



**Management
Board Report
on the activity
of the ENERGA
Capital Group
for the year ended
31 December 2014**

Gdańsk, 12 March 2015

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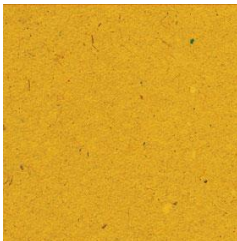
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1. HIGHEST ANNUAL RESULTS IN ENERGA GROUP'S HISTORY



HIGHER PROFIT OF THE ENERGA GROUP

KEY RESOURCES



RENEWABLE ENERGY SOURCES



ENERGA GROUP AFTER 2014

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

FIRST PLACE IN THE POLISH MARKET IN TERMS OF CONNECTION OF RENEWABLE ENERGY SOURCES AND LEADING POSITION IN OWN RES PRODUCTION

THE THIRD BIGGEST SELLER OF ELECTRICITY TO END USERS AND LEADER IN PUBLIC INSTITUTION TENDERS WITH A 22% MARKET SHARE

PRECURSOR OF ACQUIRING OF NEGAWATTS IN POLAND



PLN 2,307 m
EBITDA

PLN 1,006 m
Net profit



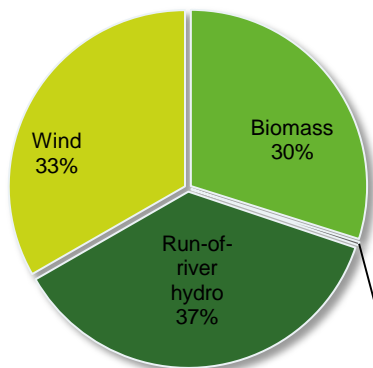
Length of the distribution grid:
over **184***
thous. km



Installed capacity
1.36 GWe
of which 41% in RES



8.5 thous.
employees



Commissioning of a new biomass unit in Elbląg - increase of the Group's generating capacity by 25 MWe and 30 MWt.

PV Launch of the wind farm in Myśliń (Zachodniopomorskie Voivodship) with the capacity of 20 MWe.

Commissioning of the PV Delta photovoltaic farm with the capacity of 1.6 MWe.

Installed capacity
556 MWe

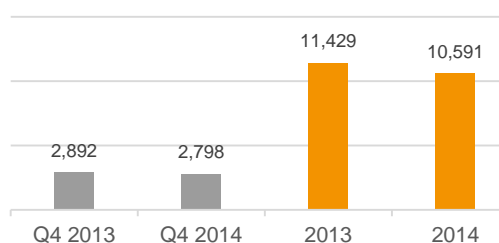
* Decrease by 6 thousand km in relation to the end of 2013 as a result of network passporting based on GIS (Geographic Information System).

OPERATIONAL DATA

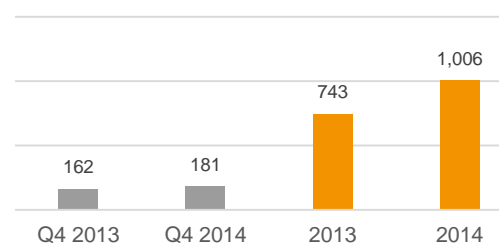
	Q4 2013	Q4 2014	2013	2014
Volume of supplied electricity (GWh)	5,279	5,417	20,444	20,923
Gross production of electricity (GWh)	1,211	1,296	4,967	5,103
- incl. RES (GWh)	492	418	1,851	1,808
Sales of electricity (GWh)	8,317	6,799	31,012	26,084

CONSOLIDATED FINANCIAL HIGHLIGHTS

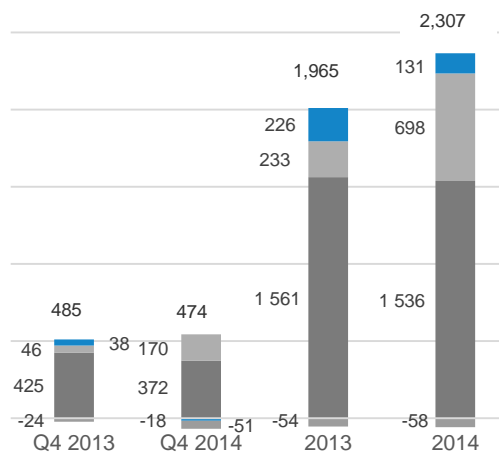
REVENUE (PLN m)



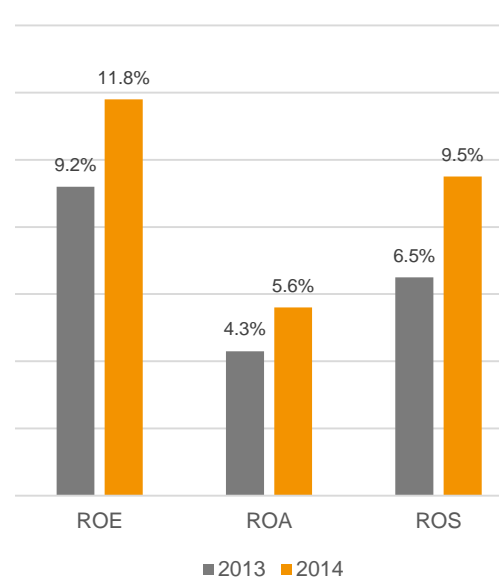
NET PROFIT (PLN m)



EBITDA (PLN m)



PROFITABILITY RATIOS



Investments in the ENERGA Group

In 2014 ENERGA concluded investments in the Distribution Segment of the total value PLN **1,148 m**. They comprised the grid expansion to connect new recipients and generators, as well as modernizations aimed at improvement of energy supply reliability. Investments outlays were also incurred on innovative technologies and network solutions.



As a result of these investments, **31 thousand of new customers** were connected and **2,937 km of medium and low voltage power lines** were modernized **60 new RES** were connected to the distribution grid.

Moreover, several **generation investments** were completed:

- (1) A new biomass unit in Elbląg with the capacity of **25 MWe** and **30 MWt**
- (2) Photovoltaic farm in Gdańsk with the capacity of approx. **1.6 MWe**
- (3) New heating source for Ostrołęka with the thermal power of **219.5 MWt**
- (4) Myślińo wind farm with the capacity of **20 MW**

ENERGA manages demand for electricity and executes innovative projects

In Kalisz ENERGA conducted consumer tests which have shown that households are able to reduce power consumption by as much as 30%.

ENERGA's subsidiary Enspirion was the first entity in Poland to generate the so-called **negawatt power**, i.e. it conducted commercial campaigns aimed at reducing demand for electricity in peak hours.

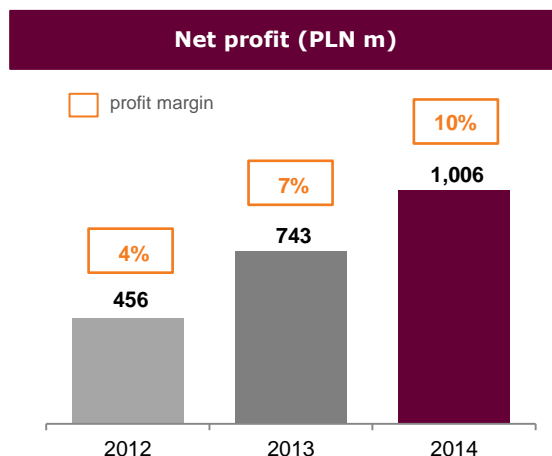
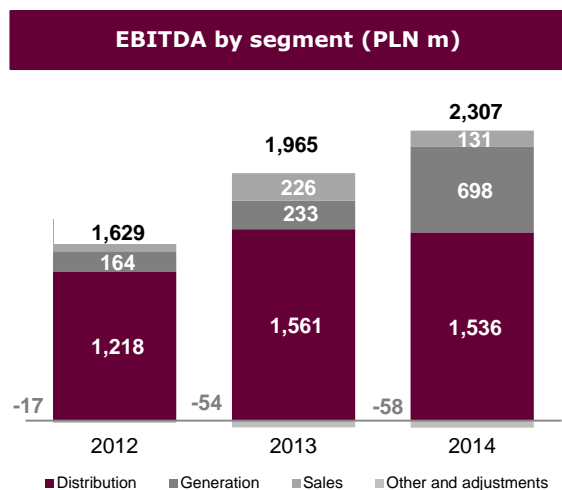
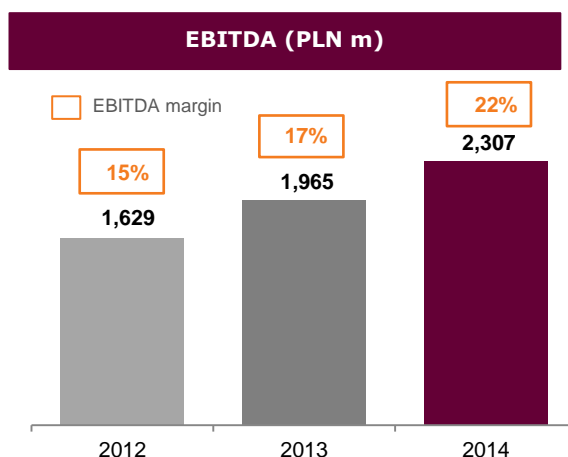
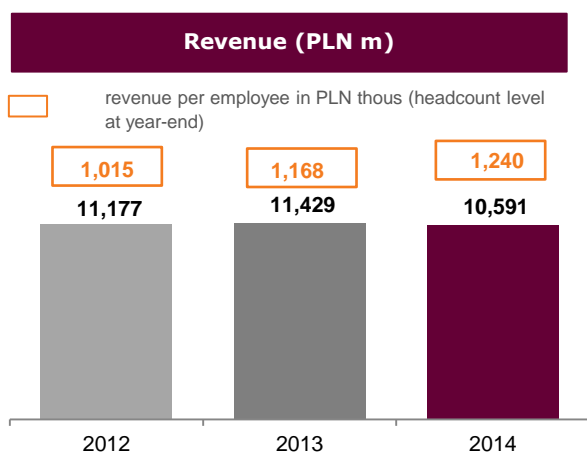
Capitalization: PLN 9.5 bn*, dividend rate of **4.3%** and **TSR 51%**
Share of dividend in net profit for 2013 - 83% and **dividend per share - PLN 1**
Indices: WIG20 – since 20 March 2015, WIG30, MSCI Poland, WIG Energia, WIG, WIGdiv, FTSE All World, RESPECT Index.

** According to share price as at closing on 30 December 2014*



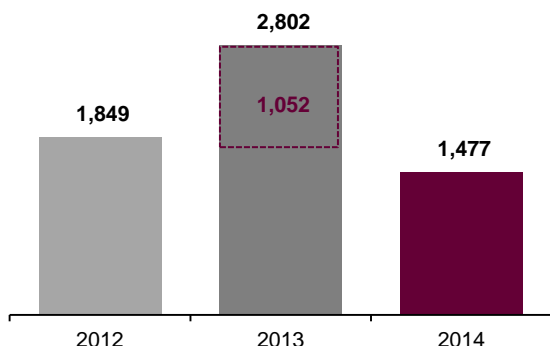
ENERGA SA
 AT THE
 WARSAW
 STOCK
 EXCHANGE

SELECTED FINANCIAL AND OPERATIONAL DATA OF THE GROUP FOR 2012-2014

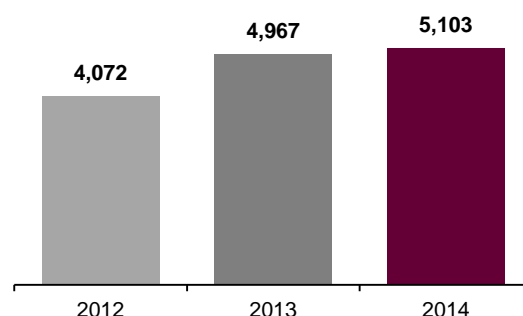


Capital expenditures (PLN m)

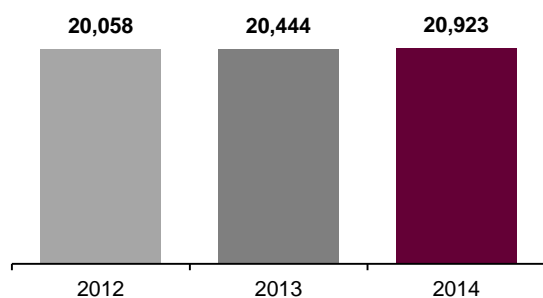
Expenditures for the purchase of wind assets from DONG ENERGY and Ciepło Kaliskie (Q2 2013) and wind assets from Iberdrola Renovables (Q3 2013)



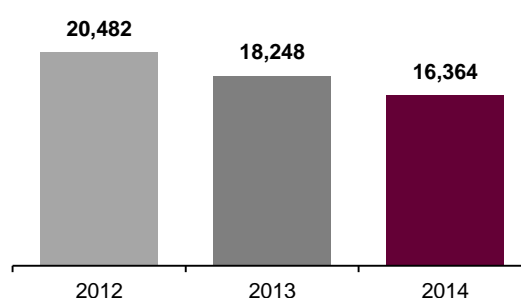
Gross production of electricity (GWh)



Distribution of electricity (GWh)



Retail sales of electricity (GWh)



SELECTED FINANCIAL AND OPERATIONAL DATA OF THE GROUP FOR Q4 2014

The ENERGA Group's revenues amounted to PLN 2.8 bn, which was PLN 94 m less than the year before. Revenues increased in the Generation Segment (by 16 percent yoy) and Distribution Segment (by 7 percent) while the Sales Segment posted a decrease (by 18 percent).

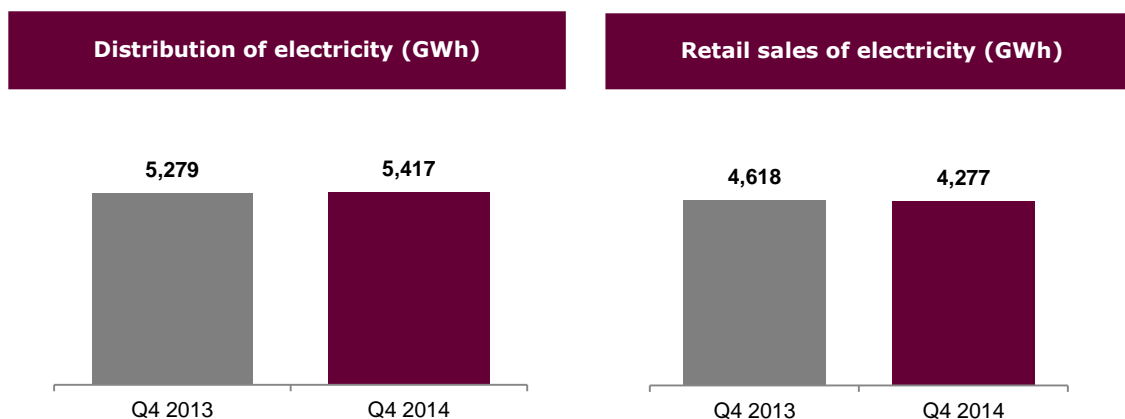
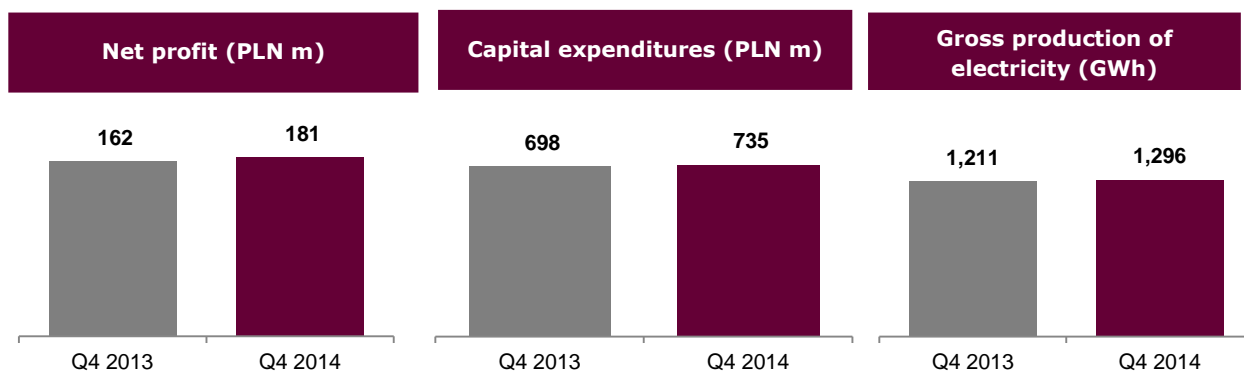
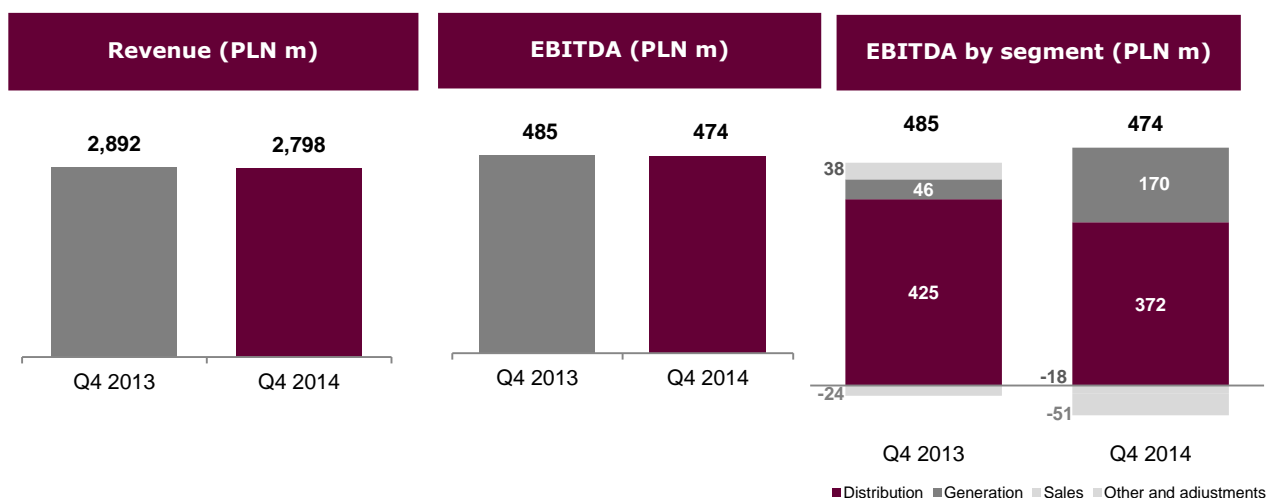
The Group generated EBITDA of PLN 474 m, down PLN 10 m yoy. The Distribution Segment contributed 78% of the Group's EBITDA, while the Generation Segment contributed 36% and the Sales Segment had a negative EBITDA result. Net profit was PLN 181 m, i.e. PLN 19 m more than the year before. The total installed capacity of the ENERGA Group was 1.4 GW. The Group generated 1.3 TWh of electricity gross; 67% of the production came from hard coal, 14% from hydro, 13% from biomass and 6% from wind. Electricity generated from renewable energy sources amounted to 418 GWh. The Group's distribution company, ENERGA-OPERATOR SA, supplied 5.4 TWh of electrical energy to more than 2.9 million customers.

The volume of electricity supplied by the Distribution Segment was nearly 3% higher, with the average distribution rate higher by nearly 3% yoy.

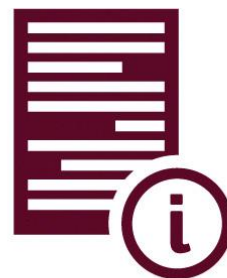
ENERGA Group's generating companies produced 7% (approx. 85 GWh) more electricity than in Q4 2013. The main contributor was the increase of production from coal in the system power plant (by 163 GWh) with simultaneous decrease in other generation lines. Before the heating season a new heating source in Elektrownia Ostrołęka B with installed thermal power of 219.5 MWt was commissioned to replace Elektrociepłownia Ostrołęka A.

In terms of financial results, Q4 was the weakest in 2014 for the Sales Segment. Quarterly EBITDA was negative and amounted to PLN -18 m. Apart from decrease of the margin on electricity, key impact on EBITDA in this period, compared to Q4 2013 was the realization of the biggest part of the negative margin on activity associated with "green" property rights. In the last quarter of the year the biggest volume of property rights was sold and their market prices were the lowest during the year.

In Q4 the Group's capital expenditures were PLN 735 m, with the Distribution Segment contributing the largest part, i.e. PLN 633 m.



Key information about the Group



2. KEY INFORMATION ABOUT THE GROUP

2.1. Key events and achievements of the ENERGA Group

Consolidated EBITDA and net profit in 2014 were the highest in the Group's history

The ENERGA Group closed 2014 with EBITDA of PLN 2,307 m (up 17% yoy) and net profit of PLN 1,006 m (up 35% yoy), generated mainly by the Distribution Segment (60% of the net profit) and the Generation Segment (38% of the net profit). The Distribution Segment recorded EBITDA nearly 2% lower yoy, which resulted from the decrease of return on employed capital by 6% yoy (as a result of the weighted average cost of capital) and deviation of the actual margin on distribution from the one approved in the tariff (contribution of PLN -44 m). Increase of EBITDA in the Generation Segment by PLN 465 m yoy resulted primarily from increase of average electricity sales prices and provision of regulatory system services, with simultaneous reduction of the cost of fuel consumption (decrease by PLN 65 m).

Dividend paid from ENERGA SA's net profit for 2013

On 20 May 2014, the Company's Annual General Meeting (current report no. 25/2014) set 10 June 2014 as the dividend date for the shareholders who held the Company's shares on 27 May 2014 (dividend record date). The dividend amounted to PLN 414,067,114.00, i.e. PLN 1.00 per share, i.e. approx. 83% of the net profit for 2013 in the amount of PLN 499,048,758.09. The dividend applied to all ENERGA shares in the number of 414,067,114. The remaining part of the net profit, i.e. approx. 17%, i.e. PLN 84,981,644.09 was allocated for the Company's supplementary capital. This means that the dividend policy declared by the Company's Management Board in the Prospectus approved by the Polish Financial Supervision Authority on 15 November 2013, was implemented in the case of the 2013 net profit.

Investments completed as a result of execution of strategy

Implementing the Growth Strategy for 2013-2020 and the Long-Term Strategic Investment Plan, updated on 6 November 2014 ([current report no. 41/2014](#)), last year the Group incurred capital expenditures of PLN 1,477 m, 78% of which were investments in the Distribution Segment. The Group's generation capacity increased by nearly 46.9 MWe of electricity and 314 MWt of heat. In April 2014, Ciepło Kaliskie took over the operating activity on the assets that had been previously leased, as a result of which the Group's heat generating capacity increased by 64.6 MWt. In July a co-generation biomass block BB20 in Elbląg with the capacity of approx. 25 MWe and 30 MWt and a new heating source for the city of Ostrołęka with the installed heat generating capacity of 219.5 MWt were launched. Since September of the last year, a photovoltaic farm in Gdańsk, PV Delta, with the capacity of approx. 1.6 MWe has been operating. In December the construction of the Myślino wind farm with the capacity of 20 MWe.

Approval of the distribution tariff for 2015

On 17 December 2014, at the request of ENERGA-OPERATOR SA, the President of the Energy Regulatory Office approved the tariff for electricity distribution services with effect from 1 January 2015. The approved tariff assumes on average a 3.9% increase compared to the tariff applicable in 2014.

Production of the first negawatts in the Polish market

A Group company, Enspirion, executed in 2014 first in Poland commercial campaigns involving reduction of power consumption in peak hours by ENERGA-OBRÓT's customers. Reduction of the power consumption was possible thanks to voluntary enrollment of a dozen or so business customers in return for a fee. This was related to the energy demand management concept aimed at optimum utilization of available capacities. Enspirion won a tender for negawatts organized by PSE under which the company, on PSE's order, will provide the service involving reduction of electricity consumption among its customers. The reduction will be effected on the basis of the technical resources of 13

companies reaching in total the capacity of 20 MW. Currently the project does not have significant impact on the Group's results although a roll-out on a broader scale could help prevent capacity shortages.

Fitch Ratings upholds ENERGA's ratings

On 7 October 2014, the Fitch Ratings rating agency confirmed the Company's long-term ratings in the foreign and national currency at 'BBB' with a stable outlook, and the 'BBB' rating for the bonds issued by the subsidiary ENERGA Finance AB (publ). The Agency stated that the affirmation of the ratings reflected the high share of the regulated distribution business in the Group's EBITDA, which reduces business risk and ensures predictability of cash flows. The Company published this information in its [current report no. 39/2014](#).

Update on the Company's rating by Moody's

The Moody's Investors Service rating agency, in its credit opinion of 17 December 2014, updated information about the Company's rating at 'Baa1' with a stable outlook ([ENERGA SA's current report no. 48/2014](#)). The rating was dictated by a high share of the regulated distribution segment in the Group's profits, improved profitability in conventional generation and the Group's strong financial condition. The agency admitted that the rating remains under the influence of a higher risk profile in the generation and sales segments, low share of generation and pressure on cash flows in the generation segment resulting from the announced changes in the support mechanism for renewable energy in Poland.

Amendments to the Company's Articles of Association

On 17 February 2014, the Extraordinary General Meeting of ENERGA SA adopted amendments to the Company's Articles of Association ([current report no. 11/2014](#)) consisting in that § 33 sec. 2 of the Articles of Association, which refers to the threshold in the Company's share capital below which the State Treasury, as the majority shareholder, ceases to have personal rights, was increased from 10% to 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](#).

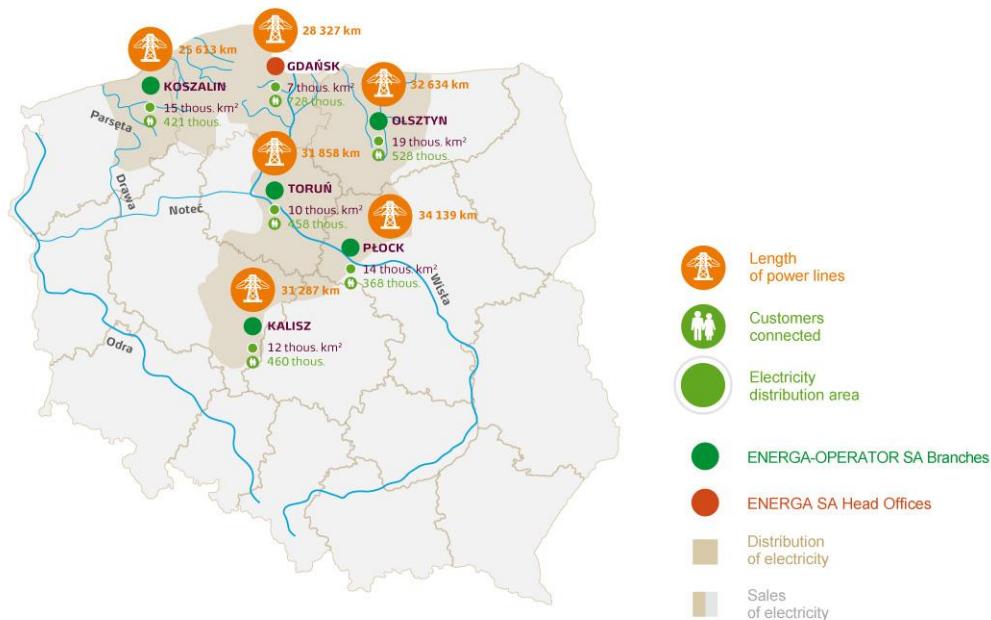
2.2. Activities of the ENERGA Group

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

Distribution Segment - key operating segment for the Group's operating profitability, involving distribution of electricity which is in Poland a regulated activity, conducted on the basis of tariffs approved by the President of the Energy Regulatory Office (ERO). The ENERGA Group has a natural monopoly position in the northern and central part of Poland, where its distribution assets are located, through which it supplies electricity to over 2.9 million customers, approx. 2.8 million of which are customers with comprehensive agreements and over 160 thousand are TPA customers. A breakdown of ENERGA-OPERATOR SA's customer by energy group is presented in the *Key operating data* section. As at 31 December 2014, the distribution grid consisted of power lines with a total length of over 184 thousand km¹ and covered almost 75 thousand km², i.e. about 24% of the country's landmass. ENERGA-OPERATOR SA acts as the leader of this Segment.

¹ Decrease by 6 thousand km in relation to the end of 2013 as a result of network passporting based on GIS (Geographic Information System).

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



In 2014 revenues of the sale of distribution services by ENERGA-OPERATOR SA to end users were nearly 6% higher than the year before. The biggest growth of revenues was recorded in the industrial groups A and B, in total by 12%.

The volume of supplied energy increased annually by 2.3%, thanks to higher (by 5.4%) sales in industrial groups, which compensated the 1.7% decrease of supplies to households.

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

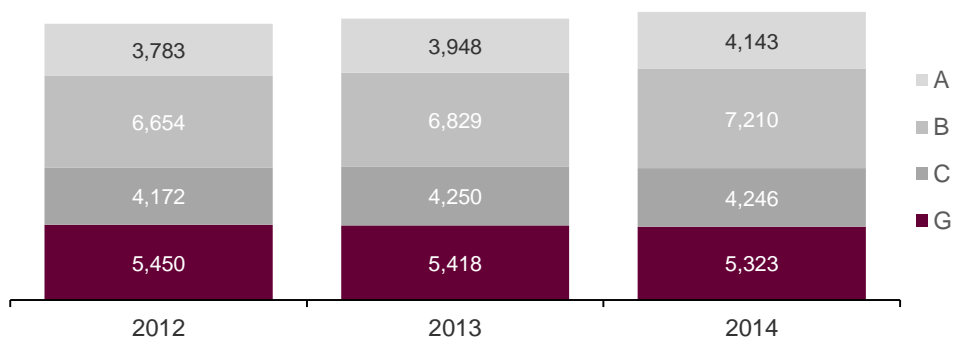
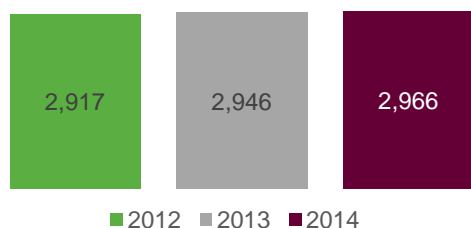


Figure 3: Number of ENERGA-OPERATOR SA's customers (thousands)

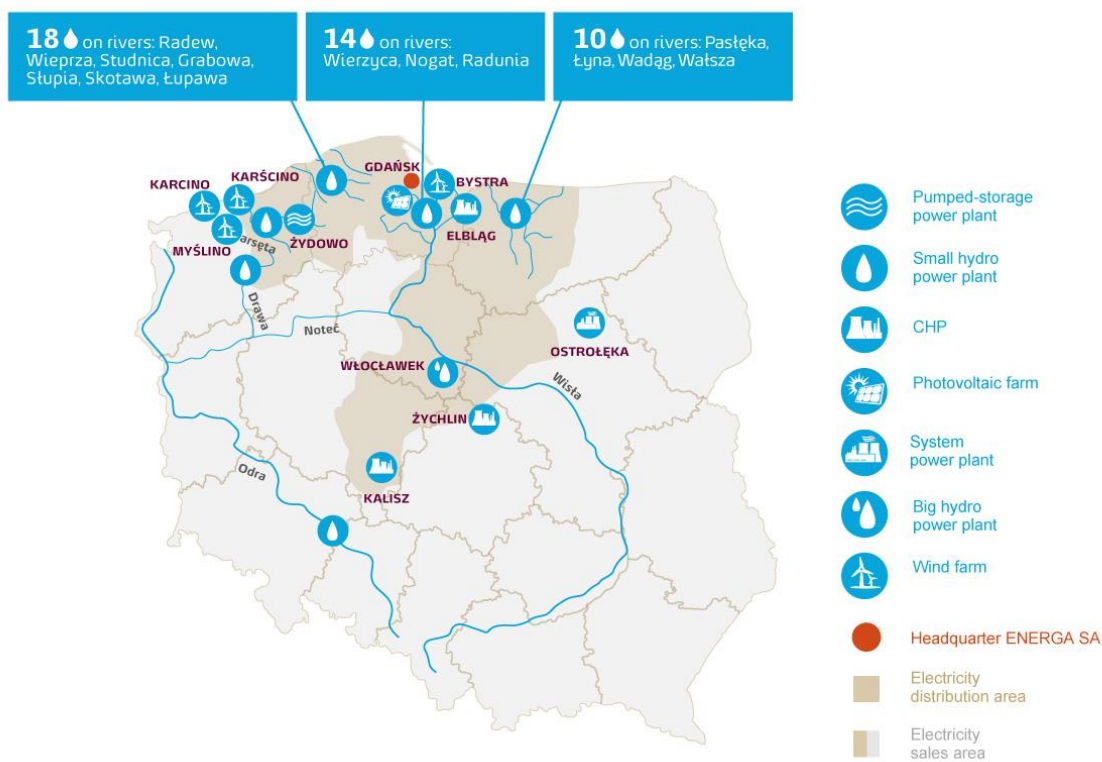


In 2014, ENERGA-OPERATOR introduced a number of changes to its customer service process, aimed at increasing customer satisfaction. It introduced SMSes and new, simplified forms for notifying failures and complaints. The quality and speed of handling of written complaints have improved. The procedure for submission of requests for rebates for energy supply interruptions was simplified. The company's hotline was extended by 2 thousand lines, using a digital technology, instead of 600 analogue ones. Relations with local governments have significantly improved.

