Sales revenue</b>	<b>2,747,979</b>	<b>2,933,814</b>	<b>(185,835)</b>	<b>-6%</b>
Cost of sales	(2,178,171)	(2,492,976)	314,805	-13%





<b>Gross profit</b>	<b>569,808</b>	<b>440,838</b>	<b>128,970</b>	<b>29%</b>
Other operating income	47,958	23,439	24,519	105%
Selling and distribution expenses	(54,668)	(70,422)	15,754	-22%
General and administrative expenses	(87,819)	(93,500)	5,681	-6%
Other operating expenses	(29,553)	(17,869)	(11,684)	65%
<b>Operating profit</b>	<b>445,726</b>	<b>282,486</b>	<b>163,240</b>	<b>58%</b>
Financial income	37,551	29,374	8,177	28%
Financial costs	(78,827)	(68,255)	(10,572)	15%
Share of profit (loss) of associates	(157)	(509)	352	-69%
<b>Profit before tax</b>	<b>404,293</b>	<b>243,096</b>	<b>161,197</b>	<b>66%</b>
Income tax	(80,324)	(60,675)	(19,649)	32%
Discontinued activity and non-current assets classified as held for sale	(954)	(1,613)	659	-41%
<b>Net profit for the period</b>	<b>323,015</b>	<b>180,808</b>	<b>142,207</b>	<b>79%</b>
<b>EBITDA</b>	<b>653,800</b>	<b>472 036</b>	<b>181,764</b>	<b>39%</b>

The Group's revenues in Q1 2014 were PLN 2,748 m which compared to the same period of the previous year represented a decrease of approx. PLN 186 m, or 6%.

An increase in revenues was recorded by the Generation Segment (by 26%) and the Distribution Segment (by 8%), while the Sales Segment experienced a decline in the same period (by 19%).

The nearly 8% growth in Distribution Segment revenues in the analyzed period, compared to Q1 2013, was driven by a 3% YoY increase in ENERGA-OPERATOR's average distribution rate and a higher volume of distributed electricity (an increase of almost 6%).

The boost in Generation Segment's revenues resulted primarily from an increase in production capacity following an acquisition of three wind farms in the second half of 2013 and a sale of inventories of property rights (green certificates) at prices exceeding the market prices of the generation date<sup>1</sup> (this dealt with mostly the inventory of property rights for co-fired biomass due for 2013, which have been granted in 2014).

The drop in Sales Segment's revenues was due to a smaller volume (by approx. 10%) and lower average selling price of electricity to end users (by about 12%).

<sup>1</sup> In line with the Accounting Policy of the Group certificates of origin generated in a specified period are recognized in a fair value as operational revenues and inventory. At of the certificates sale date, the difference between the obtained sale price and the certificates value set as at their generation is recognized as the correction of operational revenues.



In Q1, the cost of sales was PLN 2,178 m, which was 13% less than in the same period of 2013.

The decrease in the Group's cost of sales was driven mainly by the revaluation allowance recognized in Q1 2013 for non-current assets (PLN 123 m in ENERGA Elektrownie Ostrołęka), lower consumption of fuel in Q1 2014 (23%), lower cost of products and materials sold (18%) mainly due to a change in the selling strategy and elimination of unprofitable agreements (in tariff groups A and B) and lower cost of employee benefits resulting from lower headcount in the ENERGA Group (11%).

As a result, the Group's EBITDA in Q1 2014 increased by about PLN 182 m (or 39%) compared to the same period in 2013, up to PLN 654 m. During Q1 2014, the electricity Distribution Segment contributed 63% to Group's EBITDA, the Generation Segment contributed 30% and the Sales Segment 7%.

The net result of the ENERGA Group reached PLN 323 m, which was 79% more than the net profit earned in Q1 2013.

The table below shows the Group's EBITDA adjusted for effects of non-recurring events, by segments, in Q1 2014 and Q1 2013.

Q1 2014 (PLN 000s)	Distribution	Sales	Generation	Other and adjustments	All operations
<b>EBITDA</b>	<b>409,837</b>	<b>49,753</b>	<b>194,434</b>	<b>(224)</b>	<b>653,800</b>
Impairment allowances for property, plant and equipment and intangible assets	-	-	6,435	-	6,435
Employment restructuring costs (including restructuring severance awards under voluntary departure programs and rules)	8,532	2	7,220	1,794	17,548
Reversal of provisions for employee benefits for persons leaving the Group	-	(3,580)	-	(215)	(3,795)
Reversal of provisions for employee restructuring recognized in previous periods	(6,276)	(9,093)	-	(5)	(15,374)
<b>Adjusted EBITDA</b>	<b>412,093</b>	<b>37,082</b>	<b>208,089</b>	<b>1,350</b>	<b>658,614</b>
Q1 2013 (PLN 000s)	Distribution	Sales	Generation	Other and adjustments	All operations
<b>EBITDA</b>	<b>398,945</b>	<b>100,369</b>	<b>(16,593)</b>	<b>(10,685)</b>	<b>472,036</b>
Impairment allowances for property, plant and equipment and intangible assets	168	-	123,472	(1)	123,639
Employment restructuring costs (including restructuring severance awards under voluntary departure programs and rules)	1,072	-	810	-	1,882
<b>Adjusted EBITDA</b>	<b>400,185</b>	<b>100,369</b>	<b>107,689</b>	<b>(10,686)</b>	<b>597,557</b>



#### 4.1.2. Consolidated Statement of Financial Position

PLN 000s	As at 31 March 2014	As at 31 December 2013	Change	Change (%)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	11,728,596	11,760,776	(32,180)	0%
Investment property	16,089	15,189	900	6%
Intangible assets	398,433	398,677	(244)	0%
Goodwill	156,773	156,773	-	0%
Deferred tax assets	232,540	245,086	(12,546)	-5%
Hedging derivatives	55,224	13,017	42,207	324%
Other non-current financial assets	17,685	17,727	(42)	0%
Other non-current assets	55,389	42,291	13,098	31%
	<b>12,660,729</b>	<b>12,649,536</b>	<b>11,193</b>	<b>0%</b>
<b>Current assets</b>				
Inventories	336,906	302,043	34,863	12%
Current tax receivables	59,476	43,427	16,049	37%
Trade receivables	1,436,743	1,469,543	(32,800)	-2%
Deposits	26,363	4,121	22,242	540%
Other current financial assets	22,542	8,891	13,651	154%
Cash and cash equivalents	2,054,862	2,352,305	(297,443)	-13%
Other current assets	328,540	145,574	182,966	126%
Assets classified as held for sale	98,850	109,116	(10,266)	-9%
	<b>4,364,282</b>	<b>4,435,020</b>	<b>(70,738)</b>	<b>-2%</b>
<b>TOTAL ASSETS</b>	<b>17,025,011</b>	<b>17,084,556</b>	<b>(59,545)</b>	<b>0%</b>

#### EQUITY AND LIABILITIES

##### Equity attributable to equity holders of the Parent

Share capital	4,521,613	4,521,613	-	0%
Exchange gains resulting from conversion of a foreign entity	(1,724)	(2,310)	586	-25%
Reserve capital	447,192	447,192	-	0%
Supplementary capital	521,490	521,490	-	0%
Cash flow hedge reserve	46,972	26,539	20,433	77%
Retained earnings	2,837,497	2,519,955	317,542	13%
<b>Non-controlling interest</b>	<b>17,082</b>	<b>13,816</b>	<b>3,266</b>	<b>24%</b>
<b>Total equity</b>	<b>8,390,122</b>	<b>8,048,295</b>	<b>341,827</b>	<b>4%</b>
<b>Non-current liabilities</b>				
Loans and borrowings	1,742,732	1,811,548	(68,816)	-4%



Bonds issued	3,129,479	3,119,453	10,026	0%
Non-current provisions	559,798	549,499	10,299	2%
Deferred tax liabilities	546,884	544,001	2,883	1%
Deferred income and non-current grants	485,826	489,234	(3,408)	-1%
Other non-current financial liabilities	9,886	4,873	5,013	103%
Other non-current liabilities	684	1,406	(722)	-51%
	<b>6,475,289</b>	<b>6,520,014</b>	<b>(44,725)</b>	<b>-1%</b>
<b>Current liabilities</b>				
Trade payables	627,634	889,902	(262,268)	-29%
Other financial liabilities	59,758	234,725	(174,967)	-75%
Current loans and borrowings	297,708	274,177	23,531	9%
Bonds issued	23,692	70,584	(46,892)	-66%
Current income tax liability	14,072	6,838	7,234	106%
Deferred income and government grants	33,867	32,048	1,819	6%
Accruals	73,628	126,813	(53,185)	-42%
Provisions	416,679	444,108	(27,429)	-6%
Other current liabilities	577,371	355,733	221,638	62%
Liability related directly to assets classified as held for sale	35,191	81,319	(46,128)	-57%
	<b>2,159,600</b>	<b>2,516,247</b>	<b>(356,647)</b>	<b>-14%</b>
<b>Total liabilities</b>	<b>8,634,889</b>	<b>9,036,261</b>	<b>(401,372)</b>	<b>-4%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>17,025,011</b>	<b>17,084,556</b>	<b>(59,545)</b>	<b>0%</b>

As at 31 March 2014, total assets of the ENERGA Group reached PLN 17,025 m and were PLN 60 m lower than on 31 December 2013.