Generation Segment operates on the basis of four business lines: The System Power Plant in Ostrołęka, Hydro, Wind and Other (including co-generation, CHP). At the end of 2014, the total installed generation capacity in the Group's power plants was approximately 1.4 GW.

The Group's gross electricity production was 1.3 TWh in Q4 2014 and 5.1 TWh in 2014. The installed capacity of our power plants relies on diverse energy sources, such as hard coal, hydropower, wind and biomass. In Q4 2014, 67% of the Group's gross energy production originated from hard coal, 14% from hydro, 13% from biomass and 6% from wind. After 12 months of 2014 the Group generated 64% of its gross energy from hard coal, 17% from hydro, 13% from biomass and 6% from wind. The leader in this Segment is ENERGA Wytwarzanie SA.

Figure 4: Distribution of the main generation assets of the ENERGA Group



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

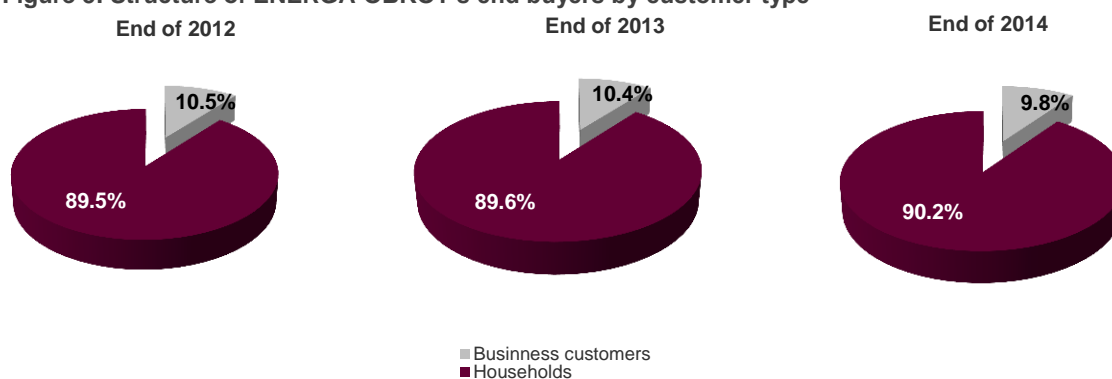
At the end of 2014, the Group had the installed capacity of 0.56 GW in renewable energy sources, with a gross production of 418 GWh of electricity in the fourth quarter of 2014 and 1.8 GWh in the whole 2014.

Hard coal and biomass were the main fuels used by the ENERGA Group for electricity and heat production. In 2014 the Group's generation units consumed 1,607 thousand tons of hard coal and 436 thousand tons of biomass. The Group is supplied with hard coal on the basis of framework agreement between ENERGA Elektrownie Ostrołęka SA and Lubelski Węgiel "Bogdanka" S.A. Small

supplementary amounts of coal are also supplied by Jastrzębska Spółka Węglowa S.A. and Kompania Węglowa S.A. The coal from the supplementary sources is also supplied to ENERGA Kogeneracja Sp. z o.o. in Elbląg. Purchases of biomass are made directly by ENERGA Elektrownie Ostrołęka and ENERGA Kogeneracja from numerous suppliers in the local market.

The **Sales Segment** sells electricity as a separate product and in packages with other utilities and services to all customers, from industry, through big, medium-sized and small business, to households. The leader in this Segment is ENERGA-OBRÓT SA. The biggest share in terms of volume goes to industrial customers, and households are the most numerous group of customers. At the end of 2014, the ENERGA Group supplied 2.9 million customers, out of which over 2.6 million were G tariff customers and the remainder were customers from tariff groups: C, B and A, in a decreasing order.

Figure 5: Structure of ENERGA-OBRÓT's end buyers by customer type



The Sales Segment concentrates on the quality of services in all contact channels and on implementation of solutions improving the efficiency of service processes and tools. This allows for management of customer satisfaction while optimizing costs. This approach in 2014 led to reorganization and improvement of efficiency of the Sales Segment companies and implementation of the NPS (*Net Promoter Score*) index.

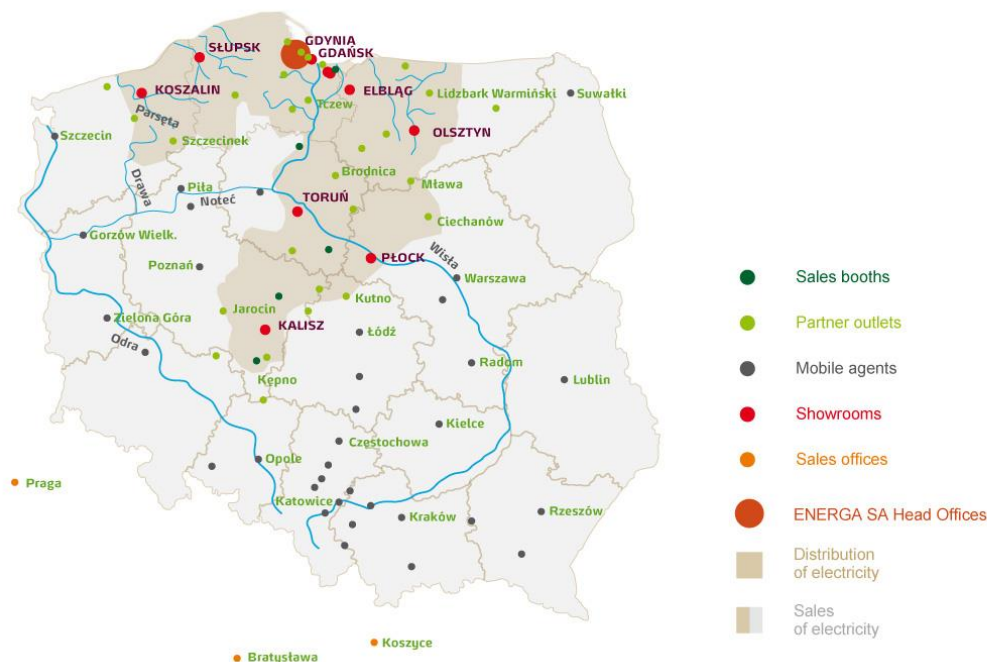
As a result of optimization of the Customer Service Office network, 10 flagship outlets were retained and transformed into Company Stores, discharging sales and loyalty-building functions. The sales network is developing on the basis of cooperation with external partners who offer the Segment's services and products in sales outlets operated throughout Poland (in Partner Outlets) and sales outlets in shopping centers).

Remote contact channels comprised:

- Telephone Customer Service Department with singled out competence centers for service of individual customers and small businesses (the so-called SOHO);
- Electronic Customer Service Department, based on internet channels, available also in the form of a mobile application for smartphones. As a result of modernization the data loading time has been reduced and the quality of self-service activities improved;
- The website www.energa.pl adapted to sell the latest product offers where purchase can be made from the level of all devices and through an internet form.

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

Figure 6: Location of ENERGA-OBRÓT SA's Showrooms and Partner Outlets



In 2014 the Sales Segment offered a broad range of products and services adapted to the needs of retail and business customers. Some of them deserve special attention: PAYBACK, Real Settlements [Rozliczenia Rzeczywiste], My Bills [Moje Rachunki], Online Payments [Płatności on-line], Electricity Without Risk [Prąd bez ryzyka], Prepaid scheme, e-Invoice [eFaktura], Reactive Power Compensation [Kompensacja Mocy Biernej] or products offered on the www.e-sklep.energa.pl platform. The offer has been enriched to include a product differentiating the Group from the competition, i.e. ENERGA 365, combining two subscription services – energy and the Microsoft Office 365 package.

2.3. Key changes in the Group's structure and organization

As at 31 December 2014, the ENERGA Capital Group was composed of the parent company ENERGA SA and 50 subsidiaries grouped in three business segments, managed by the direct subsidiaries which are segment leaders.

Figure 7: Simplified organizational structure chart of the ENERGA Group

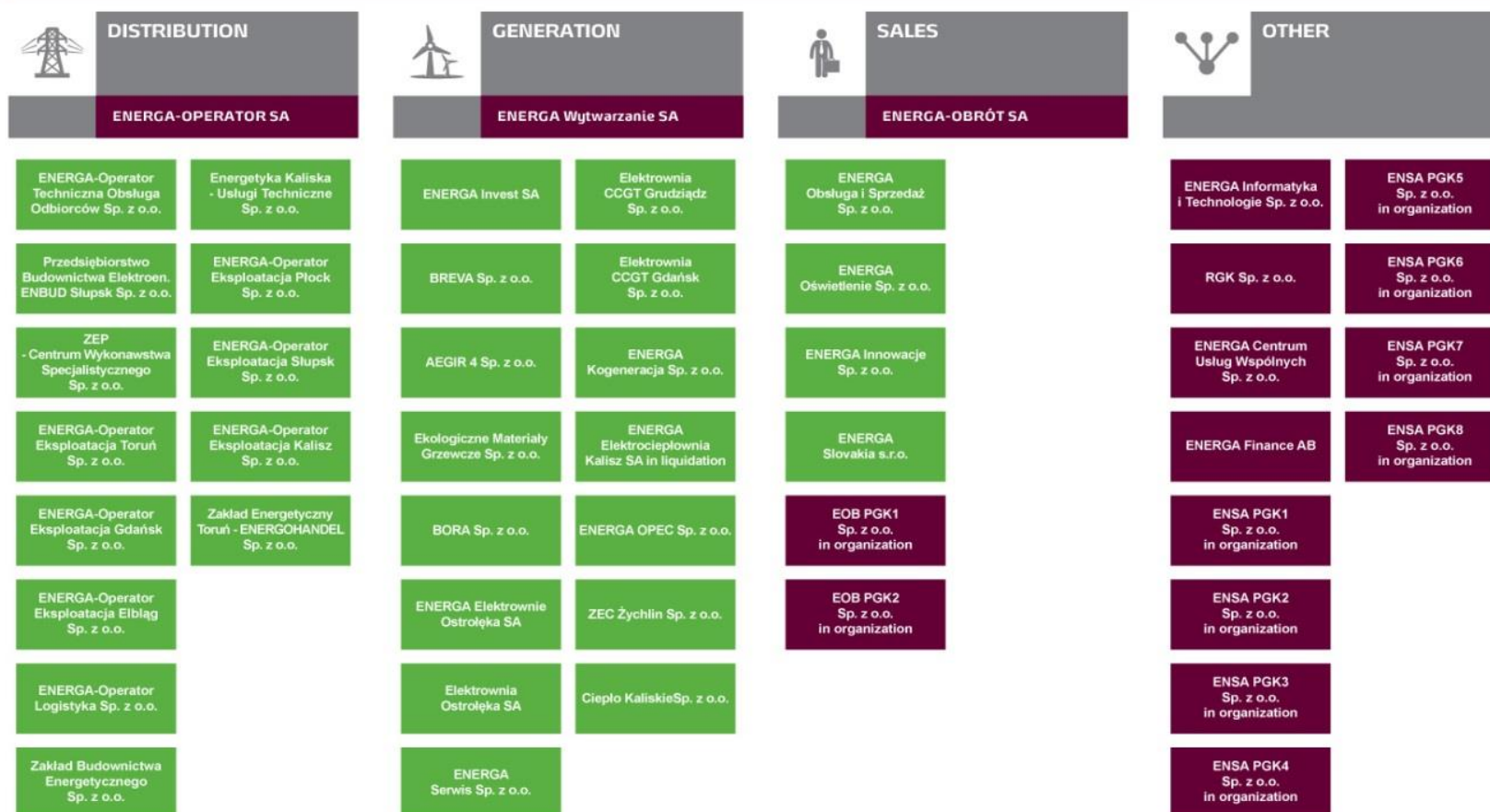
STRUCTURE OF THE ENERGA CAPITAL GROUP

AS AT 31 DECEMBER 2014

 Direct subsidiary
of ENERGA SA

 Indirect subsidiary
of ENERGA SA

ENERGA SA



Optimization of the structure

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

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

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

Mergers and splits of companies

In 2014 in total 16 companies were merged, as a result their number decreased by 11 to 5. 2 companies were demerged.

Distribution Segment

In July 2014, the subsidiary ENERGA-OPERATOR Logistyka Sp. z o.o. (formerly Zakład Energetyczny Płock – Centrum Handlowe Sp. z o.o.) took over the assets of the subsidiary Zakład Energetyczny Toruń – Energohandel Sp. z o.o. that were necessary for ENERGA-OPERATOR Logistyka Sp. z o.o. to provide logistic and storage support of the ongoing trading activity of ENERGA-OPERATOR SA and other ENERGA Group companies and for the external market.

Generation Segment

- (1) In January 2014, KRS registered a merger of AEGIR 1 Sp. z o.o., AEGIR 2 Sp. z o.o., AEGIR 3 Sp. z o.o. (targets) and AEGIR 4 Sp. z o.o. (acquiring company).
- (2) Also in January 2014, Extraordinary General Meetings of the companies acquired by the ENERGA Group in 2013 as a result of acquisition of the wind assets from Dutch DONG and Spanish Iberdrola: EPW Energia Sp. z o.o., EPW Parsówek Sp. z o.o. and PGE Energia Natury Sp. z o.o. were held. They adopted resolutions to divide EPW Energia Sp. z o.o. by transferring two parts of the company's assets, as:
 - branch under the business name of EPW Energia Sp. z o.o. Branch 'Pipeline' Pruszcz Gdański, to EPW Parsówek Sp. z o.o.,
 - branches under the business names of: EPW Energia Sp. z o.o. Branch 'Kisielice/Malbork' Wrocławek and EPW Energia Sp. z o.o. Branch "Galicja" Orzechowce to PGE Energia Natury Sp. z o.o. (outside the ENERGA Group).

In connection with the division of EPW Energia Sp. z o.o., an increase of the share capital of EPW Parsówek Sp. z o.o. was registered in February 2014 and soon afterwards a reduction of the share capital of EPW Energia Sp. z o.o. was registered. Registration of the capital increase in PGE Energia Natury Sp. z o.o. completed, in February last year, the process of split of EPW Energia Sp. z o.o. (ENERGA Wytwarzanie became its sole shareholder). Then, in May 2014, the National Court Register registered the merger of EPW Energia Sp. z o.o. (acquired company) and ENERGA Wytwarzanie Sp. z o.o. (acquiring company).

- (3) In January 2014, Extraordinary General Meetings of the following companies were held: EPW Energia Olecko Sp. z o.o. and EPW 1 Sp. z o.o., at which decision were made to split EPW Energia Olecko Sp. z o.o., through transfer of part of the assets of the split company as a branch under the name EPW Energia Olecko Sp. z o.o. Branch in Kętrzyn, to EPW 1 Sp. z o.o. The split of the company was registered in February 2014. ENERGA Wytwarzanie Sp. z o.o. ceased to be a shareholder in EPW Energia Olecko Sp. z o.o.
- (4) In April 2014, the KRS registered the merger of: EPW 1 Sp. z o.o., EPW 2 Sp. z o.o., EPW 3 Sp. z o.o., EPW Parsówek Sp. z o.o., AEGIR 5 Sp. z o.o. (acquired companies) with ENERGA Invest S.A. (acquiring company).

- (5) In December 2014 the management boards of Ekologiczne Materiały Grzewcze Sp. z o.o. (split company) and ENERGA Elektrownie Ostrołęka SA (acquiring company) signed a split-up plan for EMG Sp. z o.o. In January 2015, Extraordinary General Meeting of EMG Sp. z o.o. adopted a resolution on splitting the company leading to spin-off and transfer of part of the assets associated with the production activity of the company being split to the acquiring company, in return for the shares of the acquiring company which will be granted to the shareholder of the company being split, i.e. ENERGA Wytwarzanie SA. Currently the registration in the National Court Register is in progress.

Sales Segment

In November 2014 the merger of the following Sales Segment companies was registered: ENERGA Innowacje Sp. z o.o. (acquiring company) and Enspirion Sp. z o.o. The merger was aimed at integrating the services associated with research and development and commercialization of innovative solutions provided in the Sales Segment. In January the change of the company's business name from ENERGA Innowacje Sp. z o.o. to Enspirion Sp. z o.o. was registered.

Other

In October 2014, the management boards of RGK Sp. z o.o. (acquiring company) and Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. (acquired company) adopted resolutions to merge the two companies. Consequently, the liquidation process of the latter was discontinued ([current report no. 38/2014](#)). The merger was registered in December 2014.

Liquidation and disposal of companies

In 2014 liquidation of 2 companies was completed and the liquidation procedure was started for one company. Five companies were disposed of within or outside the Group.

Distribution Segment

- (1) In February 2014, the liquidation of Zakład Energetyczny Płock – Dystrybucja Zachód Sp. z o.o. in liquidation, ENERGA-OPERATOR SA's subsidiary, was completed through its deletion from the National Court Register.
- (2) Also in February, ENERGA-OPERATOR SA sold the companies: ENERGA-OPERATOR Produkcja Sp. z o.o. and Przedsiębiorstwo Wielobranżowe Energetyki 'ELEKTROINSTAL' Sp. z o.o. to an entity from outside the Group.
- (3) In April 2014, the liquidation of Energetyk Sp. z o.o. in liquidation, a company from the Distribution Segment, was completed through its deletion from the National Court Register.
- (4) In January 2015, Extraordinary General Meeting of Zakład Energetyczny Toruń-Energohandel Sp. z o.o. adopted a resolution on dissolution and commencement of the process of the company's liquidation. As of 1 February 2015 – the company has been operating under the name ZET-Energohandel Sp. z o.o. in liquidation.

Generation Segment

- (1) In April 2014, ENERGA Wytwarzanie SA sold all its shares held Bio-Power Sp. z o.o., constituting 25% of the company's share capital.
- (2) In July 2014, Extraordinary General Meeting of ENERGA Elektrociepłownia Kalisz S.A. adopted a resolution to dissolve the company and commence its liquidation, which was announced by ENERGA SA's Management Board in [current report no. 33/2014](#).
- (3) In February 2014, a merger plan was signed to merge ENERGA Wytwarzanie SA (acquiring company) and Breva Sp. z o.o. (acquired company), according to which the merger will take place without increasing the share capital of the acquiring company.

Other actions

- (1) In May 2014, ENERGA SA sold all its shares held SOEN Sp. z o.o., constituting 48.50% of the company's share capital.
- (2) Also in May 2014, ENERGA SA sold its company ZEP-MOT Sp. z o.o. to its employees. ZEP-AUTO Sp. z o.o. (ZEP-MOT Sp. z o.o.'s subsidiary) also stopped being an ENERGA Group company.

Capital investments

Generation Segment

In July 2014, ENERGA Invest SA acquired from EPA Wind Sp. z o.o. sp. k. a company under the name Bora Sp. z o.o. for the purpose of execution of wind farm projects. This year, actions were taken to merge ENERGA Invest SA (acquiring company) and Bora Sp. z o.o. (acquired company).

Other changes

Recapitalization of the companies served primarily the purpose of strengthening the Segment leaders and sorting the Group through integration of entities with similar business activities.

Distribution Segment

- (1) In May 2014, an increase of the share capital from supplementary capital of ENERGA-OPERATOR SA by PLN 135 m up to PLN 1,356,110.4 was registered.
- (2) In February 2015, an increase of the share capital of Zakład Budownictwa Energetycznego Sp. z o.o. from PLN 508.5 thousand to PLN 1 m by increasing the nominal value of the share PLN 500 to PLN 1 thousand was registered.
- (3) Also in February 2015, an increase of the share capital of ENERGA-OPERATOR Eksploatacja Płock Sp. z o.o. from PLN 909.5 thousand to PLN 1,817 m, by increasing the nominal value of the share from PLN 500 to PLN 1 thousand, was registered.

Generation Segment

- (1) In March 2014, an increase of the share capital of ENERGA Wytwarzanie Sp. z o.o. by PLN 512,531,500 up to PLN 1,171,382,000 was registered. New shares in the increased share capital of the company were subscribed by ENERGA SA by making a contribution-in-kind in the following form:
 - 100% shares in the share capital of Ekologiczne Materiały Grzewcze Sp. z o.o.;
 - 100% shares in Elektrownia Ostrołęka SA,
 - 89.38% shares in ENERGA Elektrownie Ostrołęka SA.
- (2) In May 2014, an increase of the share capital of Ciepło Kaliskie Sp. z o.o. by PLN 6,118 thousand to PLN 49,375 thousand was registered. New shares in the increased share capital of the company were subscribed by ENERGA Elektrociepłownia Kalisz SA by making a contribution-in-kind in the form of an organized part of an enterprise.
- (3) Transformation of ENERGA Wytwarzanie Sp. z o.o. into a joint stock company (S.A.) was registered in June 2014.

Other

To ensure further operational and capital optimization of the Group, in December last year ENERGA SA established 10 limited liability companies seated in Gdańsk, with the share capital of PLN 10 thousand each: ENSA PGK1 Spółka z ograniczoną odpowiedzialnością, ENSA PGK2 Spółka z ograniczoną odpowiedzialnością, ENSA PGK3 Spółka z ograniczoną odpowiedzialnością, ENSA PGK4 Spółka z ograniczoną odpowiedzialnością, ENSA PGK5 Spółka z ograniczoną odpowiedzialnością, ENSA PGK6 Spółka z ograniczoną odpowiedzialnością, ENSA PGK7 Spółka z ograniczoną odpowiedzialnością, ENSA PGK8 Spółka z ograniczoną odpowiedzialnością, EOB PGK1 Spółka z ograniczoną odpowiedzialnością, EOB PGK2 Spółka z ograniczoną odpowiedzialnością. In addition, in 2015, continuation of the reorganization of the Group, especially is the Generation Segment is planned to adapt its structure to the ultimate model.

2.4. ENERGA Group's management model

Since 2013, the principal document defining general principles of governance in the ENERGA Group has been the ENERGA Group Corporate Governance. The document sorts out the areas of competence and defines the boundaries of responsibilities in ENERGA, provides a description of the Group's internal organizational order, based on significant independence of the Segments responsible for efficient and effective activity and for financial results in the given business area. ENERGA SA performs strategic and control functions.

The Group's management canons constitute a set of rules and principles, which the managers of the Group and individual Segments follow in their activity in order to maximise the Group's value. These are:

- (1) the Group's Business Model based on management of Segments and significant independence of Segment leaders.
- (2) supervision over the Segment leaders from ENERGA SA's level,
- (3) management of the Group based on objectives and accountability for their execution,
- (4) cooperation of the Segments based on market relations,
- (5) freedom of purchase of services,
- (6) efficiency,
- (7) building of the Group's management team based on shared values.

The Corporate Governance is not a closed document, volatility and dynamics of the market and regulatory environment, the organization's internal needs, the impact exerted on the organization by ENERGA SA's listing and constant improvement of the management methods make the Group's operations evolve, enforcing changes on the level of organization of the Group, Segments and the Company itself. For this reason, in December 2014, the Company's management board made changes to the content of the ENERGA Group Corporate Governance.

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

The listing of ENERGA on the stock exchange and update of the Group Growth Strategy in the part pertaining to the investment program laid down new priorities based on value-building and balanced approach to financial, social and environmental issues. As a consequence, new Group management rules and rules describing their functioning were introduced in the Corporate Governance:

- (1) provisions pertaining to management of the value of the ENERGA Group were introduced; among other things, the role of ENERGA as an entity whose main task is to determine the directions of the Group's strategic development, was defined;
- (2) the scope of the areas belonging to the Company's exclusive powers was extended to include: communication with capital market participants, preparation of a sustainable development and Group's responsible business strategy, preparation and monitoring of the Group's environmental management, strategic coordination of actions in the R&D and innovation area of the ENERGA Group, including supervision over the functioning of the investment fund.

Adoption of the ENERGA Group Corporate Governance in the amended wording necessitated remodeling of the Company's organization and its adaptation to new tasks. When designing the new organizational structure, taking into account the limitations regarding its expansion, the following assumptions were made:

- (1) operational tasks are performed in the Segments, and their execution is the responsibility of the Segment leader. In addition Segments are where the powers regarding the knowledge and skills associated with current business management are located,
- (2) tasks performed in ENERGA are only of strategic and directional nature, and its responsibility comes down mainly to definition of strategic objectives, shaping of the Group's Business Model and supervision over its functioning,
- (3) the new structure has anticipative nature: it is supposed to facilitate development of competences and delegation of responsibilities,
- (4) the organizational structure constitutes an element of optimization of the organization's operating expenses.

The chart below shows the structure of ENERGA SA up to the level of organizational units directly reporting to the Managing Director and Management Board members, as at 31 December 2014.

Figure 8: ENERGA's organizational chart as at 31 December 2014



In its strategic decision-making, ENERGA's Management Board is supported by standing committees, including:

- Capital Group Council - supports definition of directions of development and rules of the Group's activities,
- Risk Committee - provides support in the area of corporate risk management.

These bodies are comprised of senior level managers of the ENERGA Group. As part of their advisory duties, these bodies prepare recommendations, opinions and positions.

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

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

2.5. ENERGA Group's Growth Strategy for 2013–2020

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

Figure 9: Pillars of ENERGA Group's Growth Strategy



Execution of the strategy in 2014

Execution of the [ENERGA Group Strategy for 2013-2020](#) contributed to improvement of the Group's profitability ratios in 2014: EBITDA margin increased to 21.8% (from 17.2% in 2013), and the return on equity ratio (ROE) to 11.8% (from 9.2% the year before).

In distribution activity the priority in 2014 was to enhance profitability, improve the quality and reliability of services and further connection of new customers and renewable sources of energy to the grid.

These objectives were attained in particular through modernization and expansion of the distribution grid, implementation of the Smart Grid elements and improvement of operation efficiency. The total amount allocated for investments in the Distribution Segment in 2014 accounted for approx. 78% of the Group's total capital expenditures, i.e. PLN 1.1 bn.

The ENERGA Group consistently pursued its strategy through reduction of its impact on the natural environment thanks to development of environment-friendly energy sources, including investments in renewable energy sources and support of efficient energy consumption. To this effect the Group used tested technologies and processes reducing greenhouse gas emissions in the generation and distribution process. These actions allowed the Group to remain among the biggest energy concerns in Poland in terms of the share of electricity generated from RES in total energy generated. In 2014, approx. PLN 186 m was allocated for RES investments. A 25 MWe and 30 MWt biomass-fired unit in Elbląg and a 1.64 MWe photovoltaic power plant in Gdańsk were launched. This installation will not provide any major contribution to the Group's energy generation volumes or to its consolidated results, however due to constant decrease of the purchase price of this technology the ENERGA Group consistently develops competence in this respect. The construction of the 20 MWe wind farm in Myślino was completed and the photovoltaic farm with the maximum capacity of 3.7 MWe in the Czernikowo commune, Toruń county is at the final stage of construction.

The ENERGA Group's constant concentration on customer service enables us to improve their satisfaction with the quality of services and build long-term ties. In 2014 the work on implementation of an integrated sales service system (SMILE) was continued. The new solution will make it possible to comprehensively manage the offer as regards conclusion and settlement of agreements.

Table 2: Investments continued in 2014

Description of the project	Location	Capital expenditures 2014 (PLN m)	Execution stage
DISTRIBUTION SEGMENT			
Expansion and modernization of the distribution network, including implementation of the Smart Grid.	Distribution area	1,148.0	2014 plan has been fulfilled
GENERATION SEGMENT			
Construction of a wind farm with the capacity of approx. 20 MWe. Completed installation of all turbines. Completion of test operation and operational launch of the project is planned for Q1 2015.	Myślino Zachodniopomorskie Voivodship	97.1	Investment completed
Adding heat generation to power units Installation commissioned for production in October 2014. Optimization and final acceptance planned for March 2015.	Ostrołęka	28.2	In progress, waiting for concession
Construction of the NOx emission reduction installation at Elektrownia Ostrołęka B. Application for a permit to construct the installation was filed with the Ostrołęka City Hall.	Ostrołęka	8.7	In preparation
Construction of a photovoltaic power plant with the capacity of approx. 4 MWe under the Smart Toruń project. A legally binding permit for construction of the installation was obtained and launching of the power plant is planned for H1 2015.	Czernikowo Kujawsko – pomorskie Voivodship	3.7	In progress, promise of the license was issued
Construction of a photovoltaic farm in Gdańsk with the capacity of approx. 1.64 MWe. The installation was formally commissioned for operation on 17 October 2014 on the basis of the information from the County Construction Supervision Inspectorate on no objection as to the intention to use the power plant.	Gdańsk	8.9	Completed
Preparation of a project to build a combined cycle plant in Grudziądz with the capacity of approx. 500 MWe. Construction permit for the unit was	Grudziądz	4.6	In preparation

obtained. The investment is at the stage of a tender to select the General Contractor. A decision to go ahead with the construction phase is conditional upon satisfaction of the required economic prerequisites.

Preparation of a project to build a combined cycle power plant in Gdańsk with the capacity of approx. 500 MWe. The decision on the environmental conditions together with connections was obtained. The investment project is at the stage of preparation of the design documentation and obtaining the required permits and decisions.

Gdańsk

2.7

In preparation

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 construction permit for the installation was obtained in October 2014.

Elbląg

1.9

In progress

Construction of the BB20 biomass unit with the capacity of 25 MWe and 30 MWt. The investment was delivered for operation on 1 July 2014.

Elbląg

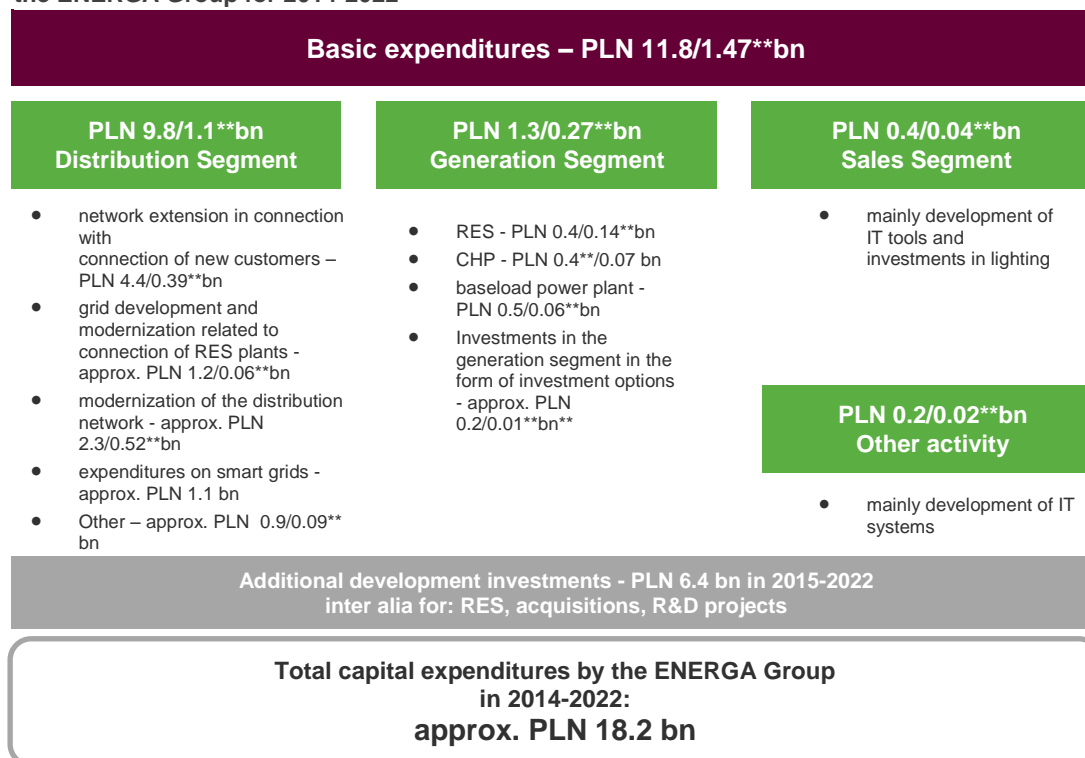
16.7

Completed

Long-term Strategic Investments Program (WPIS)

On 6 November 2014 the Supervisory Board approved the Long-Term Strategic Investment Program for the ENERGA Group for 2014-2022 (WPIS), which the Company announced in [current report no. 41/2014](#). WPIS envisages that the aggregated capital expenditures for basic and additional development investment projects will amount to PLN 18.2 bn. Following an update, a new item was added to WPIS - additional development projects to build the value of the ENERGA Group in the total amount of PLN 6.4 bn in the years 2014-2022. These are funds which may be expended, among others, on RES generation units, acquisitions, research and development projects (currently, the Group conducts a number of research and development projects, in segments and in ENERGA SA).

Figure 10: Capital expenditures assumed in the Long-term Strategic Investments Program of the ENERGA Group for 2014-2022



The differences result from rounding

*Including expenditures for achieving the FID-ready status with projects. Moving on the construction phase is conditional upon satisfaction of the required conditions which will improve profitability or limit investment risk.

**2014 execution.

2.6. Research and development

Leveraging technological developments, the ENERGA Group implements innovations in key areas of its operations. The performed projects make it possible for the Group to improve effectiveness of operations and for its clients to gain measurable benefits. ENERGA has the ambition to be the most advanced energy groups in Poland.

Smart solutions in the Distribution Segment

ENERGA is the leader in the implementation of smart solutions in the area of electricity distribution in Poland. Assembly of smart meters (AMI) is the first stage in the development of a smart grid. The system provides new tools for managing demand, optimize the grid operation and reduce energy losses. Customers may monitor costs by, among others, accessing up-to-date information about energy use. ENERGA-OPERATOR has installed more than 400 thousand meters so far, with the number of readings taken for billing purposes exceeding 1.5 million.

In Kalisz, the first city in Poland fully equipped with AMI meters, the ENERGA Group conducted a one-year study of benefits associated with their implementation. The customers covered by the study, using specially developed multi-zone tariffs, reduced total electricity consumption by 2-4% and consumption in peak hours by 5-14% (moving part of the consumption to off-peak hours, when energy is cheaper).

The Kalisz study has shown that the use of AMI meters provides new tools for demand management and grid operation optimization. The use of such meters makes it possible to reduce the so called energy balance difference, or losses resulting from the difference between energy introduced into the grid and consumed energy. Benefits for distributors concern also higher reliability and lower costs of reading the meters.

In Toruń, the ENERGA Group is conducting a pilot implementation of a Smart Grid. The project called "Smart Toruń" is performed in the following counties: Toruń, Golub-Dobrzyń and Lipno. It covers coordinated activity of the four companies from the Group: ENERGA-OPERATOR, ENERGA Generation, ENERGA-OBRÓT and ENERGA Oświetlenie. The tasks performed within the project envisage both implementation of the smart grid technology to manage demand and handle micro-sources (including the construction of a photovoltaic farm in Wygoda, district Czernikowo (the voivodeship of Cuiavia and Pomerania) of the peak power of 3.8 MWp) as well as equipping households and companies with smart energy management systems (including extension of automated medium voltage (MV) power grid, development of functionality of the AMI system, and the construction of a smart road lighting network, with designing special software to operate it). The project is expected to be completed in 2016. The total costs of the project is PLN 81.6 million, of which over PLN 19.5 m comes from subsidies from the National Fund for Environment Protection and Water Management (NFOŚiGW). Another project "SMART Toruń" (co-financed from the Smart Energy Grids Program implemented by NFOŚiGW).

Managing demand through negawatts

Innovations implemented by the ENERGA Group involve to a large extent the concept of managing demand for electricity to optimize the use of available power. Such an approach complements the production system and, if implemented on a large scale, may solve the problem of capacity shortages in the periods of peak demand for electricity. The approach also requires lower expenditures than expansion of production capacities; furthermore, it offers Clients a share in obtained benefits. In 2014, companies from the ENERGA-OBRÓT Group and Enspirion confirmed that the demand management system worked, obtaining "negawatts" (saved power units), introducing, for the first time in Poland, power consumption reduction by business clients in exchange for a fee.

ENERGA-OBRÓT also developed products for customers having AMI smart meters, which make it possible to use electricity effectively and monitor settlements. These products are used by over 7 thousand clients, which makes the company a leader of smart metering solutions for consumers in Poland. Simultaneously performed pilot projects, "Consumer Test in Kalisz" or "[ENERGA Living Lab](#)" make it possible for customers to reduce their electricity bills, learn how to use electricity knowingly through multi-zone Price Programs, which offer different electricity rates over the day/week/season,

and innovative services, such as electricity consumption reports and Home Area Network – a modern electricity management system for the home.

Cooperation with partners

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

ENERGA has also undertaken cooperation with Intel, the global leader in computing innovation. Both companies are interested in solutions for the energy industry which support managing demand for electricity. The cooperation is to develop in two areas: increasing customers' satisfaction and improving quality of infrastructure.

The Group is also to have access to innovations through the Corporate Venture Capital Fund established in 2015. To establish it, ENERGA signed a cooperation agreement with the Investment Fund Company at Bank Gospodarstwa Krajowego (TFI BGK). The Fund will invest in minority shares of fresh, fast developing companies. Its aim will be to increase the value of investments and provide access to strategic innovations in strategic areas for the ENERGA Group. In accordance with the agreement, the fund will operate for nine years, with the investment period lasting for the first four years. ENERGA will encourage financial investors to co-participate in the fund.

As a consortium with the Fluid-Flow Machinery Institute of the Polish Academy of Sciences, ENERGA SA performs a research project (research task no. 4), financed by the National Center for Research and Development in Warsaw, with 58 research stages performed within the project. Deliverables of the task will be development of integrated technologies for producing liquid fuels and electricity and producing heat from biomass, agricultural waste and other types of waste as well as construction of pilot systems based on these technologies. The task should be completed in 2015, after 5 years of work and research. Stages completed to date are those connected with integration of dispersed energy generation with a power grid. Tasks are being performed connected with the construction of pilot systems. Within the entire project, state-of-the-art and innovative technological solutions will be implemented not only for broadly understood business but also science and local governments.

In addition, ENERGA SA has prepared, jointly with the Institute of Power Engineering, "Feasibility study of energy storage systems in the ENERGA-OPERATOR network", within which analyses were performed of the possibility of constructing a pilot energy storage facility, most probably using electrochemical storage devices (accumulators).

Research findings and practical implementations in power engineering are presented in the Scientific Quarterly of Power Engineers *Acta Energetica*, published by ENERGA SA in cooperation with Gdańsk Technical University since 2009. The quarterly is one of the highest-ranking science magazines about power engineering in view of the Ministry of Science and Higher Education. For publishing a scientific article there, the author earns six points. Such a result places the quarterly among five highest-ranked journals in Poland devoted to power engineering, not included in the database of Journal Citation Reports.

To perform projects aiming to develop and implement innovative technological solutions as well as to initiate joint research and development projects, the ENERGA Group signed a cooperation agreement with AGH University of Science and Technology in Cracow. The place where science and business are to meet will be the Energy Center at the AGH University, a unit performing business and development projects for power companies, both corporate projects and large sector projects of key importance for the economy. Furthermore, at the Energy Center, future AGH graduates will be educated, majoring in fields in alignment with the ENERGA Group's profile.

On 26 June 2014, ENERGA SA, jointly with PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A., ENEA S.A., signed a letter of intent on cooperation whose objective is to look for technological solutions addressing key challenges faced by the Polish energy sector. The cooperation is to concern in particular such issues as: reduction of CO₂ emissions in the electricity production, increase in effectiveness of energy distribution and consumption as well as development of smart

distribution and transmission networks. In 2014, through the Polish Electricity Association (PKEE), efforts were made for the National Research and Development Center to establish a sector program for power engineering to finance research and development work.

Growth and strategy implementation prospects in 2015

The overriding aim of the Company is growth of goodwill guaranteeing return on the invested capital for the shareholders. Due to a large share of regulated business activity in its business structure, the Group retains the status of an undertaking with a low-risk profile. As a result, it is immune to unfavorable changes on the electricity market.

The ENERGA Group consistently attempts to become a leader among distribution system operators by increasing effectiveness and grid reliability in conjunction with the highest quality of customer service. In 2015, it plans to maintain investments in the Distribution Segment at the same level as in 2014, i.e. PLN 1.1 bn. These will include, among others, investments in connections and grid development because of connecting new recipients and renewable energy sources, investments to upgrade the distribution network, implement smart metering systems and other elements associated with smart grids.

Activities will be continued aiming to minimize the impact on the environment. This will be possible owing to increasing capital expenditures for projects in the RES area. One of environment friendly projects to be performed will be modernization of ENERGA Elektrownie Ostrołęka SA by building a system for reducing nitrogen oxides and installing electrostatic precipitators. This will contribute to a large extent to a reduction in emissions of greenhouse gases during the electricity generation process.

Further improvements of customer service quality will occur due to use of innovative technologies that will allow for a fast and friendly access to information and easy and convenient contact with experts, which should make users more comfortable. Bearing different needs of its customers in mind, the Group will adjust its offering both for natural persons and for companies.

Distribution Segment

ENERGA-OPERATOR SA performs non-standard projects, test and implements innovative solutions, thus creating attractive terms and conditions of employment and development opportunities for its employees. It is able to create actively a new image of the market and new services in the area of operation of a DSO, by this increasing its extra-tariff revenues, improving results and growing.

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

Generation Segment

In 2015, ENERGA Wytwarzanie will be able to thoroughly enjoy the benefits from using new RES units launched last year. Further new units will be put into operation in the first half of 2015. An important project for the Segment will be adjustment of Elektrownia Ostrołęka B to stricter environmental requirements.

Significant influence on the activity of the Generation Segment will be exerted by the adoption of a RES Act and introduction of a new support system. New solutions will, on the one hand, restrict proceeds from green certificates, but, on the other, provide business conditions for investing in new RES sources.

Sales Segment

The Sales Segment will be largely influenced by the role of “*ex officio seller*” fulfilled by ENERGA-OBRÓT. This is connected with limited possibilities of managing prices for end customers and

increased costs of purchasing electricity in view of market conditions, which results from the fact that a considerable part of the Polish generating capacity from wind sources is found within the area of ENERGA-OPERATOR.

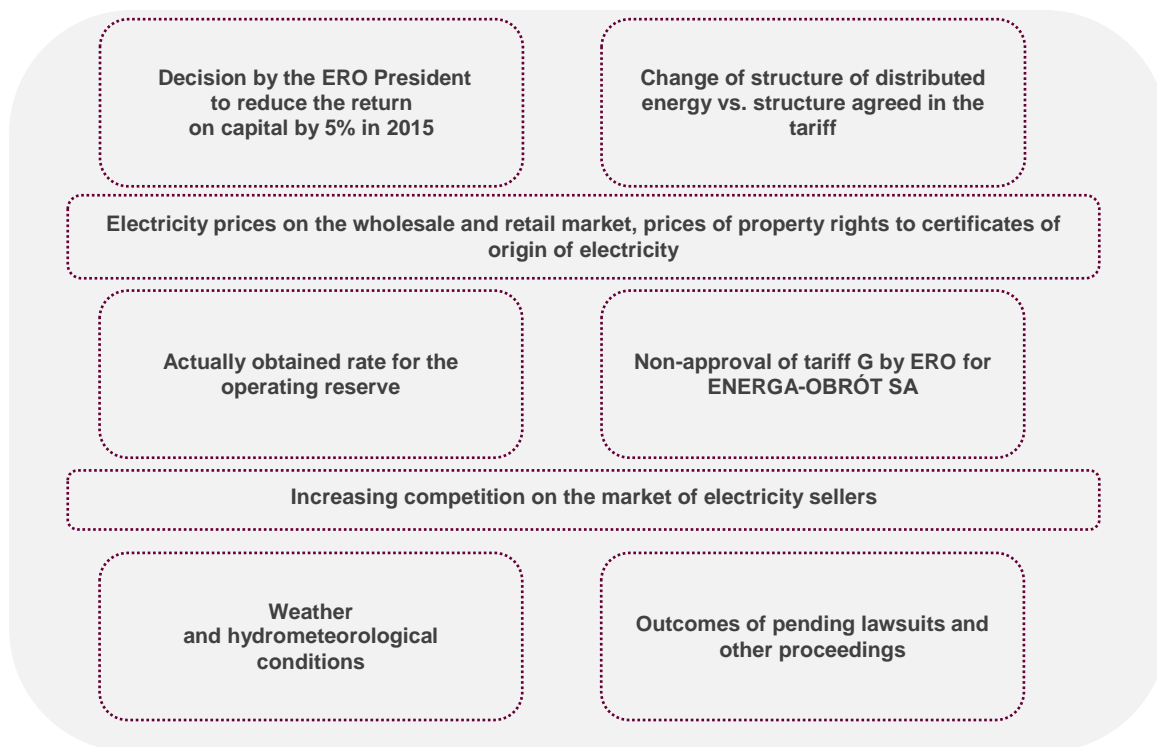
In the coming year, from the perspective of the sales area, it will be important to collect and manage information about customers to ensure a satisfactory service level but also to optimally adjust the sales offering to their needs. Electricity sales will be more clearly seen to increase in packages with natural gas, with the first resource also using products based on AMI.

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

Material factors relating to development of the ENERGA Group

In the opinion of the ENERGA SA Management Board, the following factors will have impact on the results and activity of the Company and the ENERGA Group in the perspective of at least the year 2015:

Figure 11: Material factors relating to growth of the ENERGA Group at least for the year 2015



In longer term, the external factors referred to above will also affect the progress of the implementation of the ENERGA Group's Investment Program for 2014-2022.

2.7. Risk management in the ENERGA Group

Integrated Risk Management System in the ENERGA Group

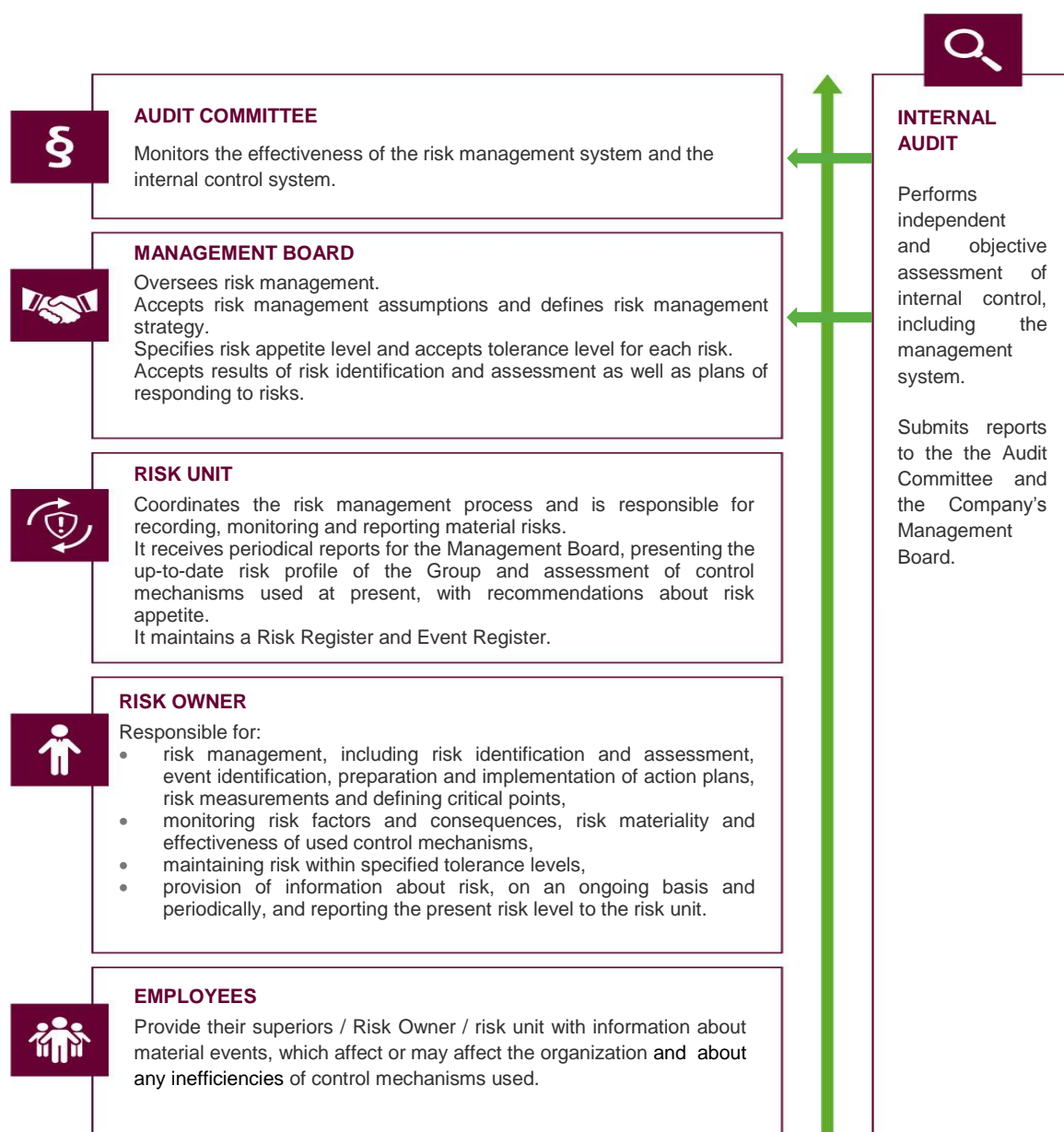
The aim of risk management in the ENERGA Group is to identify potential opportunities and threats which may influence the organization, to keep the risk within the prescribed limits, and to support the achievement of business objectives.

Efficient and comprehensive risk management is guaranteed by the Integrated Risk Management System (ERM), prepared on the basis of commonly used risk management standards, such as COSO II and ISO 31000. The ERM system consists of the Risk Management Policy in the ENERGA Group, Risk Management Methodology in the ENERGA Group and the risk management process taking place

in the environment of the organization and involving the following stages: risk identification, risk assessment, preparation and implementation of action plans, and risk monitoring and reporting.

In connection with a change to the Group Management Model and the introduction of the management by objectives system, the Risk Management Policy, which provides a formal framework for the risk management process in the ENERGA Group, was updated in 2014. Risk identification is performed with reference to strategic and operational objectives of the organization. Periodically, meetings with Risk Owners are held during which risk assessment is updated and newly appearing factors are analyzed. The meetings are held to review opportunities and threats facing the Group and to prepare appropriate action plans should they actually appear. Risk management reporting is also conducted on an ongoing basis, which further raises the awareness of risk management. The organizational structure of the risk management system includes the following roles and responsibilities:

Figure 12: Organizational chart of the Integrated Risk Management System in the ENERGA Group



To meet the expectations of the ERM system stakeholders, work is under way on its further development by improving methods and tools supporting risk management and implementing a more effective risk measurement system.

The table below presents the most important risk factors, which have been identified at the Group and Segment levels. A more detailed description, with indication of applied control mechanisms, can be found in the descriptive part.

Table 3: List of risk factors and their impact on the Group

Risk factors	Impact
1. Planned investments	<ul style="list-style-type: none"> A. value and competitive position of the Group B. failure to achieve or perform the assumed financial results C. obligation to pay damages D. reduction of the production capacity E. deterioration of the technical condition of assets F. higher cost of grid losses
2. Market environment	<ul style="list-style-type: none"> A. growth in the level of competition B. sales and distribution volume C. price change
3. Electricity sales and distribution tariffs	<ul style="list-style-type: none"> A. failure to cover operating expenses or to ensure expected return on equity B. the level of margin and revenues generated by Group companies C. prolonging the approval process for new tariffs
4. Political factors	<ul style="list-style-type: none"> A. decisions of regulatory institutions B. decisions to consolidate the industry C. changes in the regulatory environment
5. Relationships with trade union organizations	<ul style="list-style-type: none"> A. social unrest, strikes, manifestations B. reduction in the valuation of the Company C. disturbances to the operation of the organization
6. Regulatory environment	<ul style="list-style-type: none"> A. amendments to the energy policy in Poland and in the European Union B. changes to the national RES support system (loss of certificates of origin, impossibility of combining CHP certificates with RES, loss of benefits from co-firing, the obligation to redeem CHP certificates, etc.) C. the support system for energy generated from RES is regarded by the European Commission as prohibited public aid (the obligation to refund the received support) D. regulations on emissions of CO₂ (additional capital expenditures or restricting the business activity) E. failure to achieve declared compliance ratios for investments reported to KPI – refund of equivalent of values of the granted rights to free emissions of CO₂ at prices higher than market prices F. changes to the area of environmental protection (capital expenditures, charges for using water by power facilities) G. additional duties of a DSO H. localization restrictions for RES installations (wind farms)
7. Unregulated legal status of real estate	<ul style="list-style-type: none"> A. claims from property owners B. necessity to remove machines, installations or structures belonging to the Group's companies found on properties owned by third parties
8. Court and administrative proceedings	<ul style="list-style-type: none"> A. image deterioration, loss of reputation B. costs of proceedings C. indemnities D. criminal, penal fiscal and administrative sanctions
9. Weather factors	<ul style="list-style-type: none"> A. demand for electricity and heat B. failures of machines causing interruptions or disturbances to the production, distribution or sales processes C. threats to the security of persons and property

10. Business continuity	<ul style="list-style-type: none"> A. disturbances to the implementation of strategic objectives B. threats to the security of persons and property C. additional costs associated with the need to repair / replace destroyed machines D. obligation to pay damages E. possibility of imposed penalties F. loss of reputation
11. Procurement process	<ul style="list-style-type: none"> A. disturbances to the implementation of capital expenditure programs B. operating expenses of the organization C. quality of provided services D. contractual penalties, court proceedings
12. Information and IT systems security	<ul style="list-style-type: none"> A. loss of data classified as company secrets B. unequal access to information for stakeholders C. financial losses D. penalties E. loss of confidentiality, accessibility, integrity or operational continuity of IT systems F. decreased competitiveness on the market
13. Macroeconomic situation	<ul style="list-style-type: none"> A. GDP growth rate B. demand for electricity and heat C. unemployment rate D. inflation rate E. financial standing of energy recipients F. ratings of Poland
14. Interest rates	<ul style="list-style-type: none"> A. managing cash for assumed debt liabilities and possessed cash surpluses B. WACC level to calculate the return on RAB C. actuarial reserve level D. value of the Group
15. Exchange rate fluctuations	<ul style="list-style-type: none"> A. costs related to servicing the financing obtained from the issue of Eurobonds B. costs of purchasing / selling electricity in foreign currencies

Strategic area

Selecting the wrong direction of investment planning within the ENERGA Group because of ill-adjustment to analyses and forecasts of market development, financial capabilities or a failure to take advantage of potential synergy effects may lead to a decrease in the Group's competitiveness and its value. In addition, there is a risk that the assumed financial objectives of mergers and acquisitions carried out by the Group are not attained. Control mechanisms in this area include appropriate internal regulations, including the WPIS, which has been structured so as to enable the Group to react flexibly to the changing environment. The Group applies a model of economic assessment of business projects and guidelines to the assumptions made in the model. Before taking on a significant financial exposure, ENERGA performs due diligence of the subject of the transaction.

As far as modernization investments are concerned, the failure to perform the plans may entail a reduction in production capacity or deterioration of the technical condition of assets. In order to avoid the above, in the Generation Segment, the Investment Management Policies or best practices of operations and supervision are applied.

As a result of the legal obligation to connect new consumers and RES electricity generators to the distribution grid, upon a request meeting specific technical and economic criteria, it is necessary to incur capital expenditures related to investments in the power grid at all voltage levels. Therefore, it is crucial to adjust the distribution grid development plans to the expectations of the stakeholders, as any failure to satisfy the legal obligations may lead in particular to the necessity to pay damages or penalties provided for in the Power Law. If the grid development planning is not optimal, the cost of grid losses may increase and difficulties in performance of investments in connection with selecting improper location or inadequate technical solution may occur. Performance of the customer connection process by the Group is very advanced, which is confirmed by the present levels of ratios

of timeliness of determination of the terms and conditions of connections and execution of connection agreements.

As a result of a dynamic development of the energy market, exposure of the key business segments of ENERGA Group to market risks has been growing. The fact that new players are entering the energy sale market and consumers are increasingly interested in changing the seller, the Group's competitive position may be impaired, its market share reduced or the expected development may not be performed. The consumer awareness of energy issues, popularization of energy-saving technologies and simplification of procedures in the prosumer area may also affect the sales volumes, and consequently the Group's financial result. To mitigate this risk, actions are taken to monitor the customer satisfaction level and monitoring of market sentiments is carried out, thanks to which the Group may adjust to market conditions. Furthermore, in order to strengthen the control mechanisms, the Group develops the Electricity Market Model and implements the Sales Support System.

When defining the tariffs for the sale and distribution of electricity delivered to households, the power utilities are obligated to seek approval of the President of the Energy Regulatory Office (ERO) who is entitled to refuse, issue a negative decision or not to provide its approval on time, which may lead to a lengthy process of modification of the tariffs throughout the year. Due to a lack of such approval for its tariff for the sale of electricity in 2015, starting from 1 January 2015 the Company ENERGA-OBRÓT is obligated to charge the tariffs which were in effect in 2014. Tariffs approved by the ERO President for competing sales companies assume a small, slightly over half per cent, increase of prices of electricity. Thus, if the situation in which it is not possible to ensure the level of costs based on prices indicated by the regulator persists, the margins or income generated by the Company may decrease. To mitigate this risk, direct negotiations with ERO are being conducted regarding the calculation of components that affect the tariff levels.

Legal and regulatory area

Since the State Treasury is the majority shareholder of the Company ENERGA, the decisions taken by the Polish authorities and administrative bodies may have a material impact on the operations of the entire Group. Plans of consolidation of the energy sector, which include scenarios of mergers of the Polish energy companies may significantly affect further development and financial results of the ENERGA Group. In addition, the government's plans to involve the energy companies in the mining industry also may influence the financial standing of the Group. As a result, the shareholders' perception of the ENERGA Group's investment profile may be modified and certain groups of investors may withdraw.

A tense political situation and reorganization within the Group may affect the relations with trade unions. This may lead to social unrest, strikes, manifestations, decrease in the Company's value or costs/losses connected with downtimes. The ENERGA Group respects the rules of holding talks with the social partners in accordance with the Social Contracts or generally applicable provisions. Social dialogue is coordinated at the level of ENERGA SA, while determination and performance of common objectives of such dialogue is carried out by a joint representation of all employers within the Group. Meetings with social partners are held regularly, and the organization takes efforts to inform both employees and trade unions of any planned changes appropriately in advance.

Political decisions taken by the state and EU administrative bodies shape also the amendments of legal regulations. Unstable political environment and protracted works related with amendments to laws which influence the operations of the energy sector represent a constant threat of materialization of risks to the ENERGA Group. When the legislative bodies at the domestic and EU level adopt regulations that materially change the thus far policy in the area of energy, which may exert an adverse influence on the operations of the Group or its Companies, or when further obligations related to environmental protection are introduced, it is necessary to reformulate the investment plans and there is a risk of a deteriorated financial performance.

The ENERGA Group has a leading position in Poland in terms of the percentage of electricity from renewable energy sources in the total energy generated. Therefore, any changes in the national RES support system or acknowledgement by the European Commission of the reasonableness of the complaint regarding inappropriate use of public aid with this respect by the Polish government, may

result in a loss of capacity to generate added value in significant areas of the Group operations. Actions taken in order to mitigate the risk exposure include cooperation with industry organizations and associations whose activities focus on the issues connected with operations of the energy industry and which influence the regulatory environment, both in Poland and in the European Union. Furthermore, an organizational unit was established within ENERGA SA with a view to coordinate the Group actions in the legal and regulatory area, including inter alia monitoring of amendments to legal requirements or analyzing effects of regulatory initiatives and planned or already effective regulations.

The unsettled legal status of real properties on which the network infrastructure is located is another element of legal risk. Coordination of court, arbitration and administrative proceedings at the Group level, monitoring and reporting of values of subjects of litigation as well as other actions taken by ENERGA SA and the Companies which are part to such proceedings, are aimed at mitigation of risk and resolving any potential court disputes in a manner required by the Group. Historically, the number of cases when the ENERGA Group was obligated to pay penalties in significant amounts was negligible. However, the number of claims against suppliers has been growing and the number of court cases and values of subject-matter of the disputes has been increasing.