The PLN 32 m reduction in property, plant and equipment compared to 31 December 2013 was driven mainly by the growing depreciation expenses (as a result of capital expenditures made in previous periods).

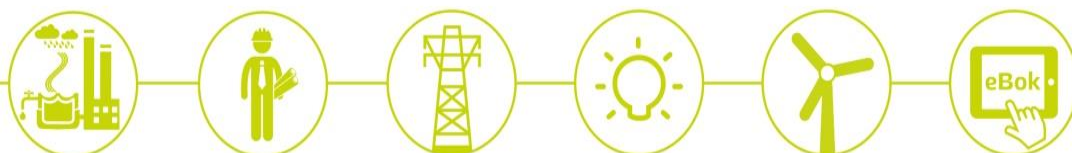
The most significant change was recorded in derivative financial instruments, which increased by the aggregated amount of PLN 42 m (324%) after 31 December 2013. This change was linked to a valuation of a cash flow hedge instrument hedging cash flows related to a Eurobond issue and was caused by a shift of interest rate curves in the period.

The PLN 71 m reduction in current assets (2%) in the analyzed period compared to the end of December 2013 resulted from a PLN 297 m decrease in cash flows, while other current assets increased by PLN 183 m driven by the settlement of the 2014 property tax over time.

In liabilities and equity, current liabilities changed materially from December 2013, increasing by PLN 222 m (62%) due to the recognition of a 2014 property tax liability. Also, other financial liabilities fell by PLN 175 m following the reduction of investment commitments in the Segments, in particular in ENERGA-OPERATOR SA (PLN 143 m) and ENERGA Elektrownie Ostrołęka SA (PLN 25 m).

The balance of loans and borrowings (on-current and current parts) fell by PLN 45 m in Q1 2014 compared to 31 December 2013. This was due to the repayment of loans to international financial institutions; the loans were used to finance mainly investment projects in the Distribution Segment.

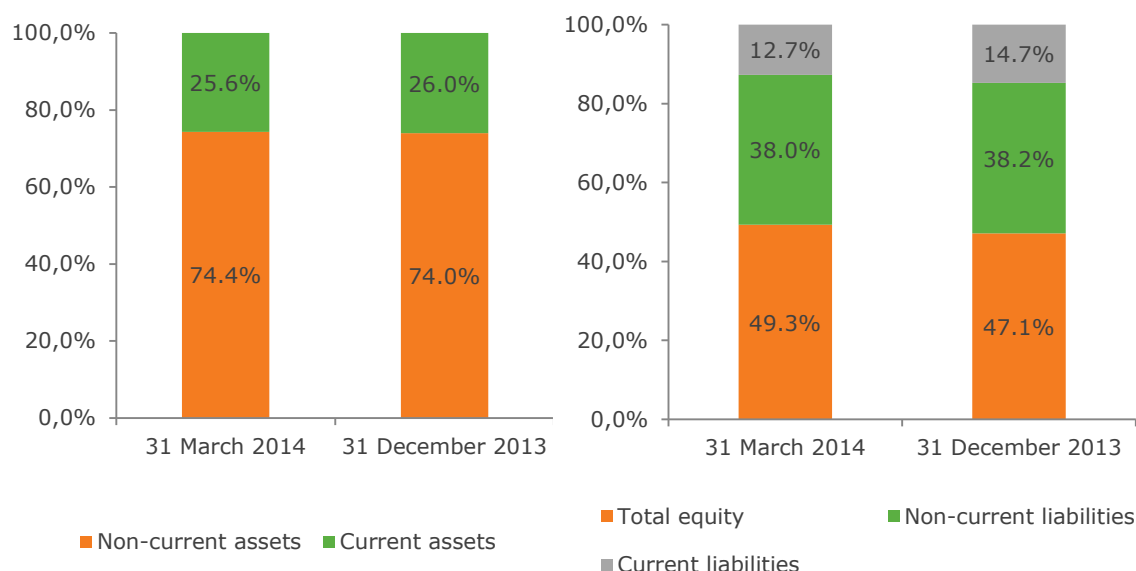
ENERGA Group's equity increased by PLN 342 m, mainly due to the positive result in Q1 2014. As at 31 March 2014, the equity covered 49% of the Group's assets, while the same ratio at the end of 2013 was 47%. The Group's net debt increased by PLN 215 m reaching the level of PLN 3,139 m



(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 fell by PLN 14 m compared to 31 December 2013 predominantly as a result of a utilization of employment restructuring provisions recognized in previous periods, reversal of provisions for litigation and recognition of provisions for the duty to present certificates for redemption.

Consolidated Statement of Financial Position	As at 31 March 2014	As at 31 December 2013
<b>ASSETS</b>		
Non-current assets	74.4%	74.0%
Current assets	25.6%	26.0%
<b>TOTAL ASSETS</b>	<b>100%</b>	<b>100%</b>
<b>Consolidated Statement of Financial Position</b>		
	As at 31 March 2014	As at 31 December 2013
<b>EQUITY AND LIABILITIES</b>		
Equity attributable to shareholders in the parent company	49.2%	47.0%
Non-controlling interest	0.1%	0.1%
<b>Total equity</b>	<b>49.3%</b>	<b>47.1%</b>
Non-current liabilities	38.0%	38.2%
Current liabilities	12.7%	14.7%
<b>Total liabilities</b>	<b>50.7%</b>	<b>52.9%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Financial liabilities</b>	<b>30.5%</b>	<b>30.9%</b>
<b>Net financial liabilities</b>	<b>18.4%</b>	<b>17.1%</b>
<b>Net debt-to-EBITDA ratio</b>	<b>1.46</b>	<b>1.49</b>
<b>Current liquidity ratio</b>	<b>2.02</b>	<b>1.76</b>



As at 31 March 2014, non-current assets represented 74% of total assets and current assets represented 26% of total assets; their share in total assets did not change materially when compared to the previous year.

In the structure of liabilities and equity, as at 31 March 2014, equity represented 49% compared to 47% as at the end of 2013. The remaining part of liabilities and equity were liabilities representing 51% compared to 53% as at the end of 2013. In the structure of liabilities, financial liabilities represented the largest share – 60% compared to 58% as at the end of 2013.



The net debt to EBITDA ratio after Q1 2014 was 1.46 compared to 1.49 in 2013, reflecting a decrease in the Group's financial debt following the repayment of loans and borrowing in accordance with the schedule.

#### 4.1.3. Consolidated Cash Flow Statement

	As at 31 Mar 2014	As at 31 Mar 2013	Change	Change (%)
PLN 000s				
Net cash flow from operating activities	250,264	703,807	(453,543)	-64%
Net cash flow from investing activities	(356,551)	(323,134)	(33,417)	-10%
Net cash flow from financing activities	(176,558)	1,830,248	(2,006,806)	-110%
Net increase / (decrease) in cash and cash equivalents	(282,845)	2,210,921	(2,493,766)	-113%
Cash and cash equivalents at the end of the period	2,067,868	4,240,294	(2,172,426)	-51%

As at 31 March 2014, the balance of the Group's cash was PLN 2,068 m and was PLN 2,172 m (or 51%) less than as at 31 March 2013.