Operating area

Due to the large size of ENERGA Group's assets and the age of some facilities, the activity of the Group companies is exposed to such risk factors as: breakdowns, weather anomalies, fortuitous events or acts of vandalism, which may affect security or continuity of generation and supplies to customers of electricity of sufficient quality parameters. Interrupted operations of generation or distribution units entail disruptions in performance of strategic objectives and may involve danger to safety of people and property as well as the necessity to cover additional costs of repair/exchange of components broken or activities connected with disaster recovery. In turn, interrupted sale and errors in settlements with customers deteriorate quality of provided services and level of customer satisfaction. In order to mitigate this risk, systemic control mechanisms are applied and service contracts with suppliers of billing systems are entered into, so as to ensure a quick rectification of critical errors. Also, the works on a full implementation of the SMILE Sales Support System are underway. As far as the generation infrastructure is concerned, control activities include ongoing reviews, maintenance, monitoring of technical condition and failure rates of equipment. Also, the technical emergency service is available. In addition, a number of internal regulations concerning operation and maintenance as well as procedures in case of a breakdown have been implemented. Works on formulation of business continuity plans for the Segment are underway. Regarding distribution assets, in 2014 the implementation of the Business Continuity Management System was completed. The objective of the system is to protect against potential threats and to provide capacity to react properly to crises and to recover after disasters. Thanks to the implemented 'early response mechanisms', it is possible to better prepare the organization to occurrence of adverse incidents of various types. In December 2014, the auditors from Lloyd's Register Quality Assurance confirmed compliance of the contingency measures developed by the company with requirements of the international norm ISO 22301:2012, and in January 2015 ENERGA-OPERATOR received the Business Continuity Management Approval Certificate in the area of 'distribution of electricity in accordance with the required criteria of security of the Distribution System'.

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

Another risk factor is connected with the issues of information security in the context of processing or access to information not compliant with the Classified Information Protection Act, Personal Data Protection Act, Combating Unfair Competition Act as well as rules and procedures regulating the

issues referred to above. In this area, the risk may consist in unauthorized disclosure regarding for instance the company secret, personal data of customers or employees, strategy, prices, transaction volumes and making such information public. Also, the power companies in Poland, as well as those in Europe and all over the world, are likely to be targets of hacking attacks. That is why the risk connected with security and functionality of IT systems becomes ever more important. Loss of confidentiality, accessibility, integrity or operational continuity of IT systems may, in strategic terms, deteriorate the Group's image or its competitive position. Actions taken to avoid materialization of this risk include physical safeguards securing access to information, disk and e-mail encryption, specialized IT solutions improving security of IT systems and developing employees' awareness in the area of security, including IT security. A specialized IT company (ENERGA Informatyka i Technologie Sp. z o.o.) operates within the ENERGA Group which monitors IT applications and infrastructure on an ongoing basis.

To ensure an optimum level of security of the Group's assets and operations, insurance contracts are entered into which are coordinated at the parent level. One should mention however that in certain areas such insurance protection does not guarantee funds to cover lost profits or replacement of assets in full.

Finance area

Macroeconomic situation of the ENERGA Group affects the conditions of its business operations. Variations in business conditions measured by GDP change rates, inflation or unemployment rates translate to electricity and heat prices and shape demand for products supplied by Group companies. To maintain the volume of electricity, the market is monitored continuously and marketing and product-related actions are undertaken to increase the Group's competitive advantage.

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

Interest rate risk

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

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

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

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

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

Foreign exchange risk

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

Credit risk

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

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

Liquidity risk

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

ENERGA Group companies monitor the liquidity risk using a periodic liquidity planning tool. The tool takes into account the payment due/maturity dates both for investment liabilities and financial assets and liabilities and projected cash flows from operating activity. The Group aims at maintaining the balance between continuity and flexibility of financing through use of various sources of financing, such as working capital and investment loans, local bonds and Eurobonds. Due to centralization of the Group's debt in ENERGA, this entity conducts ongoing monitoring of fulfillment of the covenants and their forecasts in long-term periods, which makes it possible to define the ENERGA Group's capability to incur debt, determines its investment capacity and affects its ability to pay liabilities on time in longer time horizon.

To efficiently manage the liquidity of Group companies, the ENERGA Group uses the mechanism of issuing short-term bonds offered by the issuer – a Group company – only to other Group companies. The procedure is coordinated by ENERGA, which makes it possible to optimize the entire process in terms of its organization. Moreover, the Company has concluded loan agreements with several financial institutions, which represent an immediate liquidity reserve in case of any liquidity needs. When cash surplus is needed, the recently established ENERGA Trading SFIO mutual fund offers the possibility to retire units at any time, thus allowing for an unlimited and immediate access to the funds.

2.8. Information on material agreements and transactions

Material contracts

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

Update of the estimate value of ENERGA Group's agreements with PSE S.A.

In May 2014, ENERGA Elektrownie Ostrołęka SA carried out an annual update of the estimated value of the electricity distribution agreement of 23 February 2012 concluded with PSE, as a result of which ENERGA SA updated the estimated value of agreements between Group entities and the PSE capital group. The estimated net value of the aforementioned agreement in the period of 5 years amounted to approx. PLN 3 bn, and its revaluation resulted from the increase in revenue for electricity produced under the "must-run" regime to PSE and increased payments for the "operating reserve" introduced in the beginning of the previous year. Accordingly, the total estimated 5-year turnover of the ENERGA Group with PSE has grown to a net amount of about PLN 7.4 bn, which ENERGA reported in [current report no. 28/2014](#) of 27 May 2014.

Conclusion of an amendment letter to a material agreement with LW Bogdanka S.A.

On 30 December of the previous year, ENERGA Elektrownie Ostrołęka SA, a direct subsidiary, signed an amendment letter to the Long-term steam coal supply agreement concluded on 14 December 2010

with Lubelski Węgiel "Bogdanka" S.A. (LWB) in which the parties agreed upon the terms and conditions of coal deliveries in 2015. In the agreement, concluded for a period from 1 January 2011 to 31 December 2015, LWB undertook to supply the coal quantities agreed upon for each calendar year, at negotiated prices. As a result of signing the Amendment Letter, the net value of the subject matter of the agreement for its entire term fell by 4.25% compared to 2014, reaching PLN 1,141 m. The remaining terms and conditions of the agreement were not changed and did not differ materially from terms and conditions generally applied in contracts of this type ([current report no. 50/2014](#)).

Credit and loan agreements

On 25 June 2014, ENERGA SA entered into an amending agreement to the loan agreement with Bank Polska Kasa Opieki S.A. with its registered office in Warsaw of 13 October 2011, under which the previous financing amount was increased and the final maturity of the loan was postponed. The amending agreement increased the renewable loan limit from PLN 200 m to PLN 500 m and changed the final maturity of the loan from 12 October 2016 to 29 May 2020. As at 31 December 2014, the loan has not been disbursed.

Loan agreements with multilateral financial institutions

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

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

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

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

- EIB – PLN 891.43 m with final maturity of 15 December 2025,
- EBRD – PLN 581.30 m with final maturity of 18 December 2024,
- NIB – PLN 162.16 m with final maturity of 15 June 2022.

On 30 September 2014, ENERGA SA and ENERGA-OPERATOR SA signed an amendment letter to the loan agreement with EIB of 16 December 2009. The amendment letter changes some of the material clauses of the contract, primarily eliminates financial covenants and introduces a rating loss clause. The signing of the amendment letter did not aim at increasing available financing amount or extending the term of financing.

On 13 November 2014, ENERGA SA, ENERGA-OPERATOR SA and EBRD introduced the following amendments to the loan agreement with of 29 April 2010:

- extension of the lending period by 3 years, as a result of which the final maturity of the loan was set at 18 December 2024,
- increase of the available loan amount by PLN 275,833 thousand (as at 31 December 2014, the additional financing amount has not been disbursed) to be used to finance capital expenditures of ENERGA-OPERATOR SA from 2014 on, with the possible fund disbursement by the end of 2015.

On 18 December 2014, ENERGA SA and ENERGA-OPERATOR SA signed an amendment letter to the loan agreement with NIB of 30 April 2010. The amendment letter eliminated financial covenants and introduced a rating loss clause. The signing of the amendment letter did not increase the available financing amount and did not extend the term of financing.

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

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

- with EBRD with a limit of PLN 800 m – as at 31 December 2014, PLN 340 m of the loan has been utilized. PLN 460 m remains available and the final maturity of the loan is 18 December 2024;
- with EIB with a limit of PLN 1,000 m – as at 31 December 2014, PLN 600 m of the loan has been utilized. PLN 400 m remains outstanding and the final maturity of the first tranche is 15 March 2029.

Nordic Investment Bank

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

Loans granted

No loans were granted in the ENERGA Group in 2014. Only two loans from 2013 for a total amount of EUR 499 m were continued; they were granted to ENERGA SA by the Group's special purpose vehicle, ENERGA Finance AB (publ), using the funds raised under an Eurobond (EMTN) issue carried out in March 2013.

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

Acting on the basis of the Financial Policy adopted by the ENERGA Group and under the terms and conditions of internal bond issue facilities, in 2014 ENERGA purchased bonds issued by Group companies. The main purpose of the issues was for the issuers, ENERGA Group companies, to raise funds to execute their capital expenditure programs.

The table below presents the nominal value of bonds subscribed by ENERGA SA and outstanding, broken down into individual issuers from the ENERGA Group, as at 31 December 2014.

Table 4: Nominal value of bonds subscribed by ENERGA SA and outstanding, by issuer, as at 31 December 2014.

No.	Company name	Nominal value of subscribed bonds (PLN 000s)
1.	ENERGA-OPERATOR SA	3,560,710.5
2.	ENERGA Wytwarzanie SA	1,080,000.0
3.	ENERGA Kogeneracja Sp. z o.o.	104,187.5
4.	ENERGA Elektrownie Ostrołęka SA	162,000.0
5.	Breva Sp. z o.o.	68,000.0
TOTAL		4,974,898.0

Domestic bond issue program

In 2014, ENERGA SA rolled over short-term bond issues under the bonds issue agreement of 30 May 2012 concluded with PKO Bank Polski SA. The PLN 62.3 m issue of 3-month short-term bonds executed on 9 July 2014 and maturing on 9 October 2014 has been redeemed by the issuer. As at 31 December 2014, no bond issue has been outstanding under the above agreement.

No changes were made in the domestic bond issue program established in September 2012, in which the first issue of PLN 1,000 m was executed in October of that year, except that, upon request of ENERGA SA of 29 January 2014, 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 of a total value of PLN 1,000 m and a par value of PLN 10 thousand each, marked with a code PLENERG00014 by the National Depository of Securities. On the same date, the Company's bonds were excluded from the alternative trading system organized by Catalyst. The Company reported on both decisions [in current report no. 7/2014](#) on 24 January 2014.

Insurance contracts

The Group has in place a joint insurance policy, which ensures insurance cover for the companies and their activities against risks, with sums insured at levels typical for the profile of energy sector

companies in Poland. In cooperation with insurance brokers, a joint property and liability insurance scheme has been concluded for the period from 1 July 2014 to 30 June 2017. The Scheme allows for a standardized insurance cover for relevant risks with customized extensions negotiated for unique needs of individual companies.

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

Table 5: Insurance policies with the highest values in the ENERGA Group

Insurance policies with the highest sums insured include:	
•	Property insurance against fire and other perils in the Distribution Segment,
•	all risks property insurance and loss of profit caused by a loss covered by all risks property insurance in the Generation Segment,
•	equipment breakdown insurance and loss of profit caused by a loss covered by equipment breakdown insurance in the Generation Segment,
•	liability insurance for Group companies for one and for all insurable events,
•	liability insurance for directors and officers of Group companies for one and for all insurable events.

Granted guarantees and sureties

Table 6: Information on sureties and guarantees extended by ENERGA as at 31 December 2014

No.	Extension date of the surety or guarantee	Term of the surety or guarantee	Entity for which the surety or guarantee was granted	Entity in favor of which the surety or guarantee was granted	Form of the surety or guarantee	Surety or guarantee amount (PLN 000s)	Amount of liability secured by the surety or guarantee as at 31 December 2014 (PLN 000s)
1	2012-11-15	2024-12-31	ENERGA Finance AB	bondholders	surety agreement	5,327,875 *	2,131,150 *
2	2011-11-08	2016-10-31	ENERGA-OPERATOR Logistyka Sp. z o.o.	PKO BP SA	surety - agreement to extend a guarantee	6,000**	483.15**
2	2012-03-19	2015-03-29	ENERGA Elektrownie Ostrołęka SA	PKO BP SA	surety - agreement to extend a guarantee	200**	200**
4	2012-12-17	2017-09-19	ENERGA Invest SA	PKO BP SA	surety - agreement to extend a guarantee	247.59**	247.59**
5	2014-01-14	2017-09-30	ENERGA Invest SA	PKO BP SA	surety - agreement to extend a guarantee	2,204.54**	2,204.54**
6	2013-04-22	2017-09-19	BREVA Sp. z o.o.	PKO BP SA	surety - agreement to extend a guarantee	2,091**	2,091**

7	2013-04-25	2017-09-19	Elektrownia CCGT Grudziądz Sp. z o.o.	PKO BP SA	surety agreement to extend a guarantee	6,300**	6,253.94**
8	2014-01-14	2017-12-12	ENERGA Wytwarzanie SA	PKO BP SA	surety agreement to extend a guarantee	218.41**	218.41**
9	2014-03-03	2018-04-24	Breva Sp. z o.o.	PKO BP SA	surety agreement to extend a guarantee	87,314.24**	86,430.47**
10	2014-05-15	2015-05-15	ENERGA Informatyka i Technologie Sp. z o.o.	PKO BP SA	surety agreement to extend a guarantee	200**	163.5**
TOTAL						5,432,650.78	2,229,442.6

**/ Item 1: On 15 November 2012, an EMTN Eurobond issue program was established for the amount up to EUR 1 bn. Under the program, ENERGA Finance AB (publ) registered under the Swedish law, acting as a subsidiary of ENERGA SA, may issue Eurobonds with maturities from 1 year to 10 years. Pursuant to the surety agreement of 15 November 2012, ENERGA SA undertook, unconditionally and irrevocably to guarantee liabilities of ENERGA Finance AB (publ) resulting from Eurobonds up to EUR 1,250 m until 31 December 2024 inclusive. On 19 March 2013, ENERGA Finance AB (publ) issued one series of Eurobonds of EUR 500 m and maturing on 19 March 2020. The Ministry of Finance approved the extension by ENERGA SA of a guarantee up to a total amount of EUR 1,250 m valid until 31 December 2024 to secure repayment of liabilities arising from the Eurobonds issued by ENERGA Finance AB (publ); (Letter from the Ministry of Finance ref. no. DG/663/169/PTR/12/BMI9-6613 of 21 May 2012); value of the surety under the contract stated as a PLN equivalent of EUR 1,250 m converted using the average NBP exchange rate of 31 December 2014.*

***/ Items 2-10: civil law sureties extended by ENERGA SA for liabilities of Group companies arising from bank guarantees granted by PKO BP SA under guarantee facilities dedicated to Group companies. The facility may be used until 19 September 2017. Terms of validity of the guarantees granted under the facility limit may extend beyond this date. Repayment of liabilities is secured by a civil law surety.*

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

All the transactions within the ENERGA Group are made on the basis of the market prices of goods, products or services based on their manufacturing costs. Detailed information on this subject is presented in Note 32 to the annual consolidated financial statements for the twelve-month period ended 31 December 2014.

Evaluation of financial resources management

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

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

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

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

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

At the end of the reporting period, the ENERGA Group was party to 5,027 court proceedings. The Group acted as a plaintiff in 2,307 cases where the aggregated value of the disputed matters was approx. PLN 203 m. The Group acted as a defendant in 2,720 cases where the aggregated amount of the disputed matters was approx. PLN 403 m.

The overall amount of claims for locating power devices on properties of other parties without the necessary legal title, awarded by final judgments, was approx. PLN 1,506.6 m in 24,816 cases. There were 2,406 pending court cases and the value of the disputed matters in such pending cases was PLN 278.5 m. Based on the available data about the value of pending procedures, we assume that the actual amount to be paid after the disputes are resolved may reach PLN 65.6 m, with a reservation that this amount may change if new court cases related to placement of power devices on third party's real properties without the necessary legal title are launched against ENERGA-OPERATOR.

The aggregated amount of all of the proceedings has not exceeded 10% of the Issuer's equity.

Among the 8 proceedings described in the Company's Prospectus approved by the Polish Financial Supervision Authority on 15 November 2013, two were resolved by courts in favor of the ENERGA Group in 2014: one filed by Forta Sp. z o.o. and by PSE-Operator against ENERGA-OPERATOR and the ENERGA-OPERATOR's counterclaim against PKN Orlen (current reports: [18/2014](#) and [35/2014](#); the resolution of the PSE v. EOP and EOP v. Orlen disputes has been described on page 55 of [Information for the condensed consolidated report of the ENERGA Group for 3 quarters of 2014](#)).

Three other proceedings: Ergo Energy Sp. z o.o. against ENERGA-OBRÓT and Krupy Wind Invest Sp. z o.o. in Warsaw against ENERGA-OBRÓT and Boryszewo Wind Invest Sp. z o.o. in Warsaw also against ENERGA-OBRÓT remain pending, however in the latter two cases the claims filed by ENERGA-OBRÓT were dismissed by courts and, as a result, the agreements to sell electricity generated from RES and the agreements to sell property rights under certificates of origin remain in effect in respect to all their provisions; the courts also awarded from ENERGA-OBRÓT the costs of legal proceedings of PLN 100 thousand each and the costs of court representation of about PLN 7 thousand each. Both parties appealed against the judgment issued in both cases and they submitted their responses.

Under the proceedings pertaining to the bankruptcy of Fuhrländer AG (FAG) and a claim for contractual penalty for undue performance of obligations by FAG, a Group company EPW Energia Sp. z o.o. does not intend to file a lawsuit after it received an opinion from a German law firm that the claim cannot be pursued.

In the case filed with the relevant customs office in 2009 by ENERGA Elektrownie Ostrołęka, corrections to excise tax declarations and a request to refund the excise tax of about PLN 170 m following the complaint filed in April 2014 with the Voivodship Court of Administration (WSA) in Warsaw against decisions made by the Director of the Customs Chamber in Warsaw, WSA has rescinded the decisions of the Director of the Customs Chamber in Warsaw acting as a 2nd instance body, finding that they had been made with gross violation of law. The Group company is waiting for the WSA judgment to become final or for a cassation complaint from the customs authority.

2.10. HR and payroll situation

Headcount in the ENERGA Group

Table 7: Headcount in the ENERGA Group as at 31 December 2014*

Segment	Headcount as at 31 December 2012	including laborers as at 31 December 2012	Headcount as at 31 December 2013	including laborers as at 31 December 2013	Headcount as at 31 December 2014	including laborers as at 31 December 2014	Average headcount in 2012	Average headcount in 2013	Average headcount in 2014
	persons	persons	persons	persons	persons	persons	FTEs	FTEs	FTEs
DISTRIBUTION	6,954	3,003	6,079	2,381	5,435	1,903	6,978	6,602	5,672

GENERATION	1,722	1,063	1,641	969	1,558	913	1,674	1,675	1,648
SALES	1,443	155	1,303	155	982	135	1,466	1,446	1,160
OTHER	890	81	761	44	568	0	931	823	664
TOTAL	11,009	4,302	9,784	3,549	8,543	2,951	11,049	10,546	9,144

* Average headcount excluding unpaid, parental or rehabilitation benefits. 2012 and 2013 data modified to match the current segmentation

Figure 13: Headcount in the ENERGA Group as at 31 December 2012, 2013 and 2014 (persons)

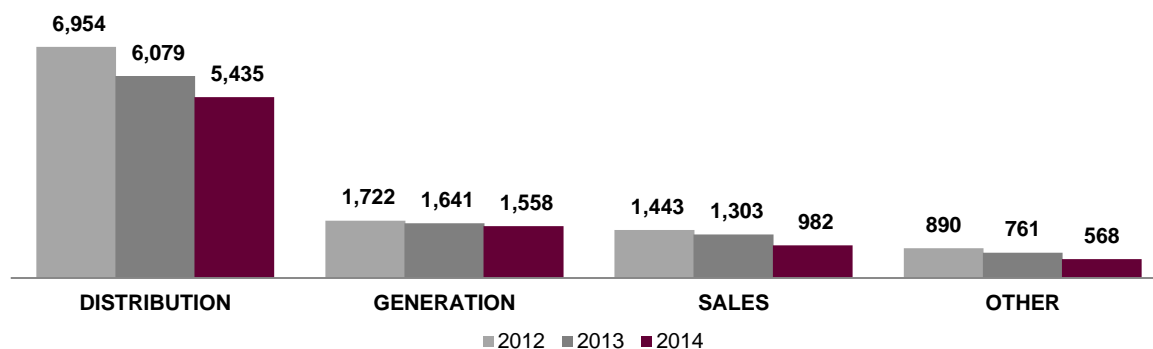
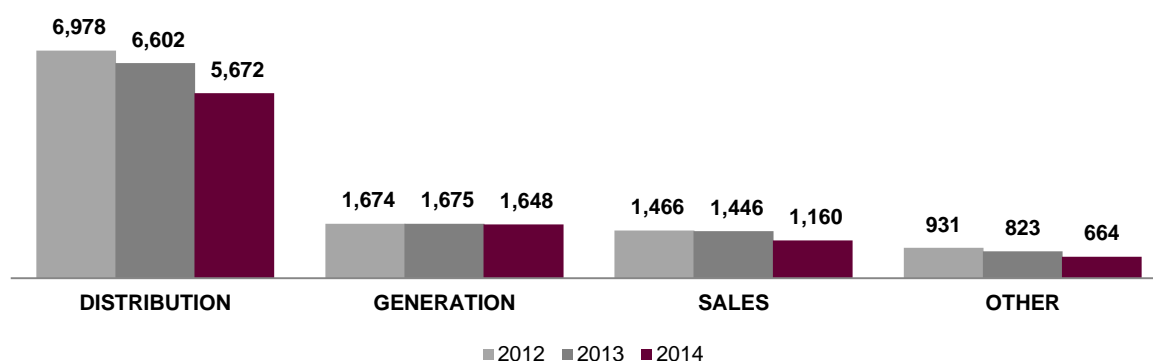


Figure 14: Average headcount in the ENERGA Group in 2012, 2013 and 2014 (FTEs)



As at the end of 2014, the ENERGA Group employed 8,543 persons. Compared to the end of 2013, the headcount decreased by 1,241 persons or almost 13%. The decrease in headcount occurred in all operating segments. Headcount reduction was the largest in the Distribution Segment (by 644 persons) and in the Sales Segment (by 321 persons). The main reason for this decrease was a continuation of the Group's restructuring activities. The programs and rules for individual departures have been established in connection with the social contract of 19 July 2007 pertaining to securing employee rights and interests in the process of consolidation and restructuring of the Group under which employees received, among other things, a guarantee of employment until 31 July 2017.

In accordance with the social contract, which is effective in most of the Group companies, termination of the employment relationship with mutual consent and payment of a compensation is possible only on the rules defined in the voluntary departure program agreed between the Group's employers and the trade unions being parties to the social contract. The foregoing does not rule out, in the absence of an appropriate arrangement, of the creation of voluntary redundancy options offered to employees by employers unilaterally defining the terms of individual resignations or based on terms agreed with interested employees on an individual basis. The terms of voluntary departures are not the same in all companies of the Group and the rules for calculating benefits paid to employees due to their

termination of employment relationships depend, among others, on the average salary paid by the relevant employer. In most cases, benefits associated with the termination of employment contracts may be paid in installments.

Nearly 3,728 employees benefited in 2010-2014 from the possibility of terminating their employment contracts under the existing rules of individual voluntary departures, voluntary departure programs, individual arrangements as well as a takeover of human resources of the investment part of grid maintenance companies by an external investor; total costs incurred by the Group for this purpose in this period amounted to approx. PLN 476 m (this amount does not include the reversal of actuarial provisions for employee benefits).

Remuneration systems

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

In 2014, there were no significant changes in the remuneration system of any company of the ENERGA Group. The average remuneration increased by 4.7%. The change in average salary in 2014 was driven largely by the change in the employment structure. Detailed information on the average monthly remuneration in ENERGA Group companies broken down by segment is presented in the following table.

Table 8: Average monthly remuneration in the ENERGA Group companies, by business segment*

Segments	Average remuneration in 2012	Average remuneration in 2013	Average remuneration in 2014	Change in average remuneration, 2014 vs. 2013
	in PLN	in PLN	in PLN	(%)
DISTRIBUTION	5,910	6,298	6,595	4.7%
GENERATION	6,013	6,128	6,293	2.7%
SALES	5,968	6,398	7,115	11.2%
OTHER	6,859	7,199	7,207	0.1%
TOTAL	6,013	6,355	6,651	4.7%

* 2012 and 2013 data modified to match the current segmentation

Important information affecting the HR and payroll situation

Rules for setting and monitoring objectives in the ENERGA Group

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

Employee benefits

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

- (1) 'Employee tariff' for electricity, available to employees with one year of professional experience in the utilities sector;
- (2) The company social benefits fund authorizing charges in the amount three times higher than the basic charge defined in the Act on Company Social Benefits Fund (ZFSS);

- (3) Holidays gift certificates issued to employees for the Easter Holiday, the Power Industry Employee's Day and Christmas;
- (4) The Employee Pension Plans operating in Group companies and funded by the employer in an amount equal to 7% of the remuneration of employees;
- (5) Additional Medical Care Program under the agreement concluded with AXA Życie Towarzystwo Ubezpieczeń SA; all employees are eligible for additional medical benefits under the Guaranteed Package funded by the employer;
- (6) Training offered by all ENERGA Group employers; various forms of employee development are aimed at preparing staff to perform tasks in the workplace, improve performance and increase the knowledge, motivation and commitment to work.

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

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

Changes of the terms of remuneration

In 2014, there were no significant changes in the prevailing Company Collective Bargaining Agreements with respect to the terms of remuneration.

Following the liquidation of the Association of Energy Sector Employers (deleted from the KRS on 28 February 2014), ENERGA SA as its member submitted to the Trade Unions being parties to the Multi-Company Collective Bargaining Agreement for Employees of the Utilities Sector concluded on 13 May 1993 and registered on 26 September 1995 in the register of Multi-Company Collective Bargaining Agreements (Registration Card no. U-I) a representation on withdrawal from this agreement as of 31 December 2014.

The representations on withdrawal from the Multi-Company Collective Bargaining Agreement have also been submitted by the following employers in the Group: ENERGA Wytwarzanie SA, ENERGA Kogeneracja Sp. z o.o., ENERGA Elektrociepłownia Kalisz SA, ENERGA Elektrownie Ostrołęka SA, ENERGA-OPERATOR SA, ENERGA-OPERATOR Logistyka Sp. z o.o., ENERGA-OBRÓT SA, ENERGA Obsługa i Sprzedaż Sp. z o.o. and ENERGA Oświetlenie Sp. z o.o.

Group layoffs

In 2014, group layoffs were conducted following the procedure set forth in the Act of 13 March 2003 on special rules for dissolving employment relationships for reasons not related to employees, in the following employer companies:

- (1) ENERGA Obsługa i Sprzedaż Sp. z o.o. – since no agreement was signed with the trade unions in January 2014, the employer adopted the bylaws setting forth the rules of proceeding in matters of employees included in the group layoffs; the group layoffs included 362 employees out of 636 employed by the company in 34 locations;
- (2) ENERGA-OBRÓT SA – since no agreement was signed with the trade unions in April 2014, the employer adopted the bylaws setting forth the rules of proceeding in matters of employees included in the group layoffs; the group layoffs included 72 employees in 12 locations;
- (3) ENERGA Informatyka i Technologie Sp. z o.o. – in September of the previous year, meetings between the employer and Trade Union representatives operating in the employer's company were held to conclude an agreement concerning the group layoffs planned in the company. The parties did not reach an agreement and in October the employer issued the bylaws for group layoffs;
- (4) Ciepło Kaliskie Sp. z o.o. – in August 2014 the Management Board of the Company of the company informed the trade unions operating in the company about the intention to carry out a group termination of the terms of employment and salary. The parties have not reached an agreement and in October 2014 the employer adopted group layoffs bylaws;

- (5) MCSE Sp. z o.o. w likwidacji – in order to mitigate the social effects of the company liquidation process, an agreement was concluded in July of the previous year between the employer and the trade unions. In agreement with the trade unions, the group layoffs occurred in the period from 24 July to 31 October 2014 and as their result 24 employees departed from MCSE Sp. z o.o. w likwidacji (in liquidation).

Collective disputes

As at the end of 2014, there were 34 trade union organizations in ENERGA Group companies operating in more than one company. Over 5 thousand staff were members of the trade unions.

In 2014, trade unions sent a number of statements to individual employers containing requests concerning:

- (1) raising wages and salaries in Group companies,
- (2) suspension of processes already underway or revocation of processes already completed, in particular processes involving movements of employees between various ENERGA Group employers,
- (3) stopping organizational changes, sale of shares in ENERGA Group companies or liquidation of the employer status.

Table 9: Collective disputes in the Group

Disputes ended by agreements in 2014	Disputes in progress
In January 2014 the employer ZEP-Centrum Handlowe Sp. z o.o. concluded a collective dispute initiated by a letter from Trade Unions in November 2011. The dispute concerned the matters associated with the merger of companies and the transfer of employees from Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk Sp. z o.o. and Zaopatrzenie Energetyki Koszalin Sp. z o.o. to ZEP-Handel. The trade unions demanded that the decision to merge companies be rescinded and an agreement be concluded to secure employee and union interests.	ENERGA-OPERATOR employers are a party to a collective dispute initiated by trade unions in September 2013 in connection with the transfer of employees from 7 employers to special-purpose vehicles providing services associated with the service, operation, maintenance and administration of non-utility properties. The dispute concerns a request by the trade unions to accept joint and several liability for breaches of the social contract toward employees covered by the transfer to an extent reaching beyond the liability imposed on existing employers by the provisions of the Labor Code as well as demands of accession of companies providing Facility Management services to the Multi-Company Collective Bargaining Agreement for Employees of the Utilities Sector and to the social contract. In 2014, the dispute was in mediation. In February of the previous year, a meeting of both parties with a mediator was held. The parties did not reach an agreement and a discrepancy report was signed in March 2014.
On 2014 February 2014, a collective bargaining agreement was signed in ENERGA Elektrownie Ostrołęka SA which ended a collective bargaining dispute with the Trade Union of Power Sector Engineers and Trade Union of Continuous Operation Employees, instigated in November 2012. Demands of the trade unions concerned the cessation of downsizing in the company, the cessation of infringements on trade union freedoms and the conduct of the restructuring process in accordance with the provisions of the Company Collective Bargaining Agreement.	The employer ENERGA-OPERATOR SA Branches in Płock is a party to a dispute pending in connection with a request of the trade union in September 2014. The demands included: introduction of a 5% salary growth rate in 2014, while honoring the previous basic salary raises; execution of art. 21.2 of the social contract, that is signing an agreement specifying the utilization of funds for remuneration in 2014, payment a gross bonus of PLN 1200 from the incentive fund to each employee, payment of a discretionary bonus to each employee at 10% of the basic salary, starting from September 2014. The negotiation phase was closed by signing a discrepancy report of October of the previous year. The parties have not yet selected a mediator.
In December 2014 the dispute with the employer ENERGA-OPERATOR Logistyka Sp. z o.o. (formerly: ZEP-Centrum Handlowe Sp. z o.o.) launched by trade unions in January 2013 was concluded. The trade unions demanded to maintain the current level of employment, guarantee continued employment and	In October of the previous year, NSZZ "Solidarność" operating in Ciepło Kaliskie Sp. z o.o., MZZP Koncernu Energetycznego ENERGA SA Branch Energetyka Kaliska in Kalisz „Ciepło Kaliskie” Sp. z o.o., National Union of Heat Generators Branch in Kalisz launched a collective dispute with the employer

secure the employees' interests acquired during the restructuring process, and also to determine the wage increases for 2013. This dispute has not been resolved with the employer ZET-Energohandel Sp. z o.o.

In December of the previous year, a dispute ended with the employer ENERGA-OPERATOR Logistyka Sp. z o.o. (formerly ZEP-Centrum Handlowe Sp. z o.o.) initiated in May 2014 when a joint representation of MOZ NSZZ „Solidarność” and MZZ Pracowników Energetyki Płockiej demanded to: accept trade unions as parties in decisions determining the levels of basic salary and the bonus fund for employees, pay to each company employee an overdue bonus of 20% of their basic salary and increase basic salary by a gross amount of PLN 500.

Ciepło Kaliskie Sp. z o.o. to withdraw from salary cuts. The parties have prepared a Reports of discrepancy report from the negotiations.

In May 2014, the Intercompany Organization of Mazowsze Region NSZZ "Solidarność" in ENERGA Elektrownie Ostrołęka SA, operating in ENERGA Serwis Sp. z o.o. issued requests to the employer ENERGA Serwis Sp. z o.o to grant a one-time bonus of PLN 2,000 to each employee taken over from ENERGA Elektrownie Ostrołęka SA. Since no agreement was reached, a collective dispute began between the parties. In May of the previous year, the dispute was reported to the Regional Labor Inspectorate in Warsaw and registered in June 2014. The parties did not reach an agreement and completed the negotiations phase in June of the previous year by signing a discrepancy report. The dispute is currently in the mediation phase.

2.11. Social responsibility of the ENERGA Group

In 2014, the ENERGA Group focused its efforts mainly on implementing the assumptions from the Strategy for sustainable development and corporate social responsibility. The strategy covers all the areas of the Group's business. Its review in the previous year has allowed us to set social responsibility priorities in three areas: responsible management of relations with customers, reduction of environmental footprint and development of distribution activity, which was in agreement with business objectives and assumptions.

The new CSR strategy has been defined on two strategic levels:

- (1) business pillars, which include objectives set for 2013-2020 in the Group's strategy,
- (2) supporting pillars, which include employee matters and social activities undertaken by the Group and its individual companies.

The business pillar involves management based on ethical conduct and obligation to maintain transparency and openness to dialogue; management objectives include:

- (1) implement the code of ethics in all ENERGA Group companies
- (2) set and monitor CSR objectives for each segment
- (3) certify the environmental management system compliant with the EMAS Regulation
- (4) report regularly on corporate social responsibility issues
- (5) maintain dialogue and engage stakeholders in the evaluation of activities and in the Group's CSR reporting process
- (6) incorporate CSR issues in the management of the supply chain.



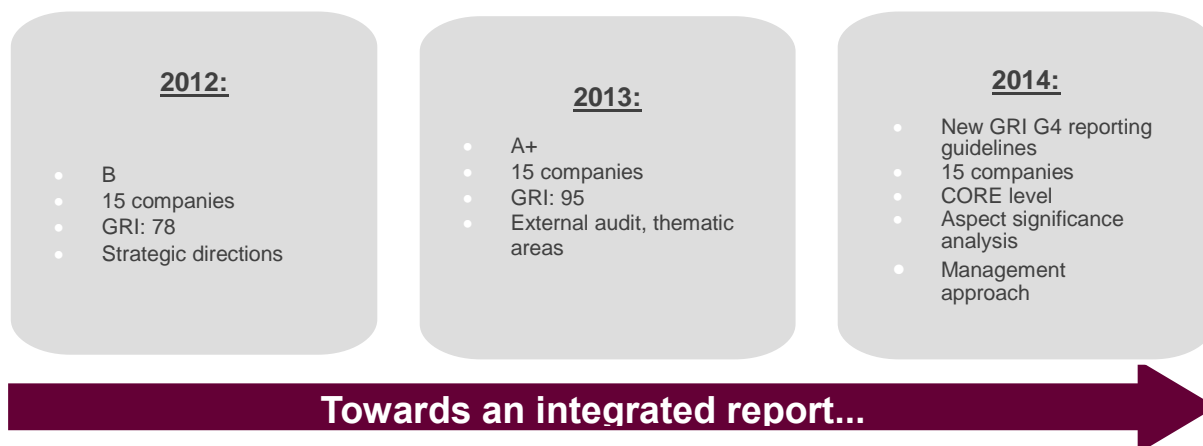
The social activities undertaken by the ENERGA Group are described in the fourth edition of the 2014 CSR Report. As in the previous years, the publication summarizes CSR activities undertaken by 15 Group companies (along with 7 ENERGA-OPERATOR's subsidiaries with process links).

The 2014 CSR Report has been prepared on the basis of the new *Global Reporting Initiative G.4* guidelines at the CORE level (taking into account the indicators included in the supplement for energy sector companies). The new reporting guidelines allow the Group to focus on the key issues with importance for the Group and its stakeholders, selected through dialogue, and to include the

management approach in these areas in the report. When developing this document, we have used our internal information collection systems and custom-developed IT tool to present the indicators describing the Group's non-financial performance.

By including more companies in the non-financial data reporting process, the Group intends to show a complete view of how its individual Segments affect the environment and the social surroundings. For two years now, the report has been reviewed by an independent auditor.

Figure 15: Features of ENERGA Group's CSR Reports in 2012-2014



2.12. Awards and recognitions for the ENERGA Group

Table 10: Awards received in 2014

2014		
<p>17 February 2014</p> <p>Distinction for ENERGA SA for the highest IPO value in 2013 granted by WSE</p>	<p>15 February 2014</p> <p>2013 Sponsor of the Year Award for ENERGA SA awarded by the President of Toruń for the contribution to development of sports in Toruń.</p>	<p>1 April 2014</p> <p>3rd place for ENERGA SA in the "Investor Relations" category in the ranking named "Listed Company of the Year" awarded by Puls Biznesu</p>
<p>21 May 2014</p> <p>ENERGA-OPERATOR SA among winners of the Leaders of the Energy World Competition organized by Euro Power, in the 2013 Distributor of the Year category</p>	<p>3 May 2014</p> <p>CSR White Leaf for the ENERGA Group for implementation of material solutions for efficient management of the organization's impact and continuing improvement of the measures in this respect granted by Polityka</p>	<p>25 June 2014</p> <p>Premium Brand 2014 title after an audit of reputation of brands among consumers and companies in the business environment organized by MMT Management</p>
<p>6 October 2014</p> <p>"Friend of Children" statuette awarded to the ENERGA Foundation for its support among others to the "Active and Charitable" campaign by the "My Home – My Future" Administration Center of Socialization Establishments in Słupsk</p>	<p>7 November 2014</p> <p>Pearls of Polish Economy title in the Polish Market ranking for consistent implementation of policies and strategies and for the leading position among the most dynamic and efficient companies in Poland</p>	<p>9 December 2014</p> <p>Journalists' award for the 2013 Our Responsibility report in the competition for the best corporate social responsibility reports. The competition was organized by the Responsible Business Forum</p>

Analysis of the financial situation and assets



3. ANALYSIS OF THE FINANCIAL SITUATION AND ASSETS

3.1. Rules for preparing the consolidated annual financial statements

The Consolidated Financial Statements of the ENERGA SA Capital Group for the 12-month period ended 31 December 2014 were prepared:

- (1) in accordance with the International Financial Reporting Standards and IFRSS approved by the European Union,
- (2) on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives,
- (3) in thousands of Polish zloty (PLN 000s),
- (4) based on the assumption that the Group would continue as a going concern in the foreseeable future. As at the date of the financial statements there is no evidence indicating significant uncertainty as to the ability of the Group to continue its business activities as a going concern.

The Management Board of the Parent Company used its best knowledge in the application of standards and interpretations as well as measurement methods and principles for the individual items of the consolidated financial statements of the ENERGA SA Group in accordance with IFRSS EU as at 31 December 2014. All the tables and explanations have been prepared with due care.

The accounting (policy) principles used to prepare the annual consolidated financial statements are presented in Note 9 to the consolidated financial statements of the ENERGA SA Group for the 12-month period ended 31 December 2014.

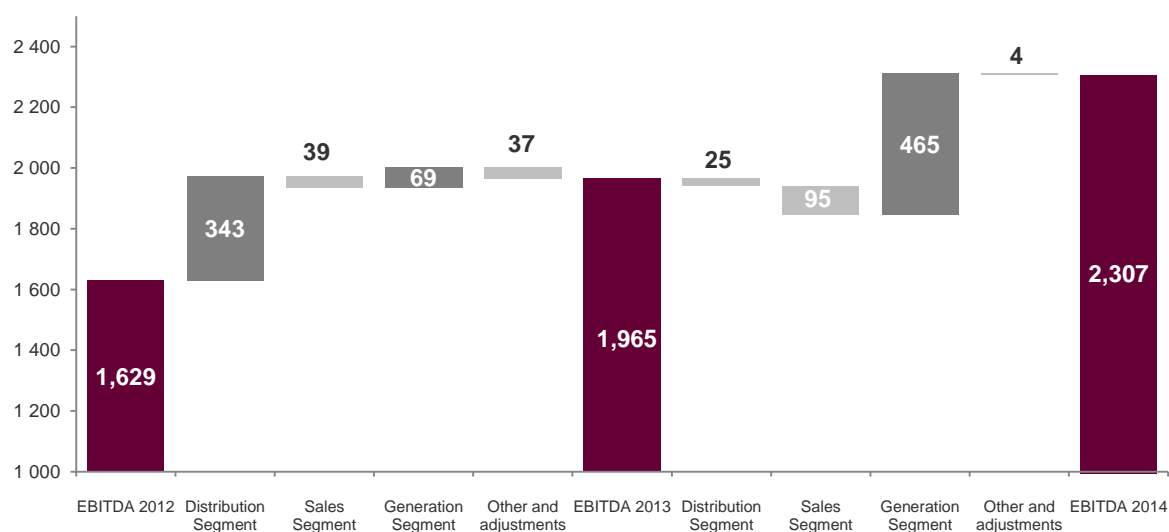
3.2. Explanation of the economic and financial data disclosed in the annual consolidated financial statements

Table 11: Consolidated statement of profit or loss

PLN 000s	2012	2013	2014	Change 2014/2013	Change 2014/2013 (%)
Revenue	11,176,799	11,429,249	10,590,595	(838,654)	-7%
Cost of sales	(9,482,447)	(9,455,472)	(8,463,733)	991,739	10%
Gross profit on sales	1,694,352	1,973,777	2,126,862	153,085	8%
Other operating income	134,921	155,718	107,319	(48,399)	-31%
Selling and distribution expenses	(308,153)	(294,321)	(311,995)	(17,674)	-6%
General and administrative expenses	(376,521)	(412,147)	(350,621)	61,526	15%
Other operating expenses	(238,592)	(228,193)	(125,325)	102,868	45%
Operating profit	906,007	1,194,834	1,446,240	251,406	21%
Result on financial activity	(279,888)	(171,886)	(198,022)	(26,136)	-15%
Share of profit (loss) of associates	214	(582)	(157)	425	73%
Profit before tax	626,333	1,022,366	1,248,061	225,695	22%
Income tax	(166,548)	(273,748)	(238,612)	35,136	13%
Discontinued activity & non-current assets classified as held for sale	(3,365)	(5,640)	(3,251)	2,389	42%

Net profit for the period	456,420	742,978	1,006,198	263,220	35%
EBITDA	1,629,246	1,965,469	2,306,959	341,490	17%
PLN 000s	Q4 2013	Q4 2014	Change	Change (%)	
Sales revenues	2,891,763	2,798,313	(93,450)	-3%	
Cost of sales	(2,374,308)	(2,281,585)	92,723	4%	
Gross profit on sales	517,455	516,728	(727)	0%	
Other operating income	71,182	(4,749)	(75,931)	> -100%	
Selling and distribution expenses	(80,802)	(115,046)	(34,244)	-42%	
General and administrative expenses	(132,172)	(93,710)	38,462	29%	
Other operating expenses	(93,130)	(48,800)	44,330	48%	
Operating profit	282,533	254,423	(28,110)	-10%	
Result on financial activity	(54,744)	(46,031)	8,713	16%	
Share of profit (loss) of associates	(69)	-	69	-100%	
Profit before tax	227,720	208,392	(19,328)	-8%	
Income tax	(65,656)	(26,152)	39,504	60%	
Discontinued activity & non-current assets classified as held for sale	167	(785)	(952)	> -100%	
Net profit for the period	162,231	181,455	19,224	12%	
EBITDA	484,922	474,477	(10,445)	-2%	

Figure 16: EBITDA bridge, by segment, 2012-2014 (PLN m)



In 2014 the Group's sales revenues amounted to PLN 10,591 m and were 7%, or PLN 839 m lower than in 2013. An increase in revenues was recorded in 2014 by the Generation Segment (17%) and Distribution Segment (5%) whereas the Sales Segment showed a 20% decline in relation to 2013.

An increase in Ostrołęka Power Plant's revenues by about PLN 297 m was the largest contributing factor to the increase in Generation Segment's revenues in the past year. The positive factors contributing to revenue levels in the Generation Segment, in particular in the Elektrownia Ostrołęka business line, included an increase in average selling prices of electricity coupled with a higher volume of electricity production compared to the previous year as well as provision of regulatory system services to the Transmission Grid Operator.

The 5% increase in Distribution Segment revenues from 2013 was driven by an increase of the average distribution rate (by almost 4%) resulting from an increase of the distribution tariff and higher volumes of distributed electricity (by over 2%).

The 20% drop in Sales Segment revenues in 2014 resulted from lower volumes of electricity sold to end users and on the wholesale market and lower selling prices.

The cost of sales in 2014 was 10%, or PLN 992 m, lower than in the corresponding period of 2013. The cost declined most rapidly in the Sales Segment (by 18%), which was driven by the lower volumes of electricity purchased (16%) and a lower average yoy purchase price (10%).

Other operating expenses in 2014 recorded a 45% drop from 2013. The significant decline in operating expenses in the analyzed period was driven primarily by the lower costs of headcount restructuring and lower provisioning for the placement of assets issue in the Distribution Segment.

The Group's EBITDA in 2014 was PLN 2,307 m, which was 17% more than in the same period of the previous year. The Group's EBITDA was positively affected mainly by the PLN 465 m yoy EBITDA growth in the Generation Segment. This change was driven primarily by the improved performance of Elektrownia Ostrołęka.

The Distribution Segment contributed the most (67%) to the Group's EBITDA in 2014. Contribution of the Sales and Generation Segments to the Group's EBITDA in the period was 6% and 30%, respectively.

The Group's EBITDA in 2014 was PLN 1,006 m, up by 35% from 2013.

The Group's EBITDA in Q4 2014 was PLN 474 m and was 2% lower than in the same period of the previous year. The Generation Segment was the main positive contributor to the Group's EBITDA levels. The PLN 125 m increase in the Generation Segment, driven mainly by higher results of the Elektrownia Ostrołęka business line, was offset by decreases in the Distribution Segment and the Sales Segment, by PLN 53 m and PLN 56 m, respectively. The decline in the Distribution Segment resulted from an increase in the costs of operation and higher costs of actuarial provisions, while the main factor contributing to yoy EBITDA figures in Q4 2014 in the Sales Segment was the decline in trading margins on electricity and property rights.

The table below shows the Group's EBITDA adjusted for effects of non-recurring events, by Segments, in the period of 2012-2014 and in Q4 2014 and Q4 2013.

The impact of non-recurring events in 2014 was much lower than it was in 2013. In 2014, the impact of lower impairment allowances for property, plant and equipment and intangible assets (PLN 36 m in 2014, compared to PLN 150 m in 2013) was additionally offset by the reversal of an additional provision for CO₂ emissions recognized in 2013 in the amount of PLN 35.8 m. Impairment allowances refer mainly to the Generation Segment. In 2014, an allowance was recognized for a portfolio of wind projects, while the allowance recognized in 2013 was related to Power Plant B in Ostrołęka. Compared to the previous year, in 2014 the effect of surplus income and expenses related to the headcount restructuring program on EBITDA has declined considerably. The item "Surplus of headcount restructuring (income)/expenses" presents the impact of reversal of actuarial provisions, change in the balance of headcount restructuring provisions and payment of severance awards not covered by that provision.

Table 12: EBITDA adjusted for material non-recurring events

2014 (PLN 000s)	Distribution	Sales	Generation	Other and adjustments	All operations
EBITDA	1,535,501	131,040	698,490	(58,072)	2,306,959
Impairment allowances for property, plant and equipment and intangible assets	1,402	(33)	34,094	576	36,039
Surplus of headcount restructuring (income)/expenses	16,470	(25,015)	11,858	4,240	7,553
Gains from bargain purchases arising from the acquisition of related companies	-	-	-	(943)	(943)
Reversal of additional provision for CO ₂ emissions pertaining to unobtained free allowances	-	-	(35,800)	-	(35,800)
Impairment allowance for subsidiary's goodwill	-	-	-	13,715	13,715
Adjusted EBITDA	1,553,373	105,992	708,642	(40,484)	2,327,523

2013 (PLN 000s)	Distribution	Sales	Generation	Other and adjustments	All operations
EBITDA	1,560,888	225,686	233,324	(54,429)	1,965,469
Impairment allowances for property, plant and equipment and intangible assets	220	(28)	147,480	2,302	149,974
Surplus of headcount restructuring (income)/expenses	26,153	60,507	(1,043)	623	86,240
Gains from bargain purchases arising from the acquisition of related companies	-	-	-	(17,907)	(17,907)
Recognition of additional provision for CO ₂ emissions pertaining to unobtained free allowances	-	-	35,800	-	35,800
Adjusted EBITDA	1,587,261	286,165	415,561	(69,411)	2,219,576

2012 (PLN 000s)	Distribution	Sales	Generation	Other and adjustments	All operations
EBITDA	1,217,978	264,467	163,879	(17,078)	1,629,246
Impairment allowances for property, plant and equipment and intangible assets	282	(94)	123,732	31	123,951
Income and expenses related to the litigation between ENERGA-OPERATOR and PSE with PKN ORLEN S.A.	62,514	-	-	-	62,514

Surplus of headcount restructuring (income)/expenses	36,807	(381)	7,632	4,185	48,243
Adjusted EBITDA	1,317,581	263,992	295,243	(12,862)	1,863,954

Q4 2014 (PLN 000s)	Distribution	Sales	Generation	Other and adjustments	All operations
EBITDA	372,162	(17,518)	170,386	(50,553)	474,477
Impairment allowances for property, plant and equipment and intangible assets	1,402	(33)	23,645	(56)	24,958
Surplus of headcount restructuring (income)/expenses	10,645	1,600	6,270	(883)	17,632
Impairment allowance for subsidiary's goodwill	-	-	-	13,715	13,715
Adjusted EBITDA	384,209	(15,951)	200,301	(37,777)	530,782

Q4 2013 (PLN 000s)	Distribution	Sales	Generation	Other and adjustments	All operations
EBITDA	424,820	38,123	45,574	(23,595)	484,922
Impairment allowances for property, plant and equipment and intangible assets	52	(28)	23,776	2,343	26,143
Surplus of headcount restructuring (income)/expenses	(39,125)	60,366	1,789	885	23,915
Recognition of additional provision for CO ₂ emissions pertaining to unobtained free allowances	-	-	35,800	-	35,800
Adjusted EBITDA	385,747	98,461	106,939	(20,367)	570,780

The Company defines and calculates EBITDA as operating profit /(loss) (calculated as net profit /(loss) on continuing operations for the financial period/year, adjusted by (i) income tax, (ii) the share of profit of the associate, (iii) financial income and (iv) financial costs, adjusted by depreciation (posted to the profit and loss account). The Company defines and calculates adjusted EBITDA as EBITDA adjusted for non-recurring events. Neither EBITDA nor Adjusted EBITDA have been defined in the IFRSS and should not be treated as an alternative for measures and categories consistent with IFRSS. Additionally, both EBITDA and adjusted EBITDA do not have a uniform definition. The method of calculating EBITDA and Adjusted EBITDA by other companies may differ materially from the method used by ENERGA SA. As a result, EBITDA and adjusted EBITDA presented herein as such do not constitute the basis for comparison with EBITDA and adjusted EBITDA reported by other companies.

Table 13: Consolidated Statement of Financial Position

PLN 000s	2012	2013	2014	Change 2014/2013	Change 2014/2013 (%)
ASSETS					
Non-current assets					
Property, plant and equipment	10,000,916	11,760,776	12,315,221	554,445	5%
Investment property	17,060	15,189	40,408	25,219	> 100%
Intangible assets	378,563	398,677	393,079	(5,598)	-1%

Goodwill	28,627	156,773	143,058	(13,715)	-9%
Deferred tax assets	209,870	245,086	245,591	505	0%
Hedging derivatives	-	13,017	28,662	15,645	> 100%
Other non-current financial assets	30,668	17,727	20,327	2,600	15%
Other non-current assets	31,692	42,291	55,110	12,819	30%
	10,697,396	12,649,536	13,241,456	591,920	5%

Current assets

Inventories	376,928	302,043	295,741	(6,302)	-2%
Current tax receivables	37,493	43,427	76,090	32,663	75%
Trade receivables	1,520,668	1,469,543	1,550,754	81,211	6%
Deposits	26,784	4,121	42	(4,079)	-99%
Other current financial assets	18,762	8,891	22,364	13,473	> 100%
Cash and cash equivalents	2,069,058	2,352,305	2,695,398	343,093	15%
Other current assets	155,516	145,574	208,201	62,627	43%
Assets classified as held for sale	10,168	109,116	26,632	(82,484)	-76%
	4,215,377	4,435,020	4,875,222	440,202	10%

TOTAL ASSETS	14,912,773	17,084,556	18,116,678	1,032,122	6%
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EQUITY AND LIABILITIES

Equity attributable to equity holders of the Parent Company

Share capital	4,968,805	4,521,613	4,521,613	-	0%
Exchange differences resulting from conversion of a foreign entity	48	(2,310)	417	2,727	> 100%
Reserve capital	-	447,192	447,192	-	0%
Supplementary capital	471,235	521,490	606,472	84,982	16%
Cash flow hedge reserve	-	26,539	(16,932)	(43,471)	> 100%
Retained earnings	2,231,138	2,519,955	2,956,946	436,991	17%
Non-controlling interest	47,296	13,816	37,851	24,035	> -100%
Total equity	7,718,522	8,048,295	8,553,559	505,264	6%

Non-current liabilities

Loans and borrowings	2,026,138	1,811,548	2,389,554	578,006	32%
Bonds issued	1,079,219	3,119,453	3,116,835	(2,618)	0%
Non-current provisions	710,786	549,499	631,716	82,217	15%
Deferred tax liabilities	519,686	544,001	553,387	9,386	2%
Deferred income and non-current grants	456,010	489,234	525,824	36,590	7%

Hedging derivatives	-	-	22,748	22,748	-
Other non-current financial liabilities	9,010	4,873	8,539	3,666	75%
Other non-current liabilities	613	1,406	1,186	(220)	-16%
	4,801,462	6,520,014	7,249,789	729,775	11%
Current liabilities					
Trade liabilities	710,651	889,902	869,106	(20,796)	-2%
Other financial liabilities	170,488	234,725	228,910	(5,815)	-2%
Current loans and borrowings	389,639	274,177	170,568	(103,609)	-38%
Bonds issued	-	70,584	71,540	956	1%
Income tax liabilities	34,662	6,838	50,432	43,594	> 100%
Deferred income and government grants	28,933	32,048	36,965	4,917	15%
Accruals	116,897	126,813	120,594	(6,219)	-5%
Short-term provisions	555,345	444,108	373,995	(70,113)	-16%
Other current liabilities	386,174	355,733	362,314	6,581	2%
Liability related to assets classified as held for sale	-	81,319	28,906	(52,413)	-64%
	2,392,789	2,516,247	2,313,330	(202,917)	-8%
Total liabilities	7,194,251	9,036,261	9,563,119	526,858	6%
TOTAL EQUITY AND LIABILITIES	14,912,773	17,084,556	18,116,678	1,032,122	6%

As at 31 December 2014, total assets of the ENERGA Group reached PLN 18,117 m and were PLN 1,032 m (6%) higher than on 31 December 2013.

The most significant change was recorded in the amount of property, plant and equipment, which increased by the aggregated amount of PLN 554 m (5%). This change resulted in particular from capital expenditures less depreciation made mainly in the Distribution Segment.

The PLN 14 m (9%) decline in goodwill compared to the previous year was driven by the recognition of an impairment allowance on the goodwill of Ekologiczne Materiały Grzewcze Sp. z o.o. because of its planned split and suspension of manufacturing activity.

The PLN 440 m (10%) increase in current assets in the analyzed period compared to the end of 2013 was caused by a PLN 343 m increase in cash, PLN 81 m increase in trade receivables, while other current assets grew by PLN 63 m. Assets classified as held for sale went down by PLN 82 m. Assets classified as held for sale declined because there was no real interest of potential purchases for some Distribution Segment companies previously held for sale and the Group suspended its active efforts to sell the shares in such companies. This also contributed to the reduction in liabilities directly related to assets classified as held for sale by PLN 52 m.

At the liabilities side, a significant change occurred in loan and borrowing liabilities, which went up by PLN 474 m (23%) compared with December 2013 figures. This change was driven by an increase in loans and borrowings balance by PLN 578 m (32%) following a disbursement of subsequent tranches of the loans from international financial institutions (EIB, EBRD) to finance investment projects executed in the Distribution Segment. The current part of loans and borrowings decreased by PLN 104 m (38%) after a portion of loans was repaid.

The balance of provisions increased by PLN 12 m (1%) as compared to the previous year. The highest increase was recorded in actuarial provisions for employee benefits (by PLN 66 m) and provisions for mandatory presentation of certificates for redemption (by PLN 37 m). This largest

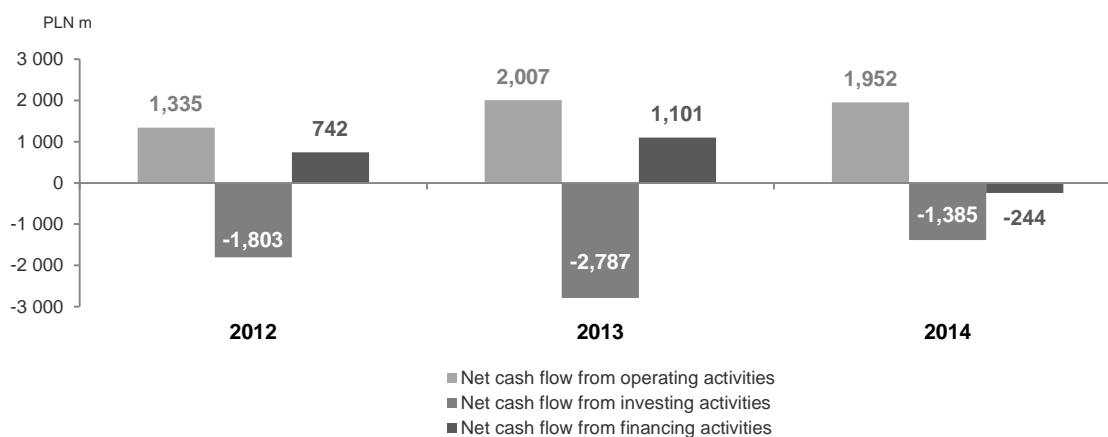
decline occurred in the restructuring provision (by PLN 63 m) and the provision for liabilities arising from gas emissions (by PLN 23 m).

The ENERGA Group equity increased by PLN 505 m, driven mainly by the positive 2014 result, offset by the dividend paid out of the 2013 profit. As at 31 December 2014, the equity covered 47% of the Group's assets, which was similar to the previous year's figures. The Group's net debt increased by PLN 130 m (4%) reaching the level of PLN 3,053 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).

Table 14: Consolidated Cash Flow Statement

PLN 000s	2012	2013	2014	Change 2014/2013	Change 2014/2013 (%)
Net cash from operating activities	1,334,667	2,007,226	1,952,291	(54,935)	-3%
Net cash flow from investing activities	(1,803,142)	(2,786,776)	(1,384,850)	1,401,926	50%
Net cash flow from financing activities	742,307	1,100,890	(243,573)	(1,344,463)	> -100%
Net increase / (decrease) in cash and cash equivalents	273,832	321,340	323,868	2,528	1%
Cash and cash equivalents at the end of the period	2,029,373	2,350,713	2,674,581	323,868	14%

Figure 17: Group's cash flows in 2012-2014



As at 31 December 2014, the balance of the Group's cash was PLN 2,675 m and was PLN 324 m (or 14%) higher than the cash balance one year earlier.

The total net cash flows from the Group's operating, investing and financing activities in 2014 were positive at PLN 324 m, compared to the positive cash flows of PLN 321 m in the previous year.

Cash flows from operating activities decreased by PLN 55 m (3%) as compared to 2013. The decline in cash flows from operating activities was caused mainly by the increased working capital in 2014 (an opposite trend was recorded one year earlier). The changes in working capital were partially offset by lower outflows on account of income tax liabilities.

Net cash flow on investing activity in 2014 grew by PLN 1,402 m (50%) year over year, driven mainly by lower capital expenditures for the Group's distribution network and reduction of expenditures for

acquisition of subsidiaries (in 2013, the Group purchased shares in the wind assets DONG Energy Wind Power A/S and Iberdrola Renewables Polska Sp. z o.o.).