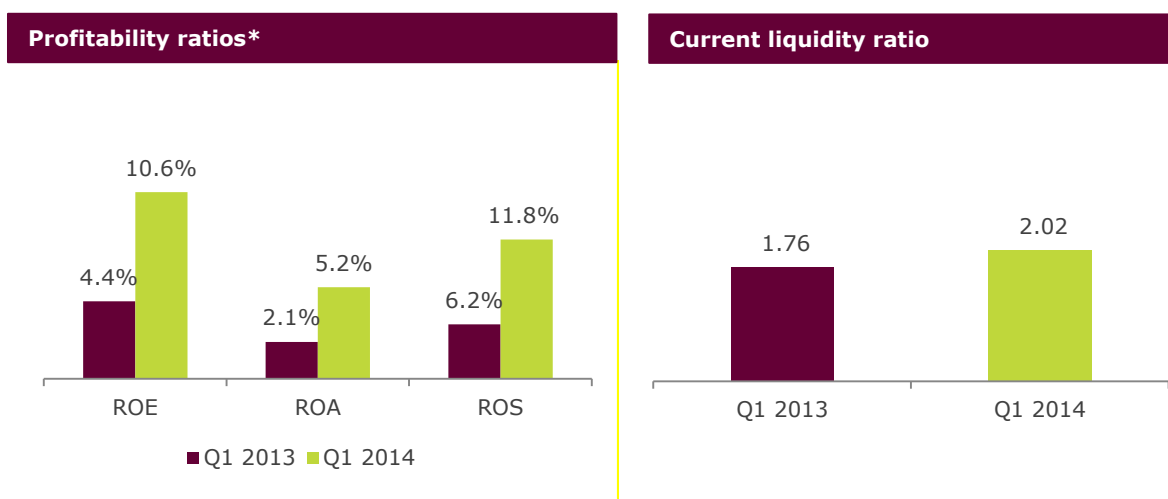
The total net cash flows from the Group's operating, investing and financing activities in Q1 2014 were negative at PLN (283) m, compared to positive cash flows of PLN 2,211 m in the same period of the previous year.

Cash flow from operating activities fell by PLN 454 m (64%) compared to Q1 of the previous year. The reduction in cash flows from operating activities was caused mainly by the reduced balance of the Group's liabilities vs. the end of 2013 (an opposite trend was recorded in the same period of the previous year).

Net cash flows from investing activities in the first quarters of 2014 and 2013 remained relatively stable and were affected mainly by expenditures towards property, plant and equipment, mainly for the Group's distribution network.

In the current period, cash flows from financing activities were negative at PLN (177) m, PLN 2,007 m less than in the same period of 2013; this was mainly due to the repayment of debt contracted in previous periods. In Q1 2014, no significant financing was committed, while in the same period of the previous year, there were proceeds from the issue of the first tranche of Eurobonds of EUR 500 m. In Q1 2014, the Group paid out interest on that issue for the first time, which increased the amounts of interest paid, compared to Q1 2013.

#### 4.1.4. Selected economic ratios



\* for the last 12 months



## 4.2. Operating segments

### 4.2.1. DISTRIBUTION

PLN 000s	Q1 2014	Q1 2013	Change	Change (%)
Revenues	1,017,152	944,012	73,140	8%
<b>EBITDA</b>	<b>409,837</b>	<b>398,945</b>	<b>10,892</b>	<b>3%</b>
<i>of which depreciation:</i>	170,101	161,137	8,964	6%
EBIT	239,736	237,808	1,928	1%
Net profit	173,314	147,261	26,053	18%
CAPEX	154,303	232,886	(78,583)	-34%

PLN 000s	As at 31 Mar 2014	As at 31 December 2013	Change	Change (%)
Cash	458,394	606,098	(147,704)	-24%
Financial debt	2,868,751	2,917,002	(48,251)	-2%
Headcount at the end of the period (people)	5,841	6,079	(238)	-4%

In Q1 2014, the Distribution Segment contributed approx. 63% to ENERGA Group's EBITDA (approx. 85% in Q1 2013).

In Q1 2014 revenues of the Distribution Segment were approx. 8% higher than in the same period of the previous year. The higher revenues were driven by growing average rate charged on distribution services by ENERGA-OPERATOR (by 3%) due to an increase in distribution tariffs and a higher volume of distributed electricity (an increase of almost 6%). Revenues from connection fees were PLN 13 m, or 22% less than in the same period of 2013, which was associated with a reduction of connection rates.

EBITDA growth was almost 3% YoY. EBIT increased by PLN 2 m (1% YoY). Growth of the distribution margin contributed materially to the increase of the operating result up to PLN 240 m (taking into account the estimates of uninvoiced sales of distribution services, grid losses and cost of the transmission quality fee) by PLN 18 m, while depreciation costs increased by PLN 9 m.

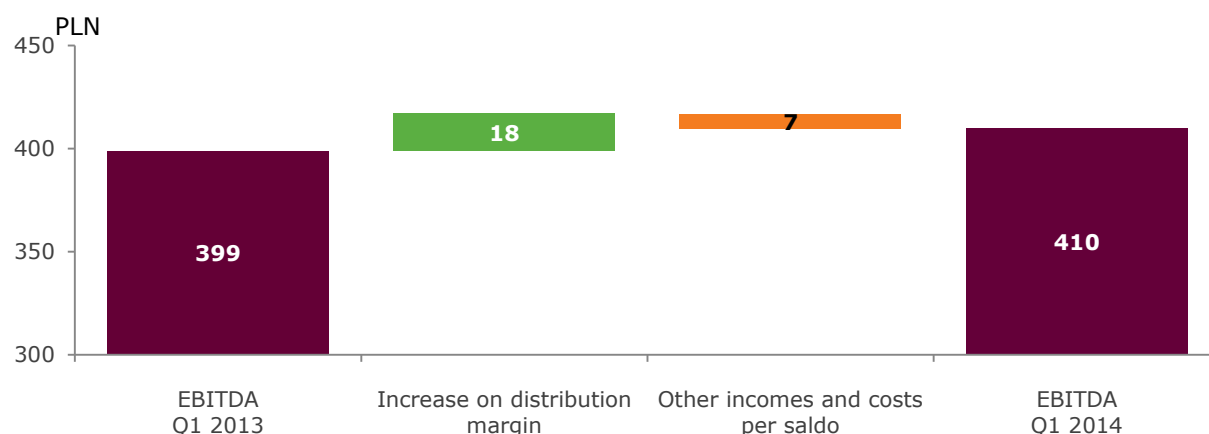
Net profit in Q1 2014 was PLN 26 m higher than in Q1 2013. This was a consequence of a better operating result of the Segment and the result on financing activity and a lower mandatory tax burden. Reduction of the loss on financing activity by PLN 12 m YoY was made possible, among others, by the profit on the sale of shares in two segment companies (PLN 19 m).

The capital expenditures of the Distribution Segment at PLN 154 m were almost PLN 79 m lower than in the same period of the previous year. The low level of expenditures in Q1 2014 resulted from a lower capex plan of the Segment and delays in the execution of investment tasks.

Compared to 31 December 2013, financial debt fell by PLN 48 m following from the repayment of loans contracted from international financial institutions, which started in December 2012. Cash was 24% lower than as at 31 December 2013. Accordingly, net debt increased by PLN 99 m from the end of December 2013.

In Q1 2014, the Distribution Segment continued the implementation of employment restructuring processes. Since 31 December 2013, the headcount decreased by 238, of which reduction by 65 people was caused by the sale of stakes in two commercial companies. The headcount drop in people as compared to 31 March 2013 amounted to 977.



**EBITDA Bridge of the Distribution Segment****4.2.2. SALES**

PLN 000s

	Q1 2014	Q1 2013	Change	Change (%)
Revenues	1,509,828	1,860,126	(350,298)	-19%
<b>EBITDA</b>	<b>49,753</b>	<b>100,369</b>	<b>(50,616)</b>	<b>-50%</b>
<i>of which depreciation:</i>	<i>7,351</i>	<i>6,566</i>	<i>785</i>	<i>12%</i>
EBIT	42,402	93,803	(51,401)	-55%
Net profit	39,661	88,836	(49,175)	-55%
CAPEX	5,595	1,686	3,909	232%

PLN 000s

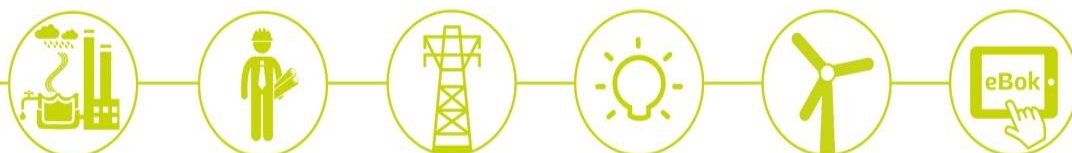
	31 Dec 2014	31 Mar 201	Change	Change (%)
Cash	373,520	456,995	(83,475)	-18%
Financial debt	1,607	1,768	(161)	-9%
Headcount at the end of the period [people]	1,255	1,303	(48)	-4%

In Q1 2014, the Sales Segment contributed 7% of the ENERGA Group's EBITDA compared to 21% in Q1 2013.

The Sales Segment's revenues were lower than in Q1 2013 and stood at PLN 1,510 m. In Q1 2014, the volume of electricity sold by the Sales Segment to end users decreased by approximately 10% (0.5 TWh) when compared to the same period of the previous year. The decrease resulted mainly from the change of the Segment's strategy and a decision not to renew unprofitable contracts with buyers in tariff groups A and B. Additionally, a lower electricity consumption by end users was noted in the period under analysis.

In Q1 2014, the average electricity selling prices to end users decreased by approximately 12% compared to Q1 2013. 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 and by subsequent 6% from January this year. In turn, on the wholesale market, the average selling prices were lower by more than 11%.

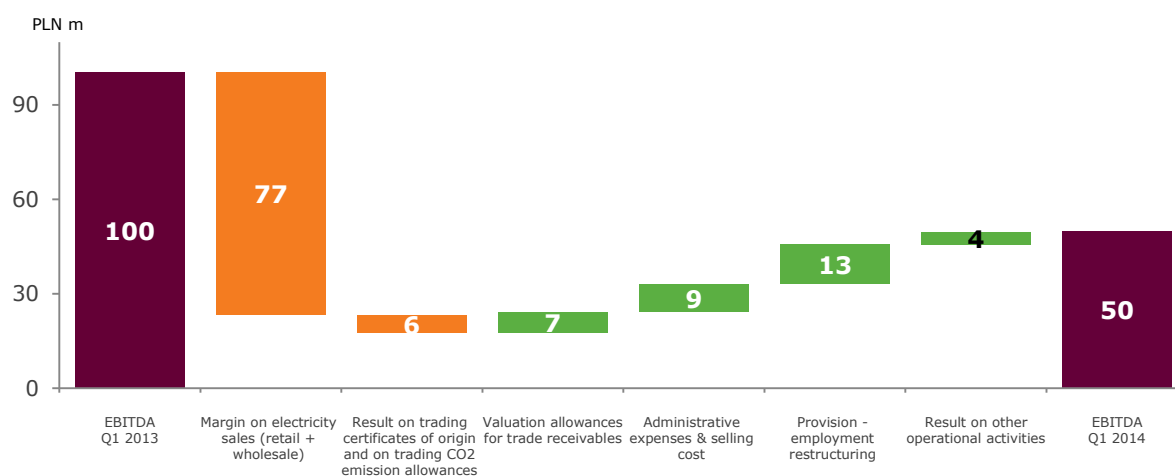
The next area that has negative impact on the Segment's results was purchase of energy from the local market, where the energy purchase volume was 79% higher. ENERGA-OBRÓT, as an *ex officio* seller, is obligated to purchase energy generated in renewable sources (on the request of the RES generator) in the area of ENERGA-OPERATOR's operations. This purchase takes place at the average electricity sales price in the competitive market in the previous calendar year. In the period in question ENERGA-OBRÓT recorded a high share of the volume of energy purchases from the local market in total purchases (approx. 22% in Q1 2014 compared to 11% in Q1 2013).





The headcount in the Segment in Q1 2014, compared to the end of 2013, dropped by 48 people, inter alia, as a result of the restructuring actions taken.

#### EBITDA Bridge of the Sales Segment



#### 4.2.3. GENERATION

PLN 000s	Q1 2014	Q1 2013	Change	Change (%)
Revenues	462,146	368,085	94,061	26%
<b>EBITDA</b>	<b>194,434</b>	<b>(16,593)</b>	<b>211,027</b>	-
<i>of which depreciation:</i>	33,593	23,823	9,770	41%
EBIT	160,841	(40,416)	201,257	-
Net profit	108,946	(33,970)	142,916	-
CAPEX	25,406	52,764	(27,358)	-52%
PLN 000s	As at 31 Mar 2014	As at 31 December 2013	Change	Change (%)
Cash	492,535	448,330	44,205	10%
Financial debt	1,577,423	1,555,834	21,589	1%
Headcount at the end of the period (people)	1,628	1,641	(13)	-1%

The table below presents a breakdown of EBITDA of the Generation Segment by line of business. The breakdown comprises the unit data, taking into account the costs of management of the Generation Segment and key consolidation adjustments (valuation of property rights and write-downs of property, plant and equipment).

#### Generation Segment EBITDA

EBITDA (PLN 000s)	Q1 2014	Q1 2013	Change	Change (%)
Hydro*	96,165	89,786	6,379	7%
Wind*	34,614	-	34,614	-
Elektrownia Ostrołęka*	56,273	(121,838)	178,111	-
Other and adjustments	7,383	15,459	(8,076)	-52%
<b>Total Generation</b>	<b>194,434</b>	<b>(16,593)</b>	<b>211,027</b>	-

\* Data include individual data plus the management cost charge for managing the Generation Segment and consolidation adjustments.

The Generation Segment's share in the total EBITDA of the ENERGA Group amounted to 30% in Q1 2014. The improvement of EBITDA YoY was PLN 211 m and resulted primarily from recognition, in



Q1 2013, of the impairment charge of unit B in ENERGA Elektrownie Ostrołęka SA in the amount of PLN 123 m.

Water power plants has the biggest share in the EBITDA of the Generation Segment (49%). Thanks to acquisition of three wind farms in 2013, in the structure of the Generation Segment's EBITDA, a new item associated with production of electricity using wind appeared (18% in the Segment's EBITDA for Q1 2014).

Revenues from the Segment's sales were 26% higher than in Q1 of the year before. The biggest impact on the increase of the revenues came from the acquisition of three wind farms in the second half of 2013 and the sale of the stock of property rights (green certificates) at prices higher than the market prices as at the generation date<sup>2</sup> (this dealt with mostly the inventory of property rights for co-fired biomass due for 2013, which have been granted in 2014). Among unfavorable factors influencing the sales revenues in the Generation Segment in Q1 2014 there was primarily the decrease of the volume of gross electricity production in hydro and conventional power plants.

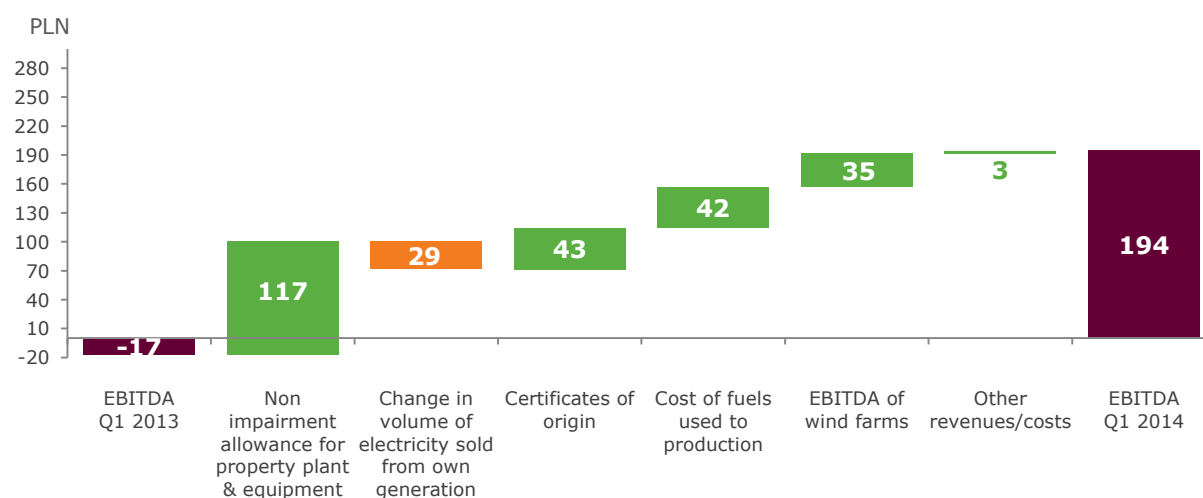
The costs of fuel consumption in the Generation Segment in Q1 2014 dropped YoY by 23%, i.e. PLN 42 m. The decrease of fuel consumption costs results both from the decrease of the volume of fuel consumption and the unit costs of coal and biomass.

The net profit earned by the Generation Segment in Q1 2014 was affected by the costs of service of the financial debt incurred to purchase the wind farms in 2013.

Capital expenditures in the Segment were lower in the analyzed period compared to Q1 2013 (by PLN 27 m), which results from the shifting of the completion of the construction of the heat source for the city of Ostrołęka from Q1 2014 to a later date. Capital expenditures in Q1 2013 took into account, among other things, execution of a construction project of a 20MWe biomass-fired unit by ENERGA Kogeneracja Sp. z o.o.

In Q1 2014, the Generation Segment recorded an increase of debt by PLN 22 m in connection with execution of scheduled investments.

### EBITDA Bridge of the Generation Segment



### Hydro

The table contains standalone data plus the management cost charge for managing the Generation Segment and major consolidation adjustments (valuation of property rights).