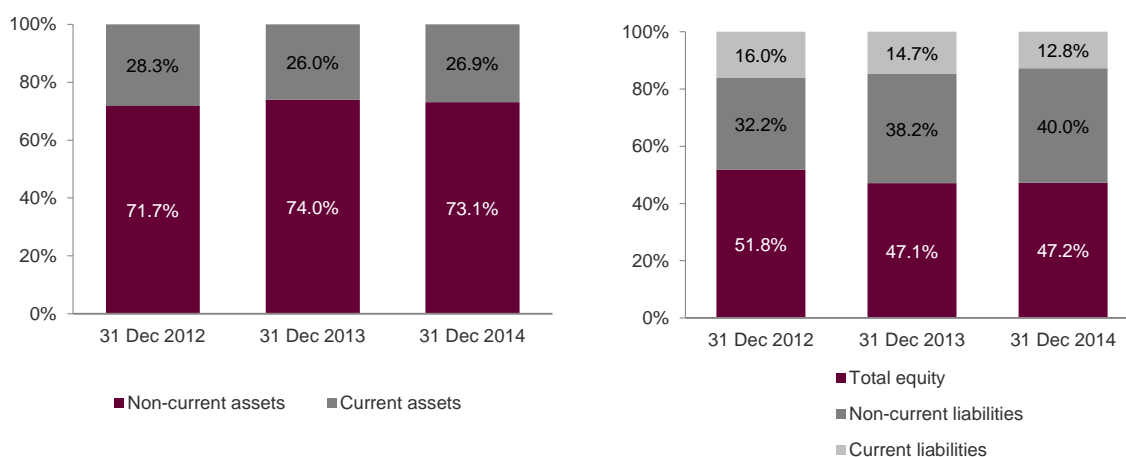
In the period in question cash flows from financing activities were negative and amounted to PLN 244 m, or PLN 1,344 m less than in 2013. In 2014, financing from the European Investment Bank and the European Bank for Reconstruction and Development was disbursed in the total amount of PLN 890 m; in the same period of the previous year, one could see the impact of the first issue of the Eurobond tranche of EUR 500 m. In 2014, the Group made the first interest payment under that bond issue, which increased the amounts of interest paid compared to 2013.

3.3. Structure of the annual consolidated statement of financial position

Table 15: Structure of the annual consolidated statement of financial position

Consolidated Statement of Financial Position	Balance as at 31 December 2012	Balance as at 31 December 2013	Balance as at 31 December 2014
ASSETS			
Non-current assets	71.7%	74.0%	73.1%
Current assets	28.3%	26.0%	26.9%
TOTAL ASSETS	100.0%	100.0%	100.0%
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent Company	51.4%	47.0%	47.0%
Non-controlling interest	0.3%	0.1%	0.2%
Total equity	51.8%	47.1%	47.2%
Non-current liabilities	32.2%	38.2%	40.0%
Current liabilities	16.0%	14.7%	12.8%
Total liabilities	48.2%	52.9%	52.8%
TOTAL EQUITY AND LIABILITIES	100.0%	100.0%	100.0%

Figure 18: Asset and liability structure

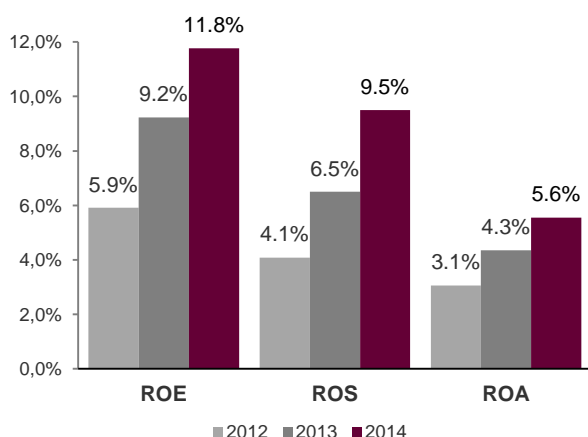


The structure of assets has not changed materially compared to the previous year. As at 31 December 2014, non-current assets represented 73% and current assets 27% of total assets, while at the end of 2013 they were 74% and 28%, respectively. As at 31 December 2014, equity represented 47% of all liabilities equity, remaining flat from the end of 2013. The remaining part of liabilities and equity was comprised of liabilities, with the highest portion in financial liabilities, which accounted for 32% and 31% of total assets at the end of 2014 and 2013, respectively.

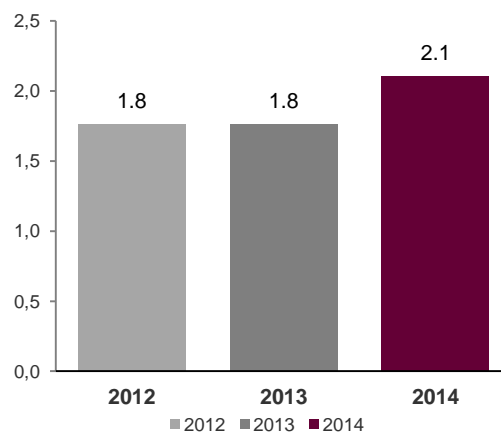
Table 16: Financial ratios of the ENERGA Group

Ratio	Definition	2012	2013	2014
Profitability				
EBITDA margin	operating result + depreciation / sales revenues	14.6%	17.2%	21.8%
return on equity (ROE)	net profit for the period / equity at the end of the period	5.9%	9.2%	11.8%
net return on sales (ROS)	net profit for the period / sales revenues	4.1%	6.5%	9.5%
return on assets (ROA)	net profit for the period / total assets at the end of the period	3.1%	4.3%	5.6%
Liquidity				
current liquidity ratio	current assets / current liabilities	1.8	1.8	2.1
Indebtedness				
financial liabilities	sum of liabilities under loans and borrowings and under long- and short-term debt securities	3,494,996	5,275,762	5,748,497
net financial liabilities	financial liabilities – cash and cash equivalents	1,425,938	2,923,457	3,053,099
net debt / EBITDA ratio	net financial liabilities / EBITDA	0.9	1.5	1.3

Profitability ratios



Current liquidity ratio



Profitability ratios generally followed an upward trend in 2014, driven by the fact that expenses declined faster than revenues.

The liquidity ratio is safe and rising. The higher level of the ratio resulted from a decrease in short-term liabilities (by PLN 203 m yoy) and a simultaneous increase in current assets (by PLN 440 m yoy), in particular cash and cash equivalents.

In 2014 financial liabilities increased (9% yoy) from their 2013 levels, while the parallel increase in cash contributed to a lower growth of net financial liabilities (4% yoy). At the same time, the improvement in the Group's results contributed to a slightly lower net debt to EBITDA ratio, as compared to the previous year.

3.4. Description of significant off-balance sheet items

Information in this respect is presented in section 'Granted guarantees and sureties' herein and their detailed description is provided in the consolidated financial statements in Note 37: Contingent assets and liabilities

3.5. Key operational data of the ENERGA Group

Table 17: Distribution of electricity, by tariff groups*

Distribution of electricity, by tariff groups* in GWh	2012	2013	2014	Change 2014/2013	Change (%)
Tariff Group A (HV)	3,783	3,948	4,143	196	5%
Tariff Group B (MV)	6,654	6,829	7,210	381	6%
Tariff Group C (LV)	4,172	4,250	4,246	(4)	0%
Tariff Group G (LV)	5,450	5,418	5,323	(94)	-2%
Total distribution of energy	20,058	20,444	20,923	478	2%

Distribution of electricity, by tariff groups* in GWh	Q4 2013	Q4 2014	Change	Change (%)
Tariff Group A (HV)	1,024	1,030	6	1%
Tariff Group B (MV)	1,744	1,898	153	9%
Tariff Group C (LV)	1,106	1,110	4	0%
Tariff Group G (LV)	1,405	1,380	(25)	-2%
Total distribution of energy	5,279	5,417	138	3%

* Billed sales

In 2014, the volume of electricity supplied was higher than in the previous year, by 2% on average. The increase in the average distribution rate was almost 4% yoy.

Table 18: SAIDI and SAIFI

	SAIDI			SAIFI		
	Unplanned incl. catastrophic	planned	Total	Unplanned incl. catastrophic	planned	Total
	Number of minutes per customer in the relevant period			Disruptions per customer in the relevant period		
Year ended 31 December 2012	225.1	83.7	308.8	3.39	0.43	3.82
Year ended 31 December 2013	283.9	71.1	355.0	2.95	0.42	3.36
Year ended 31 December 2014	203.7	58.4	262.2	3.15	0.39	3.54
Change 2014/2013	-80.2	-12.7	-92.9	0.21	-0.03	0.18
Change 2014/2013 (%)	-28%	-18%	-26%	7%	-6%	5%
Q4 2013	168.9	25.3	194.2	1.01	0.13	1.14
Q4 2014	30.7	12.8	43.5	0.65	0.09	0.74
Change	-138.2	-12.5	-150.7	-0.36	-0.04	-0.40

Change (%)	-82%	-49%	-78%	-36%	-28%	-35%
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As at the end of 2014, the SAIDI level (planned and unplanned with catastrophic) of the ENERGA Group was 26% lower than it did in the previous year. SAIFI increased by 5% from the previous year.

In 2014, ENERGA-OPERATOR SA recorded a 0.7% increase in the number of customers from the previous year. The number of customers increased across all tariff groups, except for group C (i.e. institutional clients connected to low voltage lines (up to 1 kV), where a 0.8% decline was recorded. At the end of 2014, the Company had 2,966 thousand customers.

Table 19: Number of ENERGA-OPERATOR SA's customers as at 31 December 2014 (by tariff group)

Tariff groups ENERGA-OPERATOR	As at 31 December			Change 2014/2013 (%)
	2012	2013	2014	
Tariff Group A	57	66	72	9.1%
Tariff Group B	6,045	6,279	6,540	4.2%
Tariff Group C	299,283	301,493	299,190	-0.8%
Tariff Group G	2,611,382	2,638,170	2,660,526	0.8%
TOTAL	2,916,767	2,946,008	2,966,328	0.7%

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

Table 20: Gross production of electricity in the ENERGA Group

Gross production of electricity (GWh)	2012	2013	2014	Change 2014/2013	Change 2014/2013 (%)
Power plants - coal-fired	2,564	2,944	3,129	184	6.3%
Power plants - biomass co-fired	541	692	643	(49)	-7.1%
CHP plants - coal-fired	201	144	133	(10)	-7.1%
CHP plants - biomass-fired	12	0	20	20	> 100%
Power plants - hydro	733	1,008	837	(171)	-17.0%
Pumped-storage plant	22	29	34	5	18.3%
Power plants - wind	-	151	308	157	> 100%
Total production of electricity	4,072	4,967	5,103	136	2.7%
<i>incl. RES</i>	1,285	1,851	1,808	(43)	-2.3%

Gross production of electricity (GWh)	Q4 2013	Q4 2014	Change	Change (%)
Power plants - coal-fired	667	830	163	24.4%
Power plants - biomass co-fired	185	158	(26)	-14.2%
CHP plants - coal-fired	38	41	2	5.5%
CHP plants - biomass-fired	0	10	10	> 100%
Power plants - hydro	198	167	(31)	-15.9%
Pumped-storage plant	14	8	(6)	-41.3%
Power plants - wind	109	82	(27)	-24.4%
Total production of electricity	1,211	1,296	85	7.0%
<i>incl. RES</i>	492	418	(74)	-15.1%

In 2014, the generating companies of the ENERGA Group produced about 136 GWh (or 2.7%) more electricity than in the same period of the previous year. This increase was driven primarily by

production growth in the baseload power plant in Ostrołęka (135 Gwh) and in wind farms (157 Gwh) acquired in mid-2013. At the same time, lower electricity production was observed in run of the river hydro power plants (-171 GWh), mainly due to the worse hydrologic conditions. Moreover, a new biomass unit in Elbląg was commissioned in mid-2014.

As the fourth quarter is compared with Q4 2013, one may note higher coal-fired production in the baseload power plant (by 163 Gwh or 24.4%) (because of the lower availability of the biomass feeding system, the production was based on the plant's main fuel) coupled with lower production from the Group's other sources (wind, hydro and biomass).

Table 21: Production of heat

Gross heat production in TJ	2012	2013	2014	Change 2014/2013	Change 2014/2013 (%)
ENERGA Kogeneracja Sp. z o.o.*	2,496	2,480	2,264	(215)	-8.7%
ENERGA Elektrownie Ostrołęka S.A.	1,604	1,468	1,452	(17)	-1.1%
Ciepło Kaliskie Sp. z o.o.	-	-	148	148	-
Total gross heat production	4,100	3,948	3,864	(84)	-2.1%

Gross heat production in TJ	Q4 2013	Q4 2014	Change	Change (%)
ENERGA Kogeneracja Sp. z o.o.*	744	774	30	4.0%
ENERGA Elektrownie Ostrołęka S.A.	430	438	8	1.8%
Ciepło Kaliskie Sp. z o.o.	-	118	118	-
Total gross heat production	1,174	1,329	155	13.2%

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

In 2014, heat production fell by about 84 TJ (-2.1%) which was driven mainly by a 215 TJ (-8.7%) yoy drop in the heat production by ENERGA Kogeneracja (caused mainly by average annual temperatures in 2014 higher than in 2013), offset by heat production in Ciepło Kaliskie (the company was acquired in April 2013).

When the fourth quarter numbers are compared to Q4 2013, we can note an increase in heat production by about 155 TJ (13.2%) after the production of Ciepło Kaliskie was added in April 2014 to the Segment results.

Table 22: Volume and cost* of consumption of key fuels

Consumption of fuel	2012	2013	2014	Change 2014/2013	Change 2014/2013 (%)
Coal					
Quantity (000s tons)	1,429	1,576	1,607	31	2.0%
Cost (PLN m)	458	455	413	(42)	-9.2%
Biomass					
Quantity (000s tons)	403	455	436	(19)	-4.2%
Cost (PLN m)	186	198	176	(22)	-11.1%
Total fuel consumption (PLN m)	644	653	589	(64)	-9.8%

* Including the cost of transportation

Consumption of fuel	Q4 2013	Q4 2014	Change	Change (%)
Coal				
Quantity (000s tons)	368	423	55	14.9%
Cost (PLN m)	92	108	16	17.4%

Biomass				
Quantity (000s tons)	111	111	0	0%
Cost (PLN m)	49	46	(3)	-6.1%
Total fuel consumption (PLN m)	141	154	13	9.2%

In 2014, the generating companies from the ENERGA Group consumed about 31 thousand tons (2.0%) of black coal more than the year before. This was associated with a 4% increase in the production of electricity and heat from black coal. In the analyzed period, consumption of biomass fell by approx. 19 thous. tons (4.2%), driven by a 26 GWh (3%) drop in the production of electricity and heat from biomass firing. The changes in consumption volumes of the individual fuels was accompanied by a decrease in average unit cost (PLN per MWh) of respective fuels (by 12% for coal and 8% for biomass).

In Q4, the cost of consumption of key fuels was about PLN 13 m (or 9.2%) lower than in the comparable period of 2013.

Table 23: Sales of electricity by the Sales Segment

Sales of electricity by the Sales Segment in Gwh	2012	2013	2014	Change 2014/2013	Change 2014/2013 (%)
Retail electricity sales	20,482	18,248	16,364	(1,884)	-10%
Electricity sales on the wholesale market, of which:	7,802	12,764	9,720	(3,044)	-24%
<i>Electricity sales to the balancing market</i>	537	823	331	(492)	-60%
<i>Electricity sales to ENERGA-OPERATOR to cover network losses</i>	1,643	1,593	1,561	(32)	-2%
<i>Electricity sales to foreign customers</i>	217	259	37	(222)	-86%
<i>Other wholesale</i>	5,406	10,089	7,791	(2,299)	-23%
Total electricity sales	28,284	31,012	26,084	(4,928)	-16%

Sales of electricity by the Sales Segment in Gwh	Q4 2013	Q4 2014	Change	Change (%)
Retail electricity sales	4,618	4,277	(341)	-7%
Electricity sales on the wholesale market, of which:	3,699	2,522	(1,177)	-32%
<i>Electricity sales to the balancing market</i>	224	23	(201)	-90%
<i>Electricity sales to ENERGA-OPERATOR to cover network losses</i>	521	525	4	1%
<i>Electricity sales to foreign customers</i>	72	12	(60)	-83%
<i>Other wholesale</i>	2,882	1,962	(920)	-32%
Total electricity sales	8,317	6,799	(1,518)	-18%

In 2014, the overall volume of electricity sold by the segment decreased by approximately 16% (4.9 TWh) when compared to 2013. The volumes fell on both retail and wholesale markets.

In 2014, the volume of electricity sold to end users decreased by approximately 10% (1.9 TWh) when compared to 2013. This decrease affected all tariff groups and was a result of both lower consumption of energy by buyers and a lower number of buyers. The largest deviation was recorded in tariff groups A and B, mainly due to a change in the sales strategy and the decision not to renew unprofitable

contracts in these tariff groups. In terms of volume, sales to households (tariff G) in 2014 accounted for 32% of the sales billed to end users by ENERGA-OBRÓT SA (29% in 2013).

In the period analyzed, the decrease of energy sales was recorded also in the wholesale market (approx. 24%). Electricity trading on the wholesale market aims largely at optimizing the average purchase price of energy to be sold on the retail market.

3.6. Financial results by operating segments

Table 24: EBITDA of the ENERGA Group broken down by Segment

EBITDA in PLN 000s	2012	2013	2014	Change 2014/2013	Change 2014/2013 (%)
DISTRIBUTION	1,217,978	1,560,888	1,535,501	(25,387)	-2%
GENERATION	163,879	233,324	698,490	465,166	> 100%
SALES	264,467	225,686	131,040	(94,646)	-42%
OTHER and consolidation exclusions and adjustments	(17,078)	(54,429)	(58,072)	(3,643)	-7%
TOTAL	1,629,246	1,965,469	2,306,959	341,490	17%

EBITDA in PLN 000s	Q4 2013	Q4 2014	Change	Change (%)
DISTRIBUTION	424,820	372,162	(52,658)	-12%
GENERATION	45,574	170,386	124,812	> 100%
SALES	38,123	(17,518)	(55,641)	> -100%
OTHER and consolidation exclusions and adjustments	(23,595)	(50,553)	(26,958)	> -100%
Total EBITDA	484,922	474,477	(10,445)	-2%

Distribution Segment

Figure 19: Results of the ENERGA Group's Distribution Segment (PLN m)

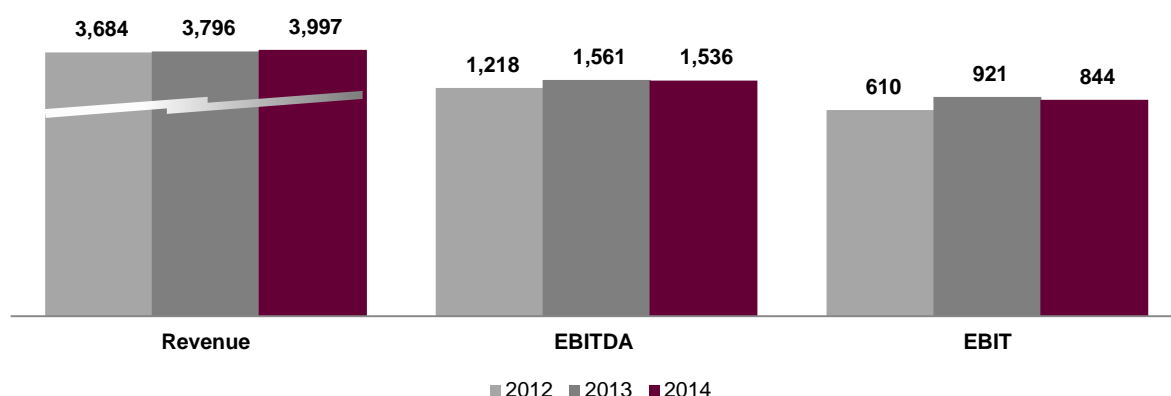


Table 25: Results of the Distribution Segment

PLN 000s	2012	2013	2014	Change 2014/2013	Change 2014/2013 (%)
Revenue	3,684,311	3,796,412	3,996,976	200,564	5%
EBITDA	1,217,978	1,560,888	1,535,501	(25,387)	-2%

<i>of which depreciation:</i>	607,680	640,380	691,762	51,382	8%
EBIT	610,298	920,508	843,739	(76,769)	-8%
Net profit	320,070	612,012	599,059	(12,953)	-2%
CAPEX	1,363,619	1,396,785	1,147,977	(248,808)	-18%

PLN 000s	As at 31 December 2012	As at 31 December 2013	As at 31 December 2014	Change 2014/2013	Change 2014/2013 (%)
Cash	715,429	606,098	904,004	297,906	49%
Financial debt	3,058,363	2,917,002	3,474,170	557,168	19%
Headcount at the end of the period (people)	6,954	6,079	5,435	(644)	-11%

PLN 000s	Q4 2013	Q4 2014	Change	Change (%)
Revenue	997,349	1,071,051	73,702	7%
EBITDA	424,820	372,162	(52,658)	-12%
<i>of which depreciation:</i>	160,716	175,200	14,484	9%
EBIT	264,104	196,962	(67,142)	-25%
Net profit	161,485	157,960	(3,525)	-2%
CAPEX	554,463	632,719	78,256	14%

During 2014, the Distribution Segment contributed approx. 67% to ENERGA Group's EBITDA (over 79% in 2013).

Revenues of the Distribution Segment in 2014 were more than 5% higher than in the same period of the previous year. The increase in revenues was driven by an increase of the average distribution rate (by almost 4%) resulting from an increase of the distribution tariff and higher volumes of distributed electricity (by over 2%). Revenues from connection fees reached over PLN 61 m, or 35% less than in 2013. This was due to lower connection fee rates and lower demand for connections from buyers.

EBITDA fell by almost 2% yoy and EBIT declined by PLN 77 m (over 8% yoy). The lower returns on invested capital by PLN 55 m (over 6% yoy) and deviation of the actual distribution margin from the one approved in the tariff (contribution of PLN -44 m to EBITDA) had material adverse effect on the operating results. The decrease in return on invested capital was the result of an increase in the Regulatory Asset Base (PLN +126 m contribution to the result) and a decrease in the weighted average cost of capital by 1.67 percentage points (PLN -180 m contribution to the result). The deviation in margin resulted from a detrimental volume structure (decreases in tariff groups C and G, increases in A and B). Depreciation included in the tariff increased by PLN 129 m, that is by almost 23%.

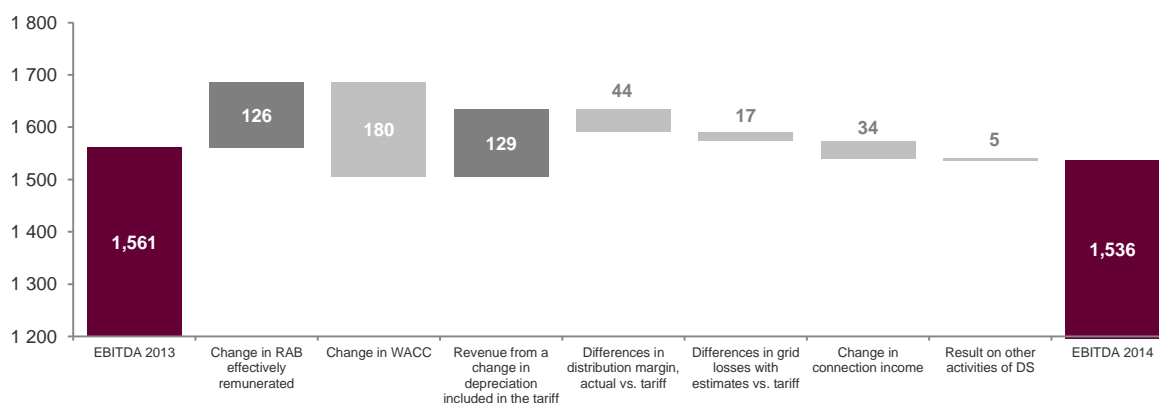
Net profit in 2014 was almost PLN 13 m lower than the year before. This was a consequence of a worse operating performance of the Segment and a lower balance on financing activity, partially offset by lower tax liabilities. The lower effective tax rate resulted mainly from the fact of obtaining a technology-related tax allowance.

Annual capital expenditures of the Distribution Segment amounted to PLN 1,148 m, that is almost PLN 249 m less than the year before. This resulted, inter alia, from an increased efficiency of investment projects.

Compared to the situation on 31 December 2013, financial debt increased by PLN 557 m following an issue of additional debt securities in the total amount of PLN 890 m. Cash was more than 49% higher than at the end of 2013.

In 2014, the Distribution Segment continued the implementation of headcount restructuring processes. Accordingly, headcount decreased by 644 persons compared to the previous year.

Figure 20: EBITDA Bridge of the Distribution Segment (PLN m)



The Q4 2014 EBITDA was shaped by: distribution margin, which was higher than in Q4 2013 (PLN 35 m), lower connection revenues (PLN -8 m), higher OPEX (PLN -30 m) and lower balance on other operating activities (PLN -45 m). As a result, EBITDA fell from PLN 425 m to PLN 372 m. The Q4 results were materially affected by the increase in the costs of operation and higher costs of actuarial provisions.

Generation Segment

Figure 21: Results of the ENERGA Group's Generation Segment (PLN m)

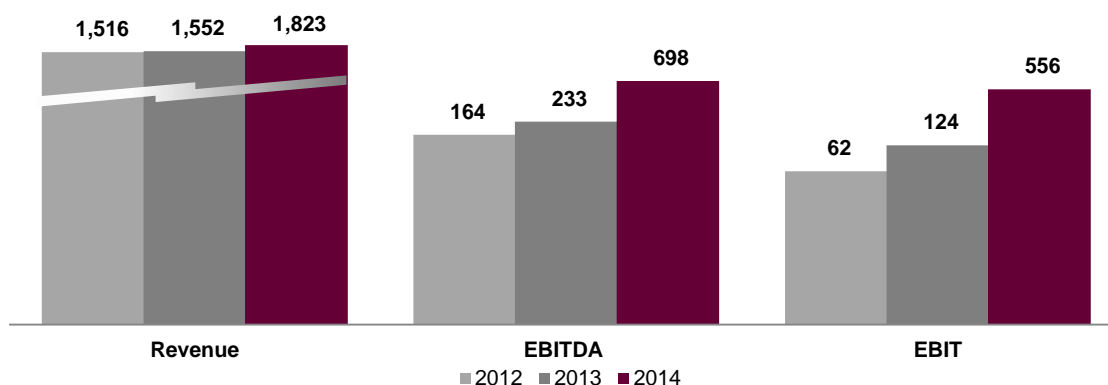


Table 26: Results of the ENERGA Group's Generation Segment

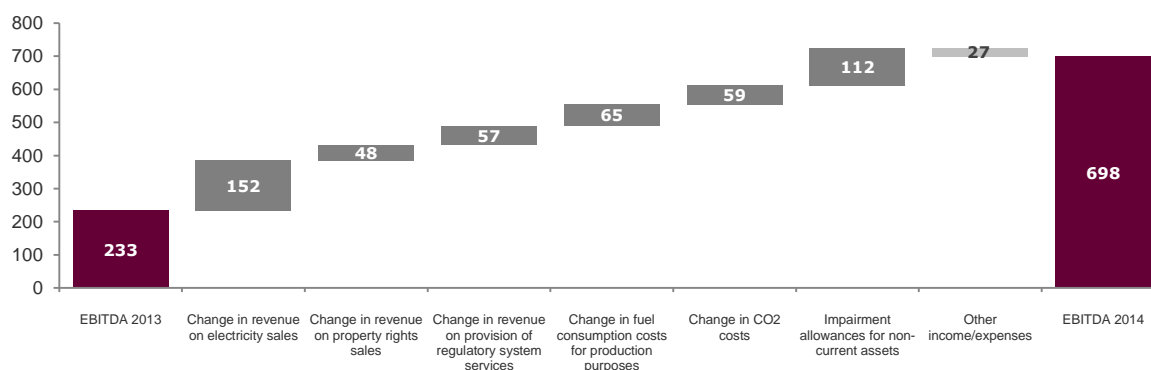
PLN 000s	2012	2013	2014	Change 2014/2013	Change 2014/2013 (%)
Revenue	1,516,446	1,551,863	1,823,039	271,176	17%
EBITDA	163,879	233,324	698,490	465,166	> 100%
<i>of which depreciation:</i>	<i>102,078</i>	<i>109,575</i>	<i>142,704</i>	<i>33,129</i>	<i>30%</i>
EBIT	61,801	123,749	555,786	432,037	> 100%
Net profit	30,411	74,958	384,353	309,395	> 100%

CAPEX	408,293	1,333,296	271,300	(1,061,996)	-80%
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PLN 000s	As at 31 December 2012	As at 31 December 2013	As at 31 December 2014	Change 2014/2013	Change 2014/2013 (%)
Cash	405,207	448,330	415,279	(33,051)	-7%
Financial debt	378,167	1,555,834	1,473,868	(81,966)	-5%
Headcount at the end of the period (people)	1,722	1,641	1,558	(83)	-5%

PLN 000s	Q4 2013	Q4 2014	Change	Change (%)
Revenue	434,117	503,475	69,358	16%
EBITDA	45,574	170,386	124,812	> 100%
<i>of which depreciation:</i>	<i>33,676</i>	<i>39,530</i>	<i>5,854</i>	<i>17%</i>
EBIT	11,898	130,856	118,958	> 100%
Net profit	1,755	85,420	83,665	> 100%
CAPEX	115,070	78,931	(36,139)	-31%

Figure 22: EBITDA Bridge of the Generation Segment (PLN m)



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

In the beginning of 2014, a new business model based on business lines was implemented for the Generation Segment; accordingly, the results broken down into business lines were analyzed for the years 2013-2014.

Table 27: EBITDA of the Generation Segment, by business line

EBITDA PLN 000s	2013	2014	Change 2014/2013	Change 2014/2013 (%)
Hydro	373,863	283,298	(90,565)	-24%
Wind	40,967	78,782	37,815	92%
Ostrołęka Power Plant	(204,613)	338,725	543,338	> 100%

Other and adjustments	23,107	(2,315)	(25,422)	> -100%
Total Generation	233,324	698,490	465,166	> 100%

EBITDA PLN 000s	Q4 2013	Q4 2014	Change	Change (%)
Hydro	64,495	53,954	(10,541)	-16%
Wind	31,098	18,630	(12,468)	-40%
Ostrołęka Power Plant	(48,078)	112,970	161,048	> 100%
Other and adjustments	(1,940)	(15,168)	(13,228)	> -100%
Total Generation	45,574	170,386	124,812	> 100%

In 2014, the Generation Segment's contribution to total EBITDA of the ENERGA Group was 30%. The yoy EBITDA growth was PLN 465 m and was largely caused by the improved performance of the Ostrołęka Power Plant business line. Also, following the acquisition of three wind farms in mid-2013, a new item associated with wind electricity generation appeared in the structure of the Generation Segment's EBITDA (11% of the Segment's EBITDA).

The positive market factors contributing to revenues in the Generation Segment in 2014 included mainly an increase in average electricity selling prices (especially for the Ostrołęka Power Plant business line) coupled with a higher volume of electricity production compared to the previous year. At the same time, the effect of the falling prices of green property rights was offset by the sale of property rights inventories (green certificates) at prices higher than on the date of generation (this pertains mainly to the stock of property rights from biomass co-burning for 2013 which were granted in 2014).

The costs of fuel consumption in the Generation Segment in 2014 dropped by 9.8%, i.e. PLN 64 m, yoy. The decrease in fuel consumption costs results from lower unit costs of coal and biomass consumption and a lower volume of biomass used (yoy decrease of 4.2%).

As of the beginning of 2014, operating reserve was added to the catalog of system services provided to PSE, increasing significantly revenues of the Generation Segment from regulatory system services provided to the Transmission Grid Operator (in particular of the Ostrołęka Power Plant business line) for the provision of this service (receipts of PLN 51.5 m).