<sup>2</sup> In line with the Accounting Policy of the Group certificates of origin generated in a specified period are recognized in a fair value as operational revenues and inventory. At of the certificates sale date, the difference between the obtained sale price and the certificates value set as at their generation is recognized as the correction of operational revenues.



HYDRO PLN 000s	Q1 2014	Q1 2013	Change	Change (%)
Revenues	125,404	107,445	17,959	17%
<b>EBITDA</b>	<b>96,165</b>	<b>89,786</b>	<b>6,379</b>	<b>7%</b>
Net profit	70,872	68,470	2,403	4%
CAPEX	5,563	13,410	(7,847)	-59%

The impact of the water power plants on the total level of EBITDA of the Generation Segment in Q1 2014 was 49%. EBITDA generated in water power plants increased compared to Q1 2013 by 7%, despite simultaneous decrease of gross electricity production by 12%.

Revenues earned from the sale of electricity generated in water power plants increased in relation to the corresponding period of last year by 17% (PLN 18 m). The biggest contributor to this situation was the sale of the stock of property rights (green certificates) at prices higher than the market prices on the date of generation<sup>3</sup>, which was partly compensated by lower production of electricity in water power plants as a result of worse than last year hydro meteorological conditions in the Wisła river. Water flows through the barrage in Włocławek in Q1 2014 was at the level of 80% of the flow last year.

Increase of the EBITDA generated by water power plants translated into increase of the net profit earned in Q1 2014 by 4% compared to Q1 2013.

### Wind

The breakdown comprises the unit data, taking into account the costs of management of the Generation Segment and key consolidation adjustments (valuation of property rights).

WIND PLN 000s	Q1 2014	Q1 2013	Change	Change (%)
Revenues	48,406	-	48,406	-
<b>EBITDA</b>	<b>34,614</b>	-	<b>34,614</b>	-
Net profit	9,849	-	9,849	-
CAPEX	24	-	24	-

The share of the water power plants in the total level of EBITDA of the Generation Segment in Q1 2014 was 18%. The wind farms were purchased in June and July 2013 and have been since then recognized in the results of ENERGA Group's Generation Segment.

The revenues generated by ENERGA Group's wind assets in Q1 2014 exceeded PLN 48 m. The EBITDA generated by ENERGA Group's wind farms amounted to nearly PLN 35 m, while the net profit earned in Q1 2014 was nearly PLN 10 m.

### Ostrołęka Power Plant

The breakdown comprises the unit data, taking into account the costs of management of the Generation Segment and key consolidation adjustments (valuation of property rights and write-downs of property, plant and equipment).

ELEKTROWNIA OSTROŁĘKA PLN 000s	Q1 2014	Q1 2013	Change	Change (%)
Revenues	240,946	206,496	34,450	17%
<b>EBITDA</b>	<b>56,273</b>	(121,838)	<b>178,111</b>	-
Net profit	33,541	(106,497)	140,038	-
CAPEX	5,072	10,564	(5,492)	-52%

<sup>3</sup> In line with the Accounting Policy of the Group certificates of origin generated in a specified period are recognized in a fair value as operational revenues and inventory. At of the certificates sale date, the difference between the obtained sale price and the certificates value set as at their generation is recognized as the correction of operational revenues.



The share of ENERGA Elektrownie Ostrołęka SA in the total EBITDA of the Generation Segment in Q1 2014 was 29%. In the corresponding period of 2013, Elektrownia Ostrołęka's EBITDA was negative PLN (122) m in connection with recognition of the impairment charge of unit B in ENERGA Elektrownie Ostrołęka SA.

The sales revenues of ENERGA Elektrownie Ostrołęka SA in Q1 2014 were higher than in the corresponding period of last year by PLN 34 m, i.e. by 17%. This resulted primarily from the sale of the stock of property rights (green certificates) at prices higher than the market prices on the date of generation<sup>4</sup> (this dealt with mostly the inventory of property rights for co-fired biomass due for 2013, which have been granted in 2014), which was partly compensated by lower volume of electricity sold in connection with failure of unit 2 generator in ENERGA Elektrownie Ostrołęka SA.

The average sales price of own electricity in Q1 2013 was 5% higher, and the average price of forced electricity sales increased YoY by 2%. The above had positive influence on the level of sales revenues.

The improvement of the net result achieved in Q1 2014 was attributable (apart from absence of one-off events that took place in Q1 2013) to reduction of the costs of operating activities in ENERGA Elektrownie Ostrołęka SA. The costs of fuel consumption dropped in Q1 2014 YoY by 24%, i.e. PLN 40 m. The decrease of fuel consumption costs results both from the decrease of the volume of fuel consumption and the unit costs of coal and biomass.

#### Other and adjustments

OTHER AND ADJUSTMENTS PLN 000s	Q1 2014	Q1 2013	Change	Change (%)
Revenues	47,389	54,145	(6,756)	-12%
<b>EBITDA</b>	<b>7,383</b>	15,459	(8,076)	-52%
Net profit	(5,317)	4,058	(9,375)	-
CAPEX	14,746	28,790	(14,044)	-49%

The Other category comprises the Generation Segment's CHP assets, companies providing services to the Generation Segment and special purpose vehicles executing investment projects in the area of construction of new generation sources in the ENERGA Group. The line item in question comprises also consolidation adjustments.

The capital expenditures in the Other and Adjustments line item comprise additionally investments executed by the special purpose vehicles of the Generation Segment, including the wind farm construction projects executed in the ENERGA Group.

### 4.3. Projected financial results

ENERGA SA's Management Board has not published forecast stand-alone or consolidated financial results for the 2014 financial year.

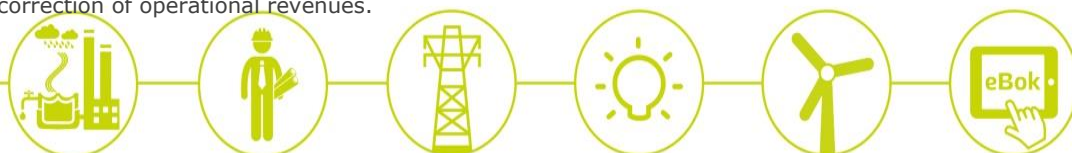
### 4.4. Financial and market risk management

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

#### Interest rate risk

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

<sup>4</sup> In line with the Accounting Policy of the Group certificates of origin generated in a specified period are recognized in a fair value as operational revenues and inventory. At of the certificates sale date, the difference between the obtained sale price and the certificates value set as at their generation is recognized as the correction of operational revenues.



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

In connection with implementation of hedge accounting, the Group also identifies the interest rate risk related to the concluded CCIRS hedging transaction, with no impact on the financial result.

According to the interest rate risk policy, risk of variation in interest rates is mitigated by maintaining a portion of debt with fixed interest rate.

#### *Foreign exchange risk*

In the financial area the FX risk is associated with incurring and servicing ENERGA Group's debt liabilities in foreign currencies, mainly under the EMTN Eurobond Issue Program. Additionally, selected Group companies had foreign currency surpluses resulting from their operating activity or debt issues.

The ENERGA Group monitors the currency risk and manages it primarily through implementation of hedge accounting and contracted hedge transactions, including CCIRS and the implemented hedge accounting.

#### *Credit risk*

This risk arises due to the counterparty's potential permanent or temporary insolvency with regard to financial assets such as cash and cash equivalents and financial assets available for sale. The risk arises due to the contractual counterparty's inability to make the payment and the maximum exposure to this risk equals the balance sheet value of acquired instruments. In this respect, to minimize credit risk the ratings of financial institutions with which the Group cooperates are monitored.

Credit risk is also incurred in the case of funds involved in participation units in the ENERGA Trading SFIO fund. According to the adopted investment policy, the fund invests in assets such as treasury bills and bonds and commercial debt instruments. Credit risk associated with investments in treasury bills and bonds is referred to the solvency risk of the State Treasury. Credit risk associated with investments in commercial debt instruments is mitigated through the fund's properly defined investment policy. The fund may invest its monies only in assets characterized by an investment rating awarded by rating agencies or awarded internally by the fund manager.

#### *Liquidity risk*

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

ENERGA Group companies monitor the liquidity risk using a periodic liquidity planning tool. The tool takes into account the payment due/maturity dates both for investment liabilities and financial assets and liabilities and projected cash flows from operating activity. The Group aims at maintaining the balance between continuity and flexibility of financing through use of various sources of financing, such as working capital and investment loans, local bonds and Eurobonds. Due to centralization of the debt-related activity in ENERGA SA, this entity conducts ongoing monitoring of fulfilment 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.

## **5. Significant events during the reporting period and events after the balance sheet date**

### **5.1. Convening the Annual General Meeting of ENERGA SA in 2014**

In Current Report No. 20/2014 of 23 April 2014, the Company published information on convening the Annual General Meeting of ENERGA SA ("AGM") to be held on 20 May 2014. In its subsequent current report, the Company published the wording of draft AGM resolutions, pertaining to, among others, approval of the individual and consolidated financial statements for 2013, Management Board report on the Company's activity in 2013, distribution of the 2013 net profit, granting a



discharge to the Management Board and the Supervisory Board and appointing new members of the Supervisory Board of the 4<sup>th</sup> term of office.

The announcement on convening the AGM and full draft resolutions are available on the Group's website at [www.grupa.energa.pl](http://www.grupa.energa.pl).

## 5.2. Distribution of ENERGA SA's net profit for 2013

One of the resolutions published on 23 April 2014 in Current Report No. 21/2014, to be examined by the AGM of ENERGA SA on 20 May 2014, was a resolution on the distribution of the 2013 net profit. Having received a positive opinion of the Supervisory Board, the Management Board of the Company proposed for the AGM to adopt a resolution to distribute the net profit for the period from 1 January 2013 to 31 December 2013 in the amount of PLN 499,048,758.09 in such a way as to use the amount of PLN 414,067,114.00, or PLN 1.00 per share (about 83% of net profit) for a shareholder dividend and PLN 84,981,644.09 (about 17% of net profit) for supplementary capital. At the same time, the AGM will vote on the proposal to set the dividend record date at 27 May 2014 and the dividend payment date at 10 June 2014.

## 5.3. Extraordinary General Meeting of ENERGA SA in 2014

In Current Report No. 5/2014 of 22 January 2014, the Company published an announcement to convene, upon request of a Shareholder, the State Treasury, an Extraordinary General Meeting ("EGM") for 17 February 2014. In Current Report No. 11/2014 of 18 February 2014, the Company published the wording of resolutions adopted by the Extraordinary General Meeting and results of the ballots.

One of the EGM resolutions, Resolution No. 2, was adopted to grant consent for the acquisition of fixed assets components in the form of long-term bonds issued by a subsidiary Breva Sp. z o.o. with a value not exceeding PLN 100,435 thousand for the bondholder, i.e. ENERGA SA, with a maturity date after commissioning of an investment project on the basis of the DSCR index.

## 5.4. Amendments to ENERGA SA's Articles of Association

In Current Report No. 18/2014, the Company reported on Resolution No. 3/2014 adopted by the EGM on an amendment in the Company's Articles of Association. The provision of § 33 section 2 reading:

„2. The personal rights referred to in § 18 and § 19 of the Articles of Association shall expire on the day on which the share of the rights holder in the share capital falls below 10%.”, received the following amended wording:

„2. The personal rights referred to in § 18 and § 19 of the Articles of Association shall expire on the day on which the share of the rights holder in the share capital falls below 20%.”.

The amendment was registered by the District Court Gdańsk-Północ in Gdańsk, the Commercial Division of the National Court Register on 8 April 2014, which the Company announced in Current Report No. 19/2014 of 11 April 2014.

## 5.5. Change in the composition of the Supervisory Board of ENERGA SA

On 17 January 2014, the Company reported in Current Report No. 2/2014 that a Shareholder, the State Treasury Minister, submitted a declaration that, on 16 January 2014, pursuant to the personal rights vested in him under §18 section 3 pt. 3) of the Company's Articles of Association it appointed Mr. Bogusław Nadolnik to the Supervisory Board. The biography of the newly-appointed Supervisory Board Member has been published on the corporate website and is available at:

[http://grupa.energa.pl/rada\\_nadzorcza\\_ENERGA\\_SA.xml](http://grupa.energa.pl/rada_nadzorcza_ENERGA_SA.xml)

## 5.6. Introduction of the Company's bonds into trading on the regulated market

Upon request of ENERGA SA of 20 December 2013, the Management Board of BondSpot S.A. admitted into trading, on the regulated over-the-counter market organized by Catalyst, 100 thousand series A bearer bonds of the Company ("Bonds") of a total value of PLN 1 bn and a unit par value of PLN 10 thousand each, marked with a code PLENERG00014 by the National Depository



of Securities ("KDPW") and, as of 29 January 2014, it introduced them into trading on the regulated over-the-counter market on Catalyst. Also, on the same date, the Management Board of BondSpot excluded the Company's Bonds from the alternative trading system organized by Catalyst. The Company reported the decisions made by the Management Board of BondSpot in Current Report No. 7/2014 on 24 January 2014.

## 5.7. Information on material agreements and transactions concluded with related entities

### 5.7.1 Material agreements

In the ENERGA Group, material agreements are those, which:

- are concluded outside of the ordinary course of business, including agreements to acquire shares in other entities,
- are concluded in the ordinary course of business, the value of which exceeds PLN 606 m (or equivalent) corresponding to approx. 8.9% of the Company's equity as at 31 March 2013 or which were important for the Group's operation, regardless of value, including electricity transmission agreements, forced work provision agreements, fuel supply agreements with entities from outside of the Group, and
- financing arrangements.

As at the date of preparing this Information to the Extended Consolidated Report of the ENERGA Group for the 1<sup>st</sup> quarter of 2014, the Group is not dependent on any other material trading or financial agreements. Since our first listing on the Stock Exchange, the ENERGA Group has been using a special application to update agreements concluded within the Group and for ENERGA SA to monitor them continuously for the materiality criteria.

### 5.7.2 Guarantees and sureties

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

### 5.7.3 Transactions with related entities

Information on the transactions with affiliated entities is presented in Note 17 to the Condensed Consolidated Financial Statements for the 3 months ended 31 March 2014.

### 5.7.4 Ratings

By the date of preparation of this Information, the ratings granted to ENERGA SA have not changed and are as follows:

	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

## 6. Shares and shareholding structure

### 6.1. ENERGA SA's shareholding structure

#### 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 shares*	144,928,000	35.00	289,856,000	51.85
TOTAL		414,067,114	100.00	558,995,114	100.00

\* One preferred share entitles its holder to two votes at the General Meeting. The owner of these shares is the State Treasury.



As at 31 December 2013, the structure of the Company's shareholders following the IPO was as follows:

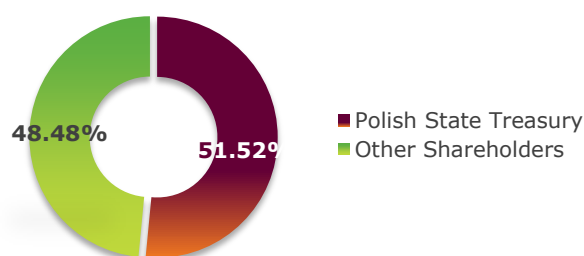
#### Shareholding structure of ENERGA as at 31 December 2013

Shareholder's name	Company's shareholding structure			
	Shares	(%)	Votes	(%)
State Treasury*	207,040,000	50.00	351,968,000	62.96
Others	207,027,114	50.00	207,027,114	37.04
TOTAL	414,067,114	100.00	558,995,114	100.00

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.

#### Shareholding structure of ENERGA as at 27 January 2014 and the date of preparing this Information

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



## 6.2. Company listings on the Warsaw Stock Exchange

#### Data for ENERGA in Q1 2014 or as at 31 March 2014

Data	Value
Issue Price	PLN 17.00
Number of shares	414,067,114
Q1 minimum 2014	PLN 15.51
Q1 maximum 2014	PLN 18.15
Stock price at the end of the period	PLN 17.85
Minimum at closing in Q1 2014	PLN 15.80
Maximum at closing in Q1 2014	PLN 17.99
Average turnover	PLN 21,332,470
Average trading volume	1,265,377
Average number of trades	1,340

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

In the period from 1 January to 31 March 2014, the ENERGA SA stock price was fluctuating from PLN 15.51 to PLN 18.15. At the end of the period, the stock price was PLN 17.85 and was approx. 11.9% higher than the list price in the beginning of the period. On 7 January 2014, the stock price reached the Q1 minimum of PLN 15.51, with a session closing price of PLN 15.80. On 26 March





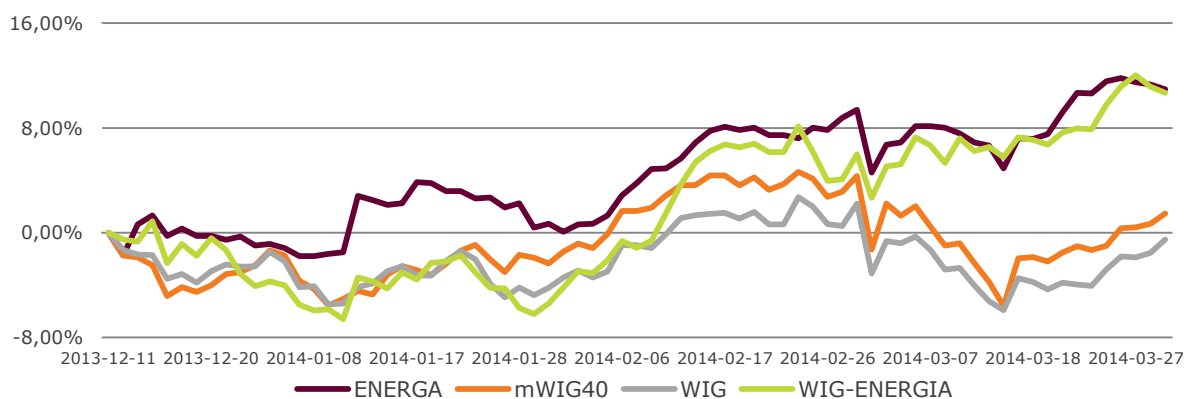
2014, the Company's shares were traded at PLN 18.15 and the price was closed at PLN 17.99, reaching the highest value in the period.