In addition to the above market factors driving the yoy results of the Generation Segment, we should also note the non-recurring events, such as: an impairment allowance recognized in 2013 for fixed assets in the Ostrołęka Power Plant and in 2014 an impairment allowance for fixed assets in wind farm investment projects (projects purchased during the wind farm acquisition program in 2013). Additionally, at the end of 2013, the Group recognized a provision for unobtained free emission allowances (until 31 December 2013 no free CO₂ allowances arising from the published allocation had been credited to the accounts of the Group's companies and no pertinent regulations were adopted under which the transfer of such allowances would take place) and then it reversed these provisions in mid-2014.

Also, we should note that the fixed costs of the Wind and Other business lines and the adjustment for the Group's acquisition activity are not comparable yoy.

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

Capital expenditures in the Segment were PLN 1.1 bn lower yoy. The main reasons included the purchase of wind assets from DONG Energy Wind Power (28 June 2013) and from Iberdrola Renovables Energía S.A.U. (31 July 2013) and on 9 April 2013 a heat energy company in Kalisz (Ciepło Kaliskie).

Looking back from the fourth quarter, we should note the higher electricity sales revenues (higher volumes and prices) and, despite the lower prices and volumes of property rights, higher revenues on this account caused by the sale of property right inventories (green certificates) at prices higher than those applicable on the generation date. At the same time, the posted results were affected by the adjustment for unobtained CO₂ emission allowances in Q4 2013.

Hydro

Table 28: Results of the Hydro business line

PLN 000s	2013	2014	Change 2014/2013	Change 2014/2013 (%)
Revenue	480,485	373,986	(106,499)	-22%
EBITDA	373,863	283,298	(90,565)	-24%
EBIT	348,043	255,273	(92,770)	-27%
CAPEX	40,126	32,170	(7,956)	-20%

PLN 000s	Q4 2013	Q4 2014	Change	Change (%)
Revenue	107,391	70,951	(36,440)	-34%
EBITDA	64,495	53,954	(10,541)	-16%
EBIT	58,371	46,687	(11,684)	-20%
CAPEX	12,699	13,009	310	2%

The contribution of hydro power plants to total EBITDA of the Generation Segment in 2014 was 41%. EBITDA generated in hydro power plants fell by PLN 91 m yoy.

The factors that caused this situation included lower electricity production in hydro power plants (a 17% decrease in connection with hydrologic conditions worse than those in the similar period of the previous year) and the resulting allocation of a lower number of property rights. Additionally, the result of this business line was reduced by lower prices of property rights and the fact that electricity was sold at low official prices quoted by the President of ERO.

Looking back from the 4th quarter, the results of this business line were worse, mainly due to the lower production volumes, lower prices of electricity and property rights.

Wind

Table 29: Results of the Wind business line

PLN 000s	2013	2014	Change 2014/2013	Change 2014/2013 (%)
Revenue	57,731	119,784	62,053	> 100%
EBITDA	40,967	78,782	37,815	92%
EBIT	21,911	39,373	17,462	80%
CAPEX	1,032,535	103,607	(928,928)	-90%

PLN 000s	Q4 2013	Q4 2014	Change	Change (%)
Revenue	44,765	27,440	(17,325)	-39%
EBITDA	31,098	18,630	(12,468)	-40%

EBIT	20,515	8,781	(11,734)	-57%
CAPEX	20	46,271	46,251	-

The share of the wind power plants business line in the Generation Segment's total EBITDA was 11% in 2014. The wind farms were purchased at the end of June and July 2013 and have been recognized in the results of ENERGA Group's Generation Segment starting from Q3 2013. Revenues generated by the Group's wind assets in 2014 were approx. PLN 120 m. The EBITDA of ENERGA Group's wind farms was almost PLN 79 m.

The yoy improvement in the business line's results was driven, among others, by a 104% (157 GWh) increase in wind electricity generation due to the acquisition of wind farms in mid-2013. At the same time, the selling price of wind electricity fell because the official prices of the ERO President were applied.

Capital expenditures were PLN 929 m lower yoy because of the purchase of wind assets in 2013.

The results of this business line in the fourth quarter were lower, mainly due to lower production volumes caused by worse wind conditions, lower electricity and property rights selling prices.

Ostrołęka Power Plant

Table 30: Results of the Ostrołęka Power Plant business line

PLN 000s	2013	2014	Change 2014/2013	Change 2014/2013 (%)
Revenue	861,917	1,158,647	296,731	34%
EBITDA	(204,613)	338,725	543,338	> 100%
EBIT	(253,632)	288,514	542,146	> 100%
CAPEX	122,726	54,147	(68,578)	-56%

PLN 000s	Q4 2013	Q4 2014	Change	Change (%)
Revenue	232,045	342,687	110,642	48%
EBITDA	(48,078)	112,970	161,048	> 100%
EBIT	(60,757)	100,243	161,000	> 100%
CAPEX	459,946	20,939	(39,007)	-65%

Ostrołęka Power Plant contributed 48% of the Generation Segment's total EBITDA in 2014. In 2014 sales revenues increased by PLN 297 m (34%).

The increase in revenues was driven mainly by better results on the sales of electricity (average price of electricity was 14% higher) and by the sale of the inventory of property rights (green certificates) at prices higher than those on the generation date (this applied mainly to the inventory of property rights on account of biomass co-burning due for 2013, which were awarded in 2014). The additional positive impact was exerted by higher revenues on regulatory system services, especially the operating reserve (PLN 51.5 m). The results improved also because of the PLN 63 m decrease in the cost of consumption of key fuels.

At the same time, the yoy results of this business line were affected by non-recurring events, i.e. the impairment allowance for Ostrołęka Power Plant's fixed assets, recognized in 2013. Additionally, at the end of 2013, the Group recognized and then in mid-2014 reversed a provision for unobtained free emission allowances.

Capital expenditures were PLN 69 m lower yoy. This was driven mainly by expenditures on the construction of a heat source by ENERGA Elektrownie Ostrołęka in 2013.

Looking back from the 4th quarter, we should note the much higher revenues on electricity sales (higher volume and selling price) and property rights (mainly because the inventory of property rights was sold at prices higher than those on the generation date) and higher revenues on the provision of regulatory system services (the operating reserve in particular) for PSE (PLN +11 m).

Table 31: Results of the Other and adjustments business line

PLN 000s	2013	2014	Change 2014/2013	Change 2014/2013 (%)
Revenue	151,730	170,622	18,892	12%
EBITDA	23,107	(2,315)	(25,422)	> -100%
EBIT	7,427	(27,374)	(34,801)	> -100%
CAPEX	137,909	81,376	(56,533)	-41%

PLN 000s	Q4 2013	Q4 2014	Change	Change (%)
Revenue	49,916	62,397	12,481	25%
EBITDA	(1,940)	(15,168)	(13,228)	> -100%
EBIT	(6,231)	(24,855)	(18,624)	> -100%
CAPEX	42,405	(1,288)	(43,693)	> -100%

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. Consolidation adjustments are also recognized here. The capital expenditures in the Other and adjustments line item comprise additionally capital expenditures made by the special purpose vehicles of the Generation Segment, including the wind farm construction projects executed in the ENERGA Group (currently in the preparation phase).

Sales Segment

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

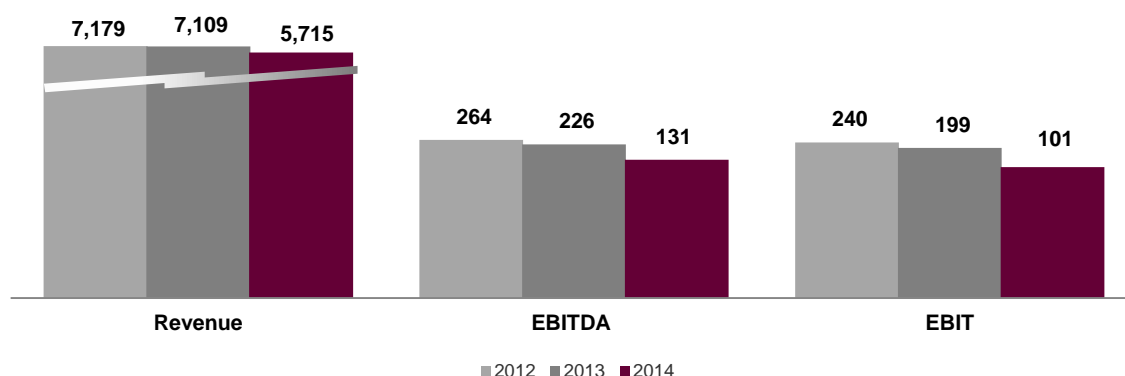


Table 32: Results of the ENERGA Group's Sales Segment

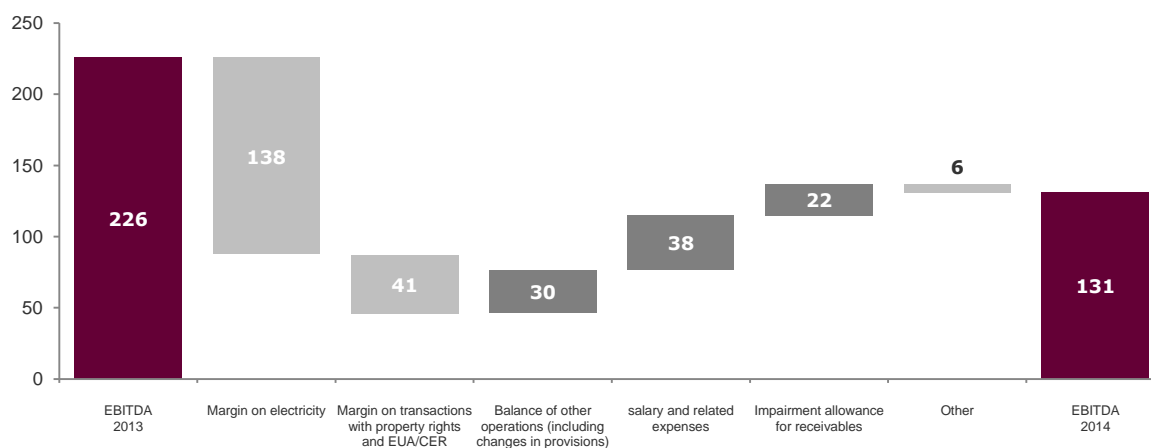
PLN 000s	2012	2013	2014	Change 2014/2013	Change 2014/2013 (%)
Revenue	7,178,634	7,108,643	5,714,672	(1,393,971)	-20%
EBITDA	264,467	225,686	131,040	(94,646)	-42%

<i>of which depreciation:</i>	24,562	26,760	29,990	3,230	12%
EBIT	239,905	198,926	101,050	(97,876)	-49%
Net profit	191,771	186,119	107,649	(78,470)	-42%
CAPEX	30,407	43,054	37,813	(5,241)	-12%

PLN 000s	As at 31 December 2012	As at 31 December 2013	As at 31 December 2014	Change 2014/2013	Change 2014/2013 (%)
Cash	247,751	456,995	328,703	(128,292)	-28%
Financial debt	2,365	1,768	51,173	49,405	> 100%
Headcount at the end of the period (people)	1,443	1,303	982	(321)	-25%

PLN 000s	Q4 2013	Q4 2014	Change	Change (%)
Revenue	1,858,536	1,527,114	(331,422)	-18%
EBITDA	38,123	(17,518)	(55,641)	> -100%
<i>of which depreciation:</i>	<i>7,094</i>	<i>8,024</i>	<i>930</i>	<i>13%</i>
EBIT	31,029	(25,542)	(56,571)	> -100%
Net profit	28,276	(13,841)	(42,117)	> -100%
CAPEX	21,608	17,159	(4,449)	-21%

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



In 2014, the Sales Segment earned EBITDA of PLN 131 m, i.e. about 6% of the ENERGA Group's total EBITDA, compared to PLN 226 m in 2013, when the Segment's contribution to the Group's EBITDA was 11%.

The Sales Segment's revenues in 2014 were lower (by 20%) than in 2013 and stood at PLN 5,715 m. The lower revenues resulted from lower volumes of electricity sales to end users, on the wholesale market and lower sales prices. In 2014, the overall volume of electricity sold by the Sales Segment to end users decreased by approximately 16%, or 4.9 Twh (retail sales volume fell by about 10%, while wholesale sales volume by about 24%) as compared to 2013. The average electricity selling prices to end users decreased by about 8% in 2014 compared to 2013. A drop in 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 another 6% from January 2014. On the wholesale market the average sales prices in 2014 were approx. 7% lower than those in 2013.

As of 30 April 2014, the obligation to redeem 'red' and 'yellow property rights was reinstated, which adversely affected the Segment's results. In 2014, the Segment incurred approx. PLN 73 m of costs associated with this new obligation. This fact and the increased percentage of mandatory redemptions of 'green' property rights and their increased purchase prices for redemption contributed materially to the 2014 increase in the average cost of redemption of property rights per 1 MWh – by about 25% compared to 2013.

The falling margin on electricity sales in 2014 vs. 2013 was also affected by the detrimental situation in which average electricity sales prices to end users (-8% yoy change) fell faster than the average unit purchase price of electricity with property rights (-6% yoy change).

Another factor that had negative impact on the Segment's results was the purchase of electricity as part of ENERGA-OBRÓT SA's function of an "ex officio seller". In 2014 ENERGA-OBRÓT SA recorded a 26% increase of the volume of energy purchased under the *ex officio seller* function as compared to 2013. Electricity purchased under the *ex officio seller* function represented 18% of the entire electricity purchase volume in 2014, compared to 12% in 2013. Despite the higher volume of electricity purchases in this mechanism, the negative effect on the Segment's results was lower than in 2013. ENERGA-OBRÓT SA, 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 SA's operations. This purchase takes place at the average electricity sales price in the competitive market in the previous calendar year.

The Segment's results in 2014 were also adversely affected by the trading in "green' property rights. This was a result of the performance of long-term agreements concluded many years before, when it was a rule in the concluded transactions that the transaction price approached the price of the substitution fee. Based on those agreements, the Segment purchased property rights and sold them on the market. A significant part of the volume was related to property rights created in the years 2012-2013.

A positive contribution to the Segment's results in 2014 compared to 2013 was made by the change in the impairment allowance for receivables, which occurred when the balance of overdue receivables qualifying for the allowance decreased as a result of the Segment's collection and recovery efforts.

At the end of 2014, the Segment's headcount was 982, which was 321 persons (25%) less than on 31 December 2013. The decline in headcount has been driven mainly by the restructuring activities taken in the Segment. As a result, payroll and related cost went down in the Segment.

Q4 2014 was the weakest quarter in the entire year – the Segment's EBITDA was negative at PLN -18 m, while in Q4 2013 it was positive at PLN 38 m. Apart from decrease of the margin on electricity, the key impact on EBITDA in this period, compared to Q4 2013 was that the biggest part of the negative margin on "green' property rights trading was realized in this period - the highest volume of property rights was sold and their market prices were the lowest in the entire 2014.

3.7. Projected financial results

ENERGA SA's Management Board has not published projections of individual or consolidated financial results for the financial year 2014.

3.8. Ratings

On 7 October 2014, Fitch Ratings affirmed the Company's long-term ratings at the previous level of BBB: (Company's long-term rating in local and foreign currencies and the rating for the Company's junior unsecured debt in the local and foreign currencies). The rating outlook remained stable.

The Agency stated that the affirmation of the Company's ratings reflected the high share of the regulated Distribution Segment's business in EBITDA, which contributed to lower business risk and cash flow predictability. The agency did not rule out a possible increase in ratings as the distribution segment maintained its dominating role in capital expenditures and the regulatory environment continued to improve. In this respect, the Agency expects a long-term tariff system to be introduced, elimination or reduction of cash flow dependency on the obligation to purchase electricity from renewable sources (which is effected as an obligation of an *ex officio* seller).

On 17 December of the previous year, the Moody's Investors Service rating agency affirmed the Company's ratings at Baa1 – Company's long-term rating in domestic currency and rating for junior unsecured debt in domestic currency extended to the EMTN Facility of the subsidiary ENERGA Finance AB(publ) with a total value of EUR 1 bn guaranteed by ENERGA. The rating outlook remained stable.

Affirmation of the Company's ratings by Moody's resulted from the high percentage of regulated distribution activity in ENERGA Group's results, improved profitability in conventional generation and a strong financial standing of ENERGA Group despite an intensive capital expenditure program. At the same time, the Agency admitted that the factors that restricted the rating included a higher risk profile in the sales and generation segments, low percentage of generation and the changes announced for the renewable energy sector in Poland.

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

Table 33: Ratings awarded to ENERGA

	Moody's	Fitch
Company's long-term rating	Baa1	BBB
Rating outlook	Stable	Stable
Rating date	23 December 2011	19 January 2012
Most recent change of ratings		12 October 2012
Most recent affirmation of ratings	17 December 2014	7 October 2014

3.9. Dividend

On 20 May 2014, the Annual General Meeting of ENERGA SA was held, which adopted a resolution on distribution of net profit for the financial year covering the period from 1 January to 31 December 2013 in the amount of PLN 499,048,758.09, with the following allocation: dividend for shareholders – PLN 414,067,114.00, i.e. PLN 1.00 per share (approx. 83% of net profit), and for reserve capital – PLN 84,981,644.09 (approx. 17% of net profit). The number of shares covered by the dividend was 414,067,114. The dividend date was set at 27 May 2014 and the dividend payment date at 10 June 2014. The dividend policy presented by the Company's Management Board in the Prospectus approved by the Polish Financial Supervision Authority on 15 November 2013, is being implemented.

Table 34: Information on dividends paid by ENERGA, 2011-2013

Years	Dividend / Net profit (%)	Dividend paid (PLN 000s)	Dividend per share (PLN)	Dividend rate (%)	Dividend date	Dividend payment date
2011	86	645,945	0.13	0.6	31 May 2012	20 July 2012
2012	91	496,881	0.10	0.4	23 April 2013	3 June 2013
2013	83	414,067	1*	4.3	27 May 2014	10 June 2014

* / After the consolidation of ENERGA SA shares.

** At the price of 30 December 2014, i.e. PLN 23.03;

3.10. Information about the audit firm auditing the financial statements

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

The agreement between ENERGA SA and KPMG was concluded on 3 April 2014. The object of the agreement is to audit the Company's financial statements and the consolidated financial statements for 2014.

Table 35: Auditor's fee for services provided to the Group

PLN 000s	Year ended 31 December 2013	Year ended 31 December 2014
Audit of the annual financial statements	548	661
Other assurance services, including a review of financial statements	3,366	294
Tax consulting services	-	-
Other services	-	-
Total	3,915	955

Environment

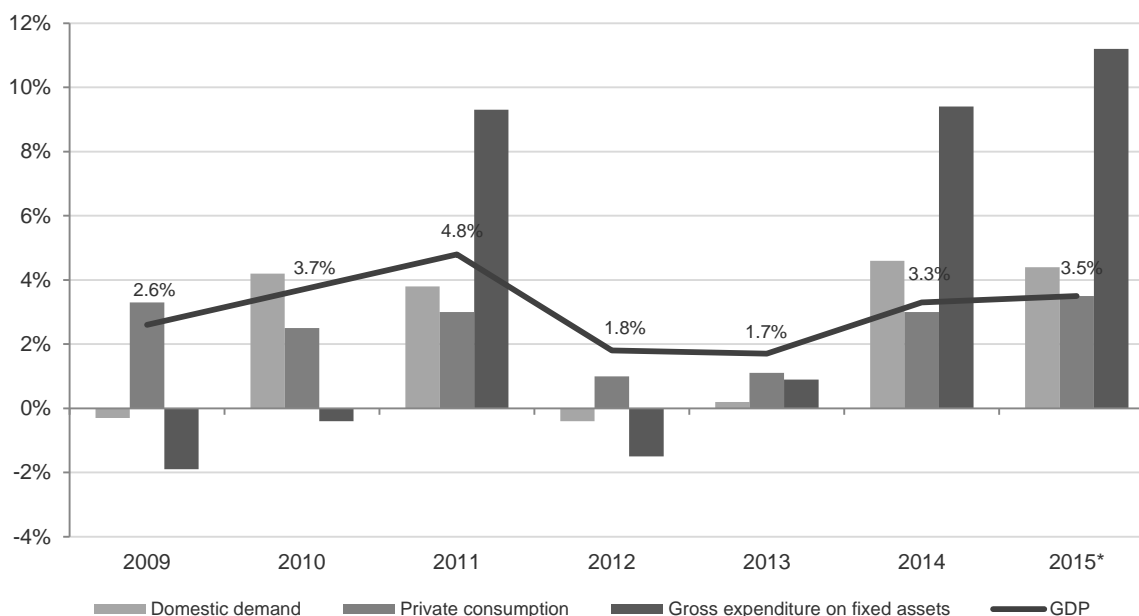


4. ENVIRONMENT

4.1. Macroeconomic situation

The national economy in 2014 had a moderate but stable economic growth. Because of the stagnation in the Euro zone, the political situation in the East and the Russian embargo for Polish products, export was no longer the main driver of economic growth, replaced by domestic demand and increasing investments. According to preliminary estimates of the Central Statistical Office (GUS), the Polish GDP in 2014 was greater by 3.3% in real terms than in 2013.

Figure 25: Growth rates of GDP, domestic demand, private consumption and gross expenditure on fixed assets (yoy)



Source: Own material on the basis of GUS data and an IBnGR forecast (*)

In Q4 2014, the average PMI index for the Polish energy sector increased from 49.3 points (Q3) to 52.4 points, which was a good sign for the economic growth in the current year.

Deflation observed in the market since July favored the private consumption. In December, prices of consumer goods and services decreased by 1% in comparison with the previous year. A reduction in prices of fuels caused by the drop of crude oil price on the world markets affected the decrease of the prices in annual terms. Although the prices of consumer goods and services remained at the level observed in 2013, this ratio was by 2.4 pp. lower than the threshold assumed in the budget act. Energy prices were by 0.1% higher on average, although prices of electricity decreased by 3.4%.

In October 2014, in connection with the increased risk that inflation will remain below target in the medium term, the Monetary Policy Council decided to lower the interest rates of the National Bank of Poland, except for the deposit interest rate. At further meetings, the MPC did not decide to continue to modify the monetary policy parameters. However, it was mentioned that should the situation persist, incoming data indicate for a slowdown in the economy and the economic growth in Poland remain low, the Council might implement further actions in order to amend the monetary policy.

Situation in the domestic labor market was another factor contributing to improvement of the economic conditions. In 2014, the average employment in the enterprise sector was by 1.1 % higher yoy, and the average monthly remuneration (gross) was by 3.7% higher yoy and amounted to PLN 4,379.26. According to data provided by the Ministry of Labor and Social Policy, the unemployment rate registered at year-end was 11.5% (i.e. 2 % points less than at the end of 2013). On account of a significant growth of investments, the reduction of unemployment should continue in 2015.

Analysts expect the GDP growth rate to hold back slightly in the first half of 2015 as compared to 2014 because of the then significant business activities favored by positive weather conditions and increasing sale of cars in connection with tax standards. A recovery is expected in the second half of the year, and the average growth rate of GDP should be of 3.5%. Further investment processes should be favored thanks to good financial results of companies, low interest rates as well as a material utilization of generation capacity which according to estimates by GUS reached in the industry sector 78.5% (Q4 2014) together with a still growing order portfolio.

According to analysts, the key risks for the growth of the Polish economy remain connected with the external factors such as the situation in the Eurozone, in the Middle East and the Russia-Ukraine conflict. As follows from the macroeconomic forecasts of European Commission, in 2014 the rate of growth of GDP in the Eurozone was 0.8% in relation to the previous year. Further increase of 1.3 and 1.9% yoy is expected in 2015 and 2016.

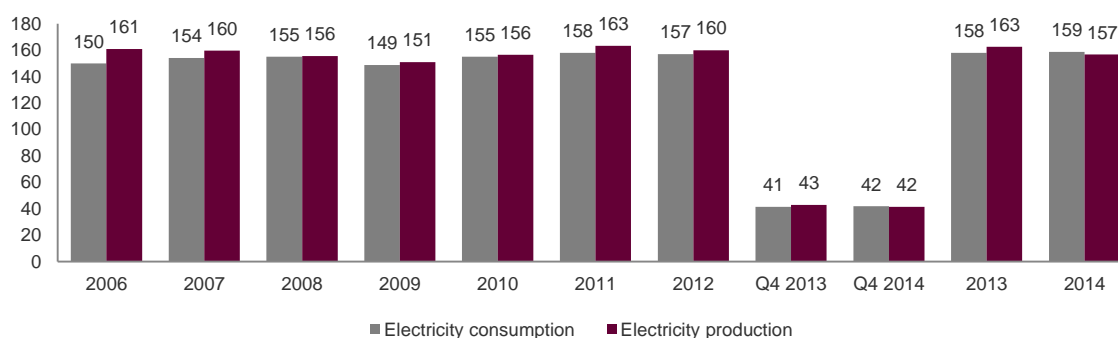
4.2. Electricity market in Poland

The situation in the market environment is of a significant importance for the Group results. With this respect, one should mention in particular the quotations of electricity prices, property rights, emission allowances and coal (which is the basic fuel for production). Also, the regulatory solutions implemented in the market, such as the operating reserve, had a positive impact on the results of the Group.

Domestic generation and consumption of electricity

As follows from data published by PSE, in 2014 the production of electricity was the lowest in four years, and in comparison with the previous year it decreased by 3.7%. On the other hand, the consumption of electricity was in 2014 by 0.5% higher than in 2013. As follows from comparison of only the 4 quarter, the production decreased by 2.9% as compared to 2013, and the most important drop was reported in October (4.5%) When comparing respective periods, the domestic electricity consumption increased by 0.9%, and the highest growth of electricity consumption occurred in December (by 2%).

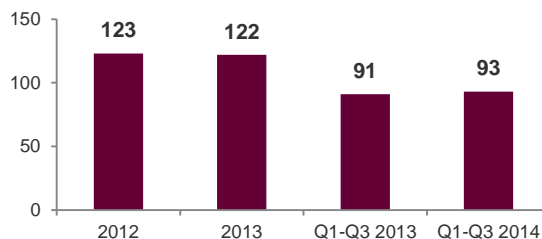
Figure 26: Production and consumption of electricity in Poland in 2006-2014 (TWh)



Source: PSE

One should stress the growth of sales of electricity to end users (based on data for 9 months of 2014) which, in percentage terms, is higher than the growth of domestic consumption of electricity.

Figure 27: Energy sales to end users in Poland (TWh)

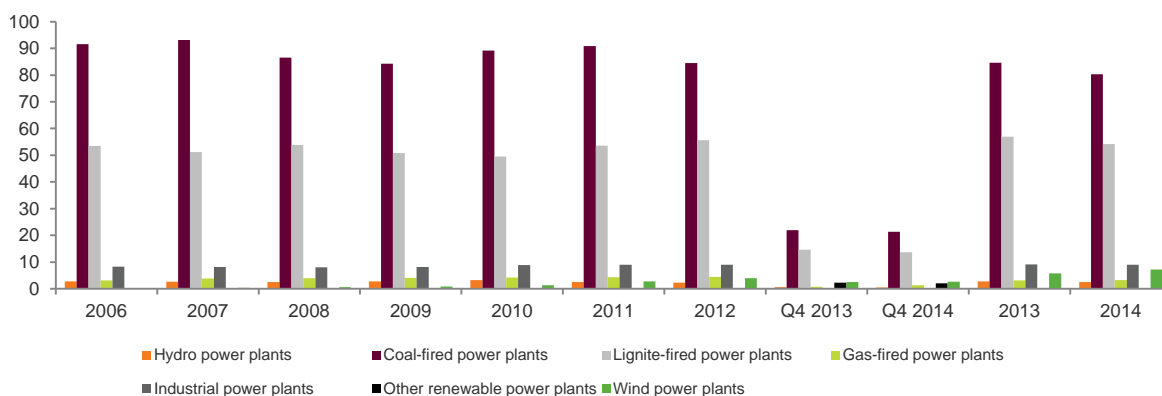


* In 2014, due to lack of data, the values for 3 quarters were applied.

Source: ARE

In recent years, the structure of the electricity generation in Poland was changed, in particular with respect to the share of wind farms which was growing constantly (ca. 4.5% in 2014). The generation of electricity by these utilities increased by ca. 23% as compared to 2013. A significant number of wind farms operate in the operating area of ENERGA-OPERATOR SA which translates into a higher risk for the ENERGA Group in connection with the discharge of the function of the “ex officio seller”.

Figure 28: Structure of production of electricity in Poland in 2006-2014 (TWh)



Source: PSE

Poland’s inter-system exchange

In 2014, the imports of electricity significantly increased (by 16%) and exceeded exports in terms of volume, which had not happened in the precedent years. This was due to low energy prices in the neighboring countries. The surplus of exports over imports was recorded only in January 2014 (approx. 4.3%) whereas in other months imports were much higher. The most important difference was reported in August (ca. 36.3%).

Figure 29: Annual volumes of intersystem exchange in Poland in 2006-2014 (TWh)

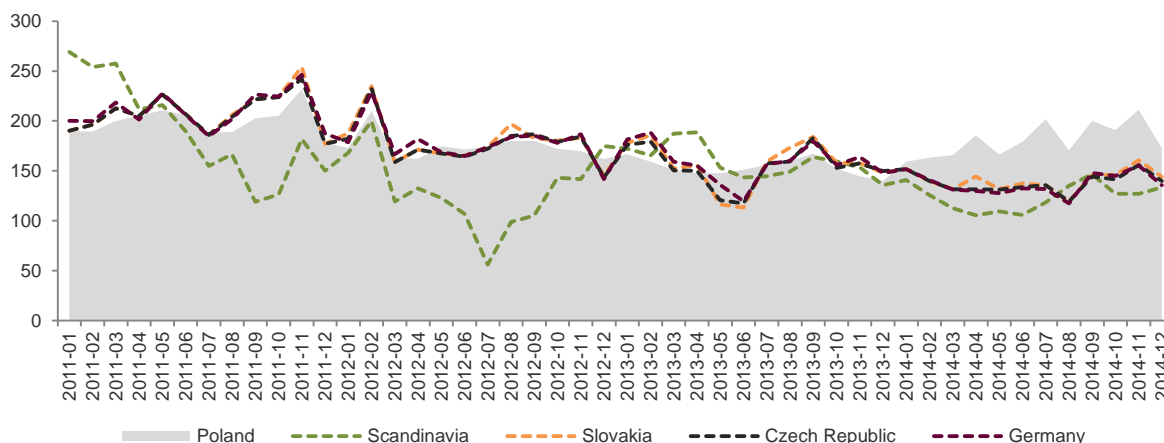


Source: PSE

Energy prices in neighboring countries

In order to compare energy prices in Poland to those in the neighboring countries, SPOT market prices were used as reference products. The price level in Poland, as compared to previous years, was generally higher than in the neighboring countries. In particular, in the Q2, strong price increases occurred in peak hours, even above PLN 300/MWh. The end of the Q4 deserves special attention in this respect, as a decrease of prices was recorded. The reported prices level remained below PLN 200/MWh.