**Fig. 19: ENERGA SA stock prices from first listing (11 December 2013) to 31 March 2014**



Source: In-house study based on the data from [gpwinfostrafa.pl](http://gpwinfostrafa.pl)

**Fig. 20: Changes in ENERGA stock prices compared to changes in mWIG 40, WIG and WIG-ENERGIA indices**



Source: In-house study based on the data from [gpwinfostrafa.pl](http://gpwinfostrafa.pl)

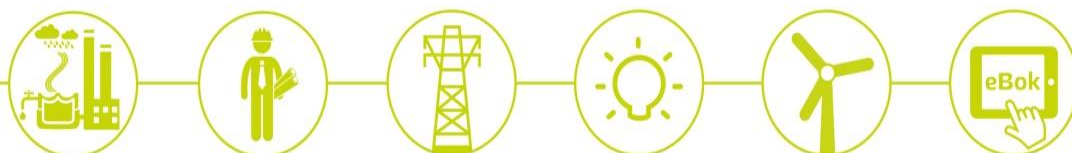
As at 31 March 2014, the Company comprised the following stock market indices:

- **WIG** - The WIG index includes all companies listed on WSE Main Market, which meet the base criteria for participation in the indices;
- **mWIG40** - the index is comprised of 40 medium-sized companies listed on WSE Main Market, which are not part of WIG 20, WIG 30, sWIG80 indices (ENERGA was added to the Index after closing on 21 March 2014);
- **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.

### 6.3. Recommendations for the shares in the Company

In Q1, 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	Listing on the date of issuing the
2014-04-14	DB Securities	Hold	PLN 18.40	PLN 18.17
2014-04-04	UniCredit	Buy	PLN 21.80	PLN 17.85
2014-03-10	PKO Dom Maklerski	Buy	PLN 18.80	PLN 17.50
2014-03-06	mDom Maklerski	Accumulate	PLN 19.90	PLN 17.20
2014-02-07	Dom Maklerski Citi Handlowy	Buy	PLN 19.00	PLN 16.55
2014-01-23	mDom Maklerski	Buy	PLN 19.90	PLN 16.60
2014-01-17	PKO Dom Maklerski	Buy	PLN 18.20	PLN 16.71
2014-01-13	UniCredit	Buy	PLN 17.90	PLN 16.54
2014-01-13	BofA Merrill Lynch	Buy	PLN 18.00	PLN 16.54
2014-01-13	UBS	Buy	PLN 17.50	PLN 16.54
2014-01-13	JP Morgan	Overweight	PLN 19.00	PLN 16.54

### 6.4. Shares held by executive and supervisory personnel

Number of Company shares and shares in related entities held by persons discharging management functions as at 31 March 2014

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 March 2014				
Mirosław Bieliński	1,775	19,383	0	0
Roman Szyszko	0	0	0	0
Wojciech Topolnicki	0	0	0	0

On 7 May 2014 the Company announced in its Current Report No. 22/2014 on the transactions made by the President of the Company's Management Board, Mr. Mirosław Bieliński, on 25 April 2014 in ordinary session transactions to purchase the Company stock in the number of 725 shares at a price of PLN 17.97 each. As at the date of this Information, the Company's President possessed in total 2,500 of the Company's shares.

Number of Company shares and shares in related entities held by persons discharging management functions as at this Information preparation date i.e. 8 May 2014

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 this Information date i.e. 8 May 2014				
Mirosław Bieliński	2,500	27,300	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 as at 31 March 2014 and the date of preparing this Information

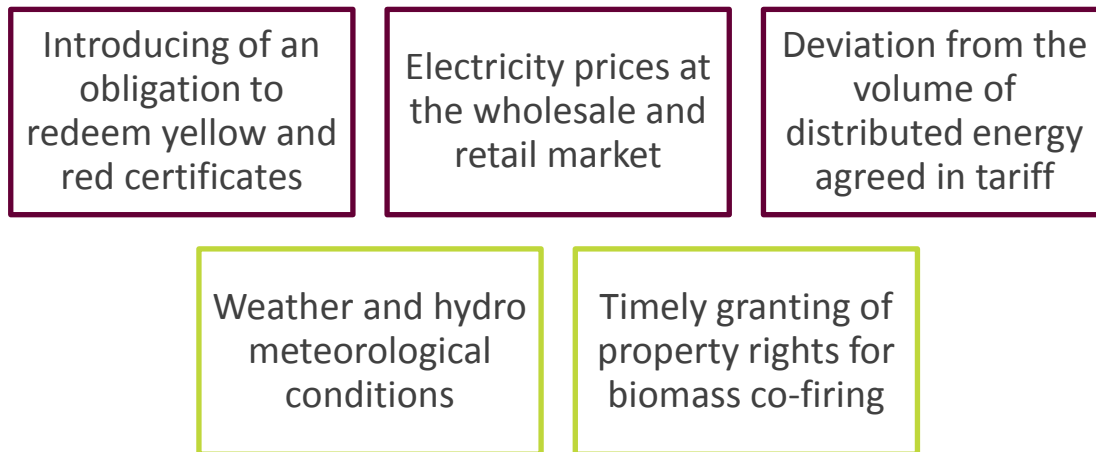
Full name	ENERGA shares		Shares in entities related to ENERGA	
	Number of shares	Par value in PLN	Number of shares	Nominal value in PLN
as at 31 March 2014 and the date of this report				
Zbigniew Wtulich	0	0	0	0
Marian Gawrylczyk	0	0	0	0
Agnieszka Poloczek	0	0	0	0
Iwona Zatorska-	0	0	0	0
Roman Kuczkowski	8,795	96,041.40	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.



## 7. Factors affecting the performance of the ENERGA Group in the next quarter and later

In the opinion of the ENERGA SA Management Board, the following factors may have impact on the results and activity of the Company and the ENERGA Group in the perspective of at least one quarter of 2014:



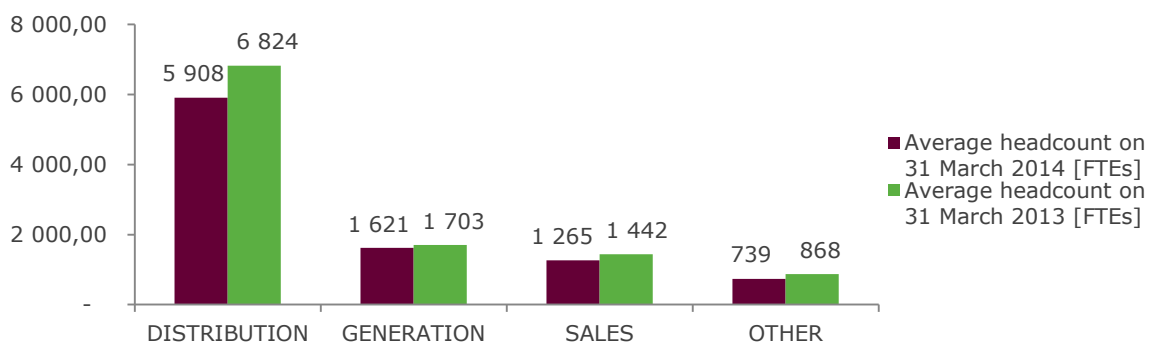
## 8. Other information of importance for evaluating the personnel, assets and financial standing of the ENERGA Group

### 8.1. Headcount in the Group

As at 31 March 2014, total headcount in the ENERGA Group was 9,451, compared to 10,864 at the end of Q1 2013.

The average headcount (FTEs) in the ENERGA Group for the period January-March 2014 amounted to 9,533 FTEs and in the same period of 2013 it was 10,837. The chart below presents the average headcount by segment\*.

**Fig. 21: Average headcount in the ENERGA Group as at 31 March 2014 and 31 March 2013 (in FTEs)**



\* Data from Group companies by Segment, in accordance with the Resolution of the ENERGA SA Management Board of 20 January 2014.

During the year ended 31 March 2014, the headcount in the ENERGA Group decreased by 1,413 persons, or 13%. The decrease in headcount occurred in all operating segments. The biggest drop in employment was recorded in the electricity Distribution Segment - by 977 persons, or 14.3% of all employees in the Segment. Moreover, as of 1 April this year 132 people terminated their employment in the Distribution Segment This was driven mainly by the continuing employment restructuring and sale of companies, which were not linked through relevant



processes with the Distribution Segment. The Sales Segment has also recorded a significant decrease in employment by 202 persons, or 13.9%, mainly due to the restructuring activity.

The decrease in the overall number of employees was caused mainly by the programs and rules for individual departures 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.

## 8.2. ENERGA-OBRÓT as an ex officio seller

In accordance with the Energy Law, a RES generator may submit an offering to purchase electric energy by ENERGA-OBRÓT. In such case, ENERGA-OBRÓT is obligated to acquire electric energy generated in RES from a generator connected to the grid on a geographic area, in which an ex officio seller operates, at a price equal to an average sale price of electric energy on a competitive market in a previous calendar year, announced by the ERO President. In consequence, if at a purchase moment market price of electric energy is lower than the ERO President price, competitive position of ENERGA-OBRÓT may be weakened or the company can be forced to further sale of energy with a loss.

Given that ENERGA-OBRÓT is an entity purchasing substantial amount of electric energy from RES in Poland, it is at a particular risk of an unfavorable relation between the price announced by the ERO President and a market price. Maintaining such situation or its occurrence in the future may have a negative impact on a competitive position or margins achieved in the sale of electric energy to end-users, what can have a detrimental effect on its activity, financial results and growth prospects of the ENERGA Group.

## 8.3. Collective disputes and agreements

As at 31 March 2014, approx. 60% of our employees belonged to trade unions and there were 30 inter-company trade union organizations active in the Group. Most organizations belong or are affiliated with the following three trade unions and trade union federations which have representation rights on the national level: NSZZ Solidarność, Trade Union of Engineers and Technicians and the Trade Union College.

In Q1 2014, no collective bargaining disputes were reported in the ENERGA Group. On 6 February 2014, the Employer, ENERGA Elektrownie Ostrołęka SA, signed an agreement ending the collective bargaining dispute with the Trade Union of Power Sector Engineers and Trade Union of Continuous Operation Employees, instigated with the letter of 27 November 2012. Employers ENERGA-OPERATOR SA, Branches in Kalisz, Toruń, Słupsk, Olsztyn, Elbląg, Koszalin and Gdańsk, are parties to the collective bargaining initiated with a letter of the Trade Union Organizations of 20 September 2013. On 13 March 2014, the parties signed a Report of Differences from the mediation proceedings in the collective bargaining dispute initiated with the letter of 20 September 2013.

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

As at 31 March 2014, the ENERGA Group was a party to 4,176 court procedures, and their total value did not exceed 10% of ENERGA SA's equity. The Group was the plaintiff in 2,610 cases where the aggregated value of the subject matter of the dispute was approx. PLN 122 m. The Group was the defendant in 1,550 cases where the aggregated value of the subject matter of the dispute was approx. PLN 361 m.

As at 31 March 2014, 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 7.3 m (there were 1,254 cases). The value of the subject matter of the dispute in 2,140 pending court cases was PLN 231.09 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 62.2 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.

In addition, on 18 February 2014, ENERGA's Management Board announced in the form of Current Report No. 12/2014 that in the case filed by a shareholder, FORTA Sp. z o.o., seated in Jasin, mentioned in the Consolidated Financial Statements of the ENERGA Group for the year ended 31 December 2013, the Regional Court in Gdańsk, in its judgment of 26 March 2014 in the case with file no. IX Gc 820/13:

- 1) dismissed the case for declaring invalid or repealing resolution no. 24 of the Extraordinary General Meeting of ENERGA SA of 3 September 2013 in the matter of determining the series of the Company's shares and amending the Company's Articles of Association referred to in the resolution on preferential treatment of series BB shares in terms of voting rights (one preference share entitles the holder to two votes at the General Meeting), finding the claim groundless;
- 2) it discontinued the proceedings in the part pertaining to repealing resolution no. 23 of the Extraordinary General Meeting of ENERGA SA of 3 September 2013 in the matter of decreasing the Company's share capital due to effective withdrawal of the claim in this part by FORTA Sp. z o.o.;
- 3) it awarded the costs of the proceeding from the plaintiff, FORTA Sp. z o.o., to the defendant, ENERGA.

The dismissal of the claim is not final. Forta moved for a justification of the judgment. No appeal in this respect was delivered as at 31 March 2014. The judgment on discontinuation of the proceedings pertaining to the withdrawn claim is final.

Gdańsk, 8 May 2014

### **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, Chief Financial Officer

Wojciech Topolnicki

Executive Vice President of the ENERGA SA Management Board, Growth Strategy

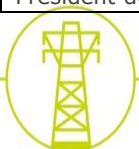


## Glossary of terms and abbreviations

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
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
CAPEX	Capital expenditures
Catalyst	The Catalyst bond market is run on the transaction platforms of the Warsaw Stock Exchange and BondSpot.
CCIRS, CIRS	Cross-currency interest rate swap transactions, as part of which payments will be made in two different currencies on the basis of floating interest rates for the set period and in the set frequency
Certificate of origin	Certificate of origin from renewable sources and certificate of origin from cogeneration
Certificate of origin from cogeneration	Document issued by the ERO President pursuant to art. 9I 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)
CGU B	Identification of cash generating units
CO <sub>2</sub>	Carbon dioxide
Co-firing	Generation of electricity or heat using a process of simultaneous and joint combustion of biomass or biogas with other fuels in a single device; a portion of the energy generated in this manner may be deemed to be energy generated in a renewable energy source
Cogeneration, CHP	Technological process of simultaneous combustion of heat and electrical or mechanical energy in the course of the very same technological process
Covenants	Contractual clauses providing safeguards
CRE ( <i>Cena Referencyjna Energii</i> )	Energy Reference Price
CRM, Customer Relationship Management	System to manage customer relationships
CRO	Settlement prices of the deviations
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
DSCR	Debt Service Coverage Ratio
EBITDA (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
EGM	Extraordinary General Meeting
EMTN	Program to issue Euro Medium Term Notes
ENERGA Capital Group, ENERGA Group, Group	Capital Group dealing with the generation, supply and distribution 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
ENERGA SA, ENERGA, Company	Parent company in the ENERGA Capital Group
ERO	Energy Regulatory Office
EU	European Union
EU ETS (European Union Greenhouse Gas Emission Trading Scheme)	EU emissions trading scheme. The rules governing its operation are stated in ETS Directive.
EUA	European Union emission allowance
EUR	Euro, currency used in countries belonging to the European Union's Eurozone
GDP	Gross Domestic Product
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
KNF	( <i>Komisja Nadzoru Finansowego</i> ) Polish Financial Supervision Authority
KRS	National Court Register
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
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	<i>PGE Polska Grupa Energetyczna SA</i>
PLN	Polish zloty, national currency
PMI	Indicator of industrial activity calculated by Markit company in cooperation with HSBC
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
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
Property rights	Negotiable rights constituting a commodity arising from certificates of origin for energy generated from renewable energy sources and cogeneration
PSE	<i>Polskie Sieci Elektroenergetyczne Spółka Akcyjna</i> 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
QoQ	Quarter to quarter
Renewable Energy Sources, RES	Sources converting the energy of the wind, solar radiation, geothermal energy, waves, currents and marine tides, run of rivers and energy obtained from biomass, garbage dump biogas as well as biogas ensuing from waste removal or treatment processes or the degeneration of stored plant and animal remains to generate electricity.
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SFIO	Specialized Open-end Mutual Funds
Smart Grid	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
Tariff G	Tariff group for individual customers – households
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
Toe	Tons of equivalent oil
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
TWh	Terawatt hour, a multiple unit of electrical energy in the International System of Units. 1 TWh is 109 kWh
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)
WACC	Weighted average cost of capital
WIBOR Warsaw Interbank Offered Rate)	Warsaw Interbank Offered Rate
WSE	Warsaw Stock Exchange S.A.
YoY	Year to year