Figure 30: Electricity prices on the SPOT market in Poland and in neighboring countries in 2011-2014 (PLN/MWh)

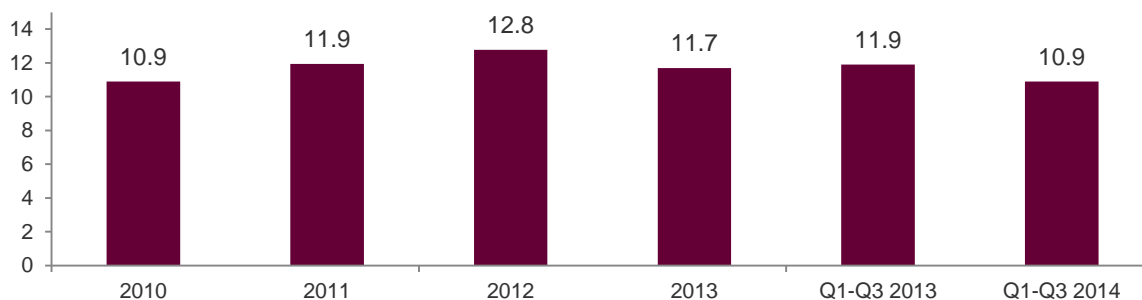


Source: Bloomberg (PPXBIRDN Index)

Prices of hard coal in Poland

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

Figure 31: Prices of hard coal inclusive of costs of transportation to hard coal fired power plants in 2010-2014 (PLN/GJ)



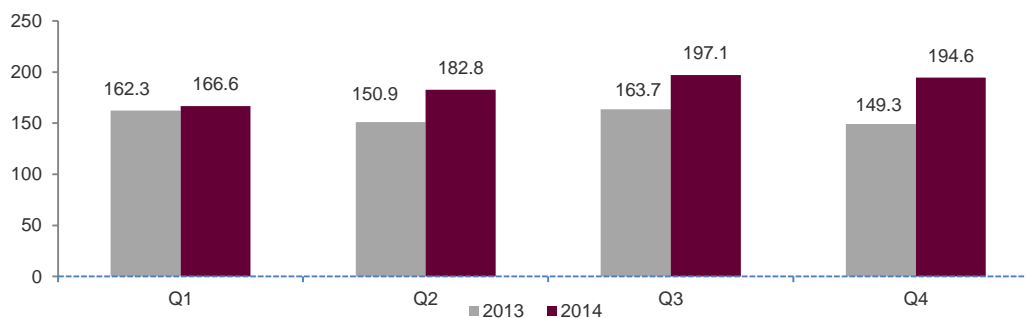
* In 2014, due to lack of data, the price after the Q3 was assumed.

Source: ARE

Electricity Day-Ahead Market (DAM) in Poland

In 2014, average prices on the DAM market were much higher than those reported in the same period of 2013. At the same time, this trend was further enhanced over time, which had a positive impact on the results generated by Ostrołęka Power Plant.

Figure 32: Energy prices in the Day-Ahead Market in 2013-2014 (PLN/MWh)



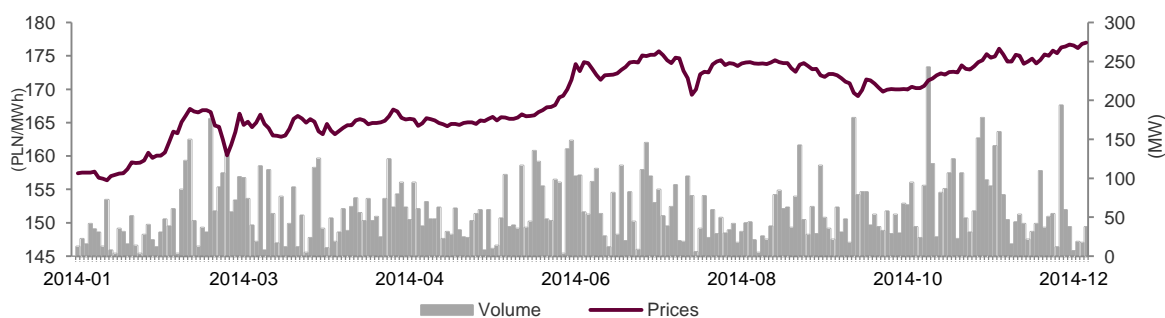
Source: TGE

At the same time, in Q4 2014 the prices on the DAM market reached record levels which incited the Group to carry out the planned reduction of demand for energy. In Q4, the price exceeded the level of PLN 1,000/MWh as many as sixteen times. Such high prices were favored by significant levels of renovations in the system as well as wind energy generation below expectations in October and November.

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. Throughout the entire 2014, the prices were constantly growing. Information with this respect is particularly important from the perspective of the Group contracting process for the next year.

Figure 33: Forward contract price – base with delivery in 2015 reported in 2014



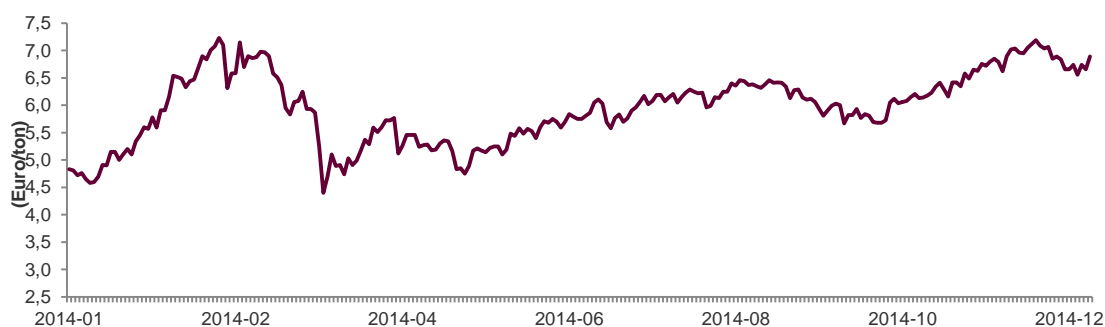
Source: TGE

The price increase in Q4 was due mainly to high prices in the SPOT market. A similar situation was reported in August 2014, when the SPOT market prices fell down significantly which influenced the forward market.

Emission allowance market

The EUA emission allowance market with delivery in December 2014 was characterized by high volatility (prices ranged from EUR 4.5 to 7.0). In the first months this was caused among others by the backloading approval (i.e. the plan to freeze the auction of some of the existing surplus of CO₂ emission allowances) and delays in delivery of free installation allowances (the settlement obligation for the previous year elapsed on 30 April 2014). Simultaneously, a stable growth of EUA prices was observed starting from May 2014. In the 4 quarter the prices continued to increase in connection with information on the talks concerning implementation of the permanent market intervention with a view to reduce the EUA surpluses in the system.

Figure 34: EUA emission allowance prices (DEC 2014) in 2014



Source: Reuters

Market for property rights

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

Table 36: Prices of property right indices listed on the Polish Power Exchange

Index (type of certificate)	Index value				Obligation percentage	Substitution fee
	Q1 2014 (PLN/MW)	Q2 2014 (PLN/MWh)	Q3 2014 (PLN/MWh)	Q4 2014 (PLN/MWh)	(%)	(PLN/MWh)
OZEX_A_POLPX (PMOZE_A - green)	215.92	202.09	195.12	181.95	13.00	300.03
KMETX (PMMET - 2014 - purple)	-	58.03	60.49	61.16	1.10	63.26
KGMX (PMGM-2014 – yellow)	-	-	10.42	10.36	23.20	11.00
KECX (PMEC-2014 – red)	-	-	104.25	105.72	3.90	110.00
EFX (PMEF – white)	960.6	941.58	-	957.17	1.50	1,000.00*

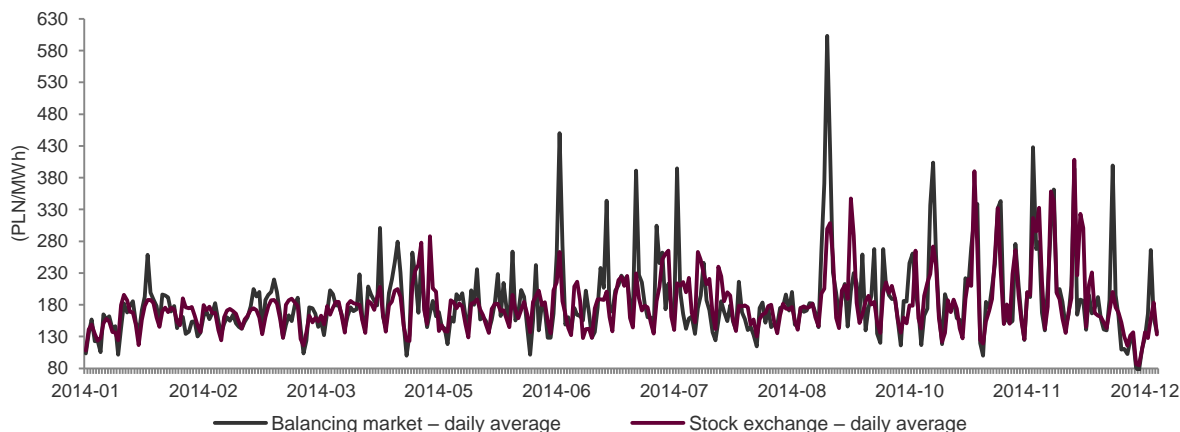
* unit (PLN/toe)

Yellow and red property rights for production in 2014 were introduced into trading during the year hence they were not quoted in the first months. From the standpoint of the Group's generation structure (high RES production) the quotations of green property rights were the most important. In 2014 a systematic decrease of prices for this index was observed. This can be attributable to, among other things, surplus of certificates in the market which, according to public commentaries, could reach as much as 10 TWh. Additionally, the current situation was exacerbated by issuance, by the President of ERO, of overdue property rights for biomass co-burning for previous years.

Balancing market

In Q1 2014 one could observe a stable price level in the balancing market, which at the same time recorded pricing levels similar to those quoted on the energy exchange. Only April brought increased price volatility which subsequently (in June and July) resulted in price levels exceeding at times 300 PLN/MWh. Following a temporary stabilization of prices in August 2014, increased volatility was observed from the beginning of September, with prices higher than quoted in the summer months. Q4 was characterized by very high price volatility.

Figure 35: Statement of prices on the balancing market and SPOT market (Exchange) in 2014 (PLN/MWh)

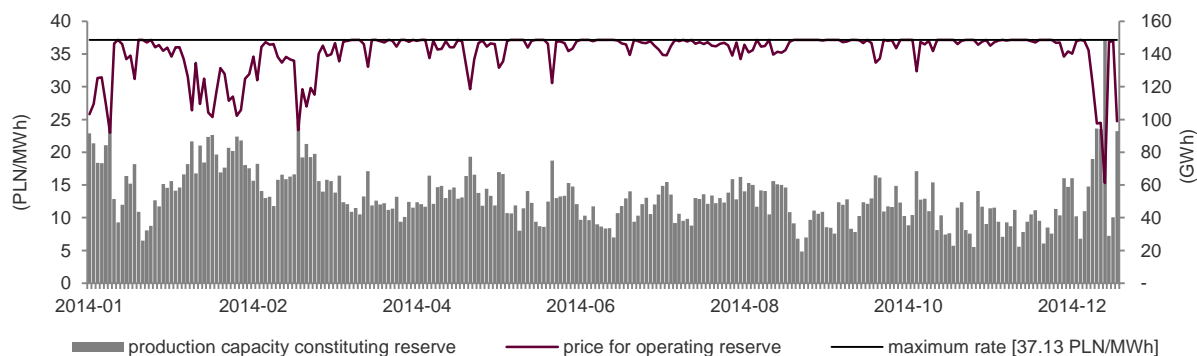


Source: PSE

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.

Figure 36: Prices and generating capacity constituting operating reserve in 2014



Source: PSE

The chart above presents the prices and generation capacities which make up the aforementioned reserve. Analyzing these data one can see that in Q1 2014 (due to the level of capacities submitted by generators to the reserve), the maximum rate was often not achieved. At the same time, in the next quarters, the price stabilized at the upper limit. Only the last days of the year changed the trend, when the capacity reported by generators was again the decisive factor.

4.3. Regulatory environment

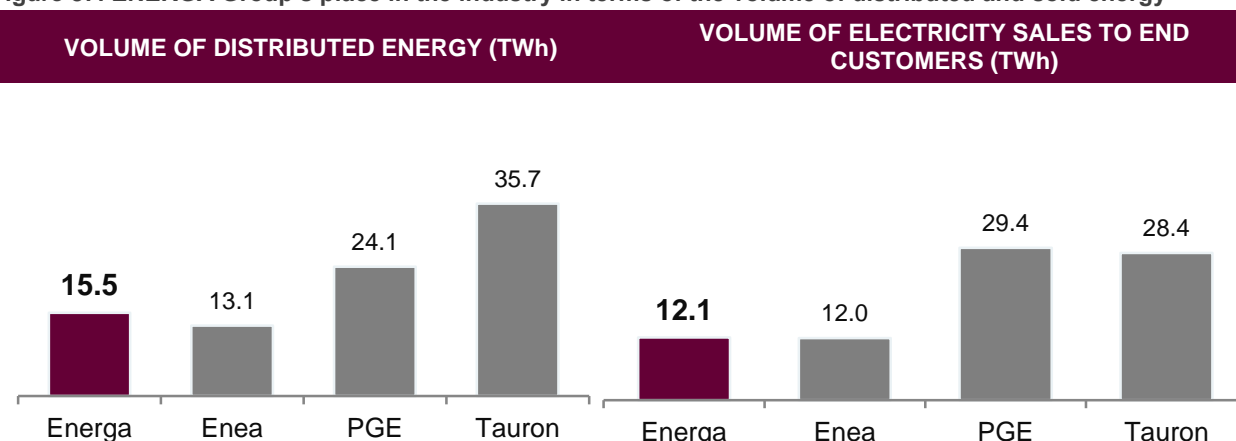
Table 37: List of legal acts affecting the Group

Legal act	Purpose of changes	Opportunities	Risks
RES act	Reform of the RES support system	<ul style="list-style-type: none"> (1) limitation of risks and excessive costs for ex officio sellers (in the ENERGA Group, it is ENERGA-OBRÓT); (2) setting the rules regulating support for RES installations - introduction of an auction system (reduced 	<ul style="list-style-type: none"> (1) loss of support for hydro power plants > 5 MW and limitation of support for biomass co-burning; (2) support for new Group products depending on conditions on RES auctions (reference price); (3) uncertainty regarding the full launch of the system by the adopted deadline (Renewable Energy Settlements Operator

Legal act	Purpose of changes	Opportunities	Risks
		investment uncertainty - opportunity to develop RES investments in the ENERGA Group); (3) new type of support for modernized RES installations; (4) support for dedicated biomass co-burning installations;	has to operate as of 1 January 2016, otherwise companies performing the duties of obligated sellers – trading companies obligated to purchase energy from RES generators at the auction price - will be exposed to losses);
Amendment of the Water Law	Implementation of the requirements of the Framework Water Directive as regards water management principles	(1) rationalization and stimulation of investments in the area of water management in Poland;	(1) abandonment of exemptions from water fees for power facilities; (2) unknown level of new fees for business use of water for energy production purposes; (3) uncertainty regarding the full launch of the system by the assumed deadline (1 January 2016);
Assumptions of the bill of the act on the so-called smart metering	Specification of the rules of implementation of smart metering in Poland	(1) improvement of the efficiency of DSO companies; (2) reduction of electricity consumption in Poland;	(1) inconsistency of the assumptions of the bill with the experience of the industry; (2) too ambitious implementation timetable;
Bill of the act on the so-called transmission corridors	introduction of a legal mechanism facilitating execution of investments in construction and modernization of electricity grids in Poland.	(1) expediting execution of new DSO grid investments (2) regulation of the "historical arrangements" regarding the land on which transmission corridors are located	(1) defective mechanism of the expropriation procedure; (2) delay in implementation of the provisions of the act;
Amendment of the energy efficiency act	Implementation of the requirements of the EED Directive	(1) possibility of obtaining additional funds for execution of efficiency investments in the Group.	(1) absence of the new act will result in expiration of the existing system on 1 April 2016, hindering improvement of energy efficiency in the economy.

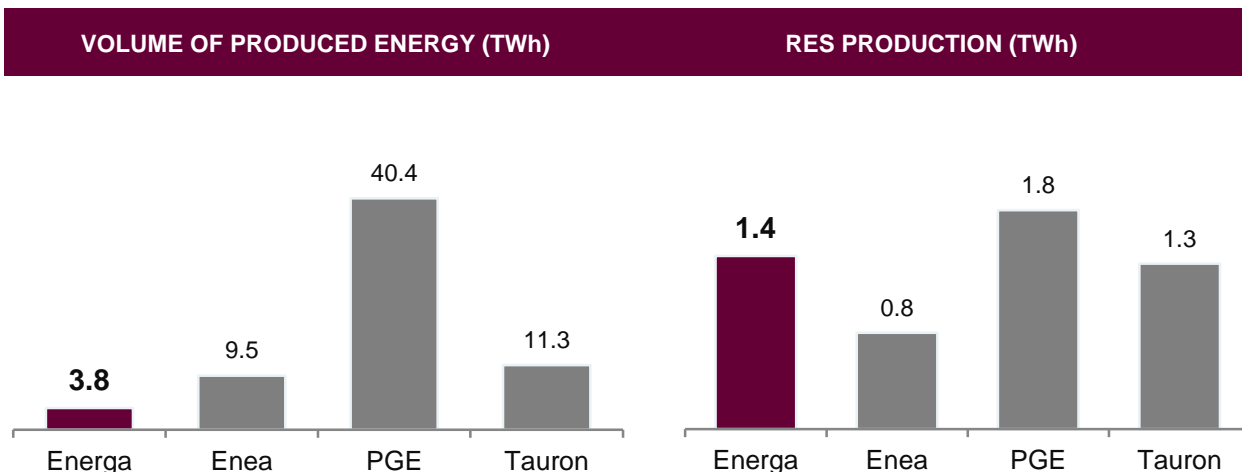
4.4. ENERGA vs. the industry

Figure 37: ENERGA Group's place in the industry in terms of the volume of distributed and sold energy



Source: Group financial statements after Q3 2014

Figure 38: ENERGA Group's place in the industry in terms of the volume of produced and RES production



Source: Group financial statements after Q3 2014

Currently, apart from the ENERGA Group, 3 big players operate in the Polish energy market: PGE, Tauron and Enea.

According to the data for the 3 quarters of 2014, ENERGA is the second producer of RES energy, with the total share in total production of green energy in Poland at approx. 10%. In addition, it is a leader in terms of connected RES capacities: in 2014 in the area covered by ENERGA-OPERATOR SA's operations, approx. 2,129 MW were connected, which accounted for approx. 42% of all RES connections.

ENERGA ranks third both in terms of the volume of distributed energy (15.5 TWh), and energy sold to end customers (12.1 TWh), with a 13% share in the total domestic sale of electricity.

After 3 quarters of 2014 the volume of energy generated in the ENERGA Group amounted to 3.8 TWh, i.e. 3.3% of total energy production in Poland.

Shares and shareholding structure



5. SHARES AND SHAREHOLDING STRUCTURE

5.1. ENERGA's shareholding structure

Table 38: Issuer's shares by series and types

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

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

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, 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.

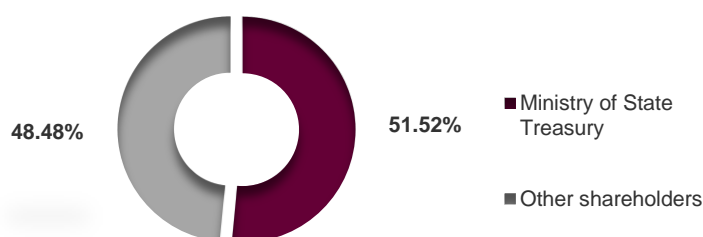
On 12 June 2014, the Company announced (current report [no. 31/2014](#)) that on this day the subsidiary, ENERGA Wytwarzanie SA, sold 3,190 shares of ENERGA SA at the average purchase price of PLN 20.36 per share, i.e. for the total amount of PLN 64,935.89. The Company's shares sold by ENERGA Wytwarzanie SA with the par value of PLN 10.92 each, constituted 0.00077% of the share capital and entitled the holder to 3,190 votes at the Company's General Meeting. Following the share sale transaction, ENERGA Wytwarzanie SA holds no stake in the Company.

Table 39: Shareholding structure of ENERGA as at 31 December 2014 and the date of preparing these financial statements

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

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

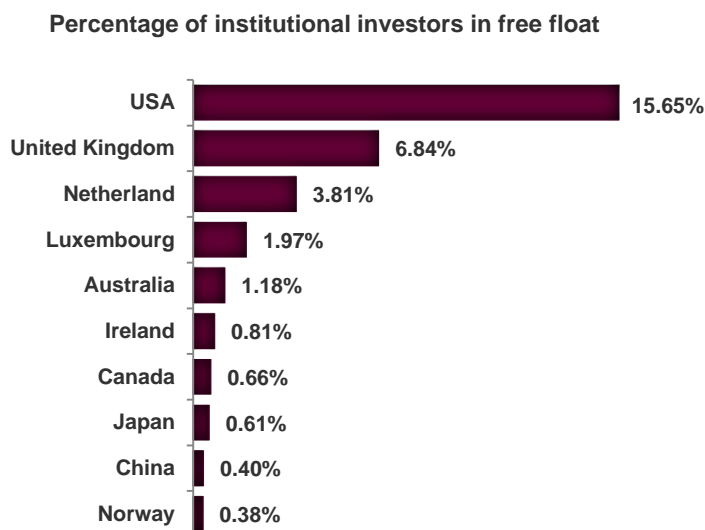
Figure 39: Shareholding structure of ENERGA as at 31 December 2014 and the date of preparing these financial statements



The State Treasury is the Company's main shareholder. As at 31 December 2014, Open-End Pension Funds (OFEs) held 23,325,075 shares, which constituted 5.63% of the share capital (i.e. 11.62% of free float). In relation to the last day of December of the year before, OFE's share decreased slightly (by 0.70%).

According to available data, in the total number of shares in free float, approx. 33% were in the hands of foreign institutional investors, mainly from Europe and North America. Among the top ten shareholders with a shareholding of less than 5%, most of them were funds registered in, among others, US, Netherlands, Luxembourg and United Kingdom. In addition, as part of the largest public offering from 3.5 years, in 2013 on the Company's shares signed up 72 thousand individual investors.

Figure 40: Share of ENERGA's foreign shareholders by country of origin



Source: Proprietary materials

5.2. Agreements pertaining to potential changes in the shareholding structure

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

5.3. Share Buyback

In 2014, the Company did not purchase any treasury stock.

5.4. Employee stock ownership programs

The Company does not have employee stock ownership programs.

5.5. Company stock prices on the Warsaw Stock Exchange

Table 40: Data for ENERGA as at 31 December 2014

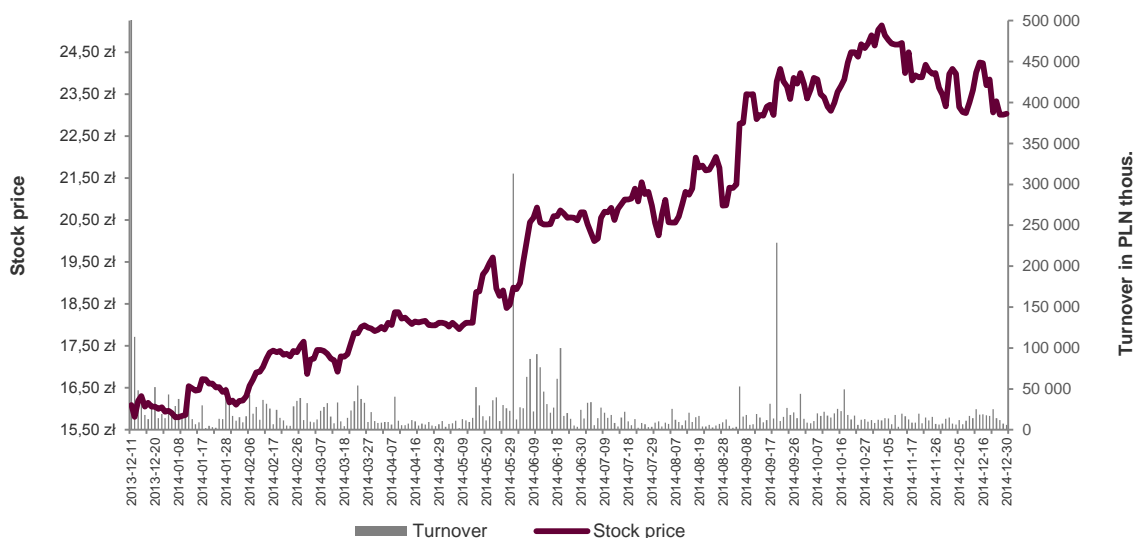
Data	Value
Issue price	PLN 17.00
Number of shares	414,067,114
Stock price at the end of the period	PLN 23.03
Capitalization at the end of the period	PLN 9,535.97 m
Minimum at closing in Q4	PLN 23.01
Maximum at closing in Q4	PLN 25.14
Minimum at closing in 2014	PLN 15.80
Maximum at closing in 2014	PLN 25.14
Minimum in 2014	PLN 15.51
Maximum in 2014	PLN 25.27

Average trading value	PLN 19,831 thous.
Average trading volume	1,002,146
Average number of trades	1,774

Source: Proprietary material based on data from www.gpwinfostrefa.pl

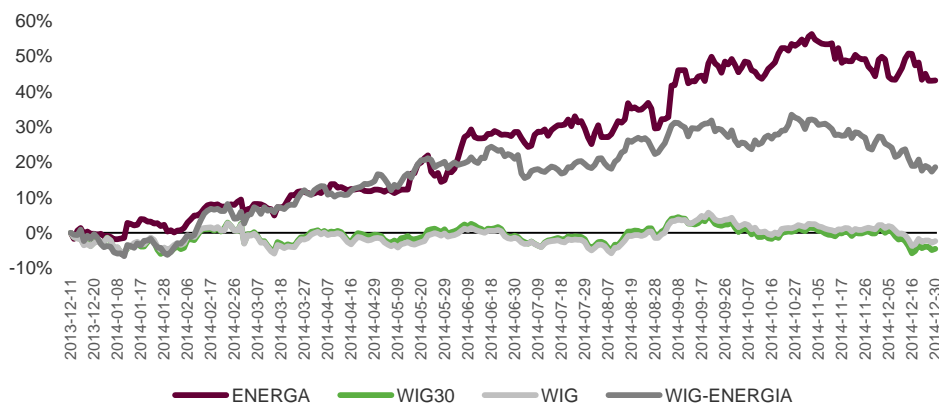
In the period from 1 January to 31 December 2014, the ENERGA SA stock price increased by 44%, i.e. from PLN 15.95 to PLN 23.03. The maximum price of Company's shares was PLN 25.14 on 3 November 2014, and the minimum price of PLN 15.80 was recorded on 7 January 2014. During Q4 2014, the price decreased from PLN 23.74 to PLN 23.03 at the end of the period, which was a 3% decrease in relation to the price in the beginning of October. During 2014, the WIG index dropped by approx. 0.9%, WIG30 by 3.2% and WIG-Energia sectoral index dropped by 23.1%.

Figure 41: ENERGA SA stock price, in the period from IPO (i.e. 11 December 2013) to 31 December 2014



Source: Proprietary material based on data from gpwinfostrefa.pl

Figure 42: Changes in ENERGA quotations in comparison with changes in WIG and WIG-ENERGIA indices



Source: Proprietary material based on data from gpwinfostrefa.pl

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

- (1) **WIG30** – price index (meaning that only prices of concluded transactions are taken into account in its calculation) launched on 23 September 2013, comprising (30) companies with the highest position in the ranking determined on the basis of the data after the last session of January, April, July and October. The ranking is calculated on the basis of the trading volume

for the past 12 months and the value of shares in free float as at the ranking date. ENERGA SA's share in the index amounts to 2.18%.

- (2) **MSCI-Poland** – an index which is an important factor for foreign funds investing in Polish equities. Equities of a company may be eligible for the index if they have the required market capitalization and adequate liquidity. ENERGA SA's share in the index amounted to 1.72%.
- (3) **WIG** - an index comprised of all companies listed on the Main Market of the Warsaw Stock Exchange, which meet the base criteria for participation in the indices. The Company's share in the index amounted to 1.57%.
- (4) **WIG-Energia** – a sectoral index, which is comprised of companies which participate in the WIG index and are at the same time categorized as 'power sector' companies with ENERGA's share in the index of 14.26%.
- (5) **WIG-Poland** – an index comprised only of shares of domestic companies listed on the Main Market of WSE, which meet the base criteria for participation in the indices. ENERGA SA's share in the index amounted to 1.63%.
- (6) **WIGdiv** - index calculated since 2010, comprising up to 30 companies which in the index ranking were in a position not lower than 150 and are characterized by the highest dividend rate at the end of November each year and over the past 5 financial years paid out dividends at least 3 times. ENERGA SA's share in the index amounted to 3.86%.
- (7) **FTSE All World** – international index, comprised of shares of medium and large companies from the FTSE Global Equity Index Series. It is calculated for mature and emerging markets and forms the basis for investment products such as e.g. derivatives and the tracking passive fund portfolios. In addition to MSCI-Poland, this index is also an important measure for foreign funds investing in Polish equities. ENERGA SA's share in the index: 0.01%.
- (8) **RESPECT Index** – index bringing together companies with the highest corporate social responsibility standards. It has existed on WSE since 2009 and is the only index of this type in Central European countries. ENERGA SA's share in the index: 4.59%.

Since 2 June 2014, the Company's shares are included in the MSCI-Poland index. Moreover, following the decision adopted by the Management Board of the Warsaw Stock Exchange on 12 May of this year, after the session of 20 June, ENERGA SA shares were included in the WIG30 index, which followed from a quarterly revision of the index, in which the list of its participants is changed and the shares of individual member stocks are structured. In Q3, following a semi-annual index revision, after the session of 19 September 2014 the shares of ENERGA SA were included in the international FTSE All World index. Since 22 December 2014, the Company's shares have been included in the RESPECT index, whose composition was announced by the WSE Management Board on 18 December 2014. In accordance with WSE's decision of 12 February of this year, after the session on 20 March, ENERGA SA's shares will be included in the WIG20 index bringing together 20 biggest companies listed on the Warsaw Stock Exchange.

5.6. Investor relations in ENERGA SA

In 2014 the Investor Relations Bureau executed tasks aimed at boosting the effectiveness of communication in the capital market, among others:

- (1) Publication of 50 current reports i 4 periodic reports,
- (2) Over 200 one-to-one meetings with institutional investors: as part of investor conferences or non-deal roadshows,
- (3) 4 results conferences accompanied by online broadcast,
- (4) Investor Day for individual investors attended by approx. 70 people and "Exchange without Secrets" workshops for students of Tri-City universities,
- (5) 2 investor chats with Management Board members (addressed mainly at individual investors),
- (6) Constant communication with analysts issuing recommendations on companies to their clients,
- (7) Online publication of the 2013 annual report and interactive site dedicated to individual investors where key information on the ENERGA Group is published.

In 2014 the Company inaugurated a program dedicated to individual investors 'Each share matters' under which it implements different initiatives, among others, the aforementioned organization of the

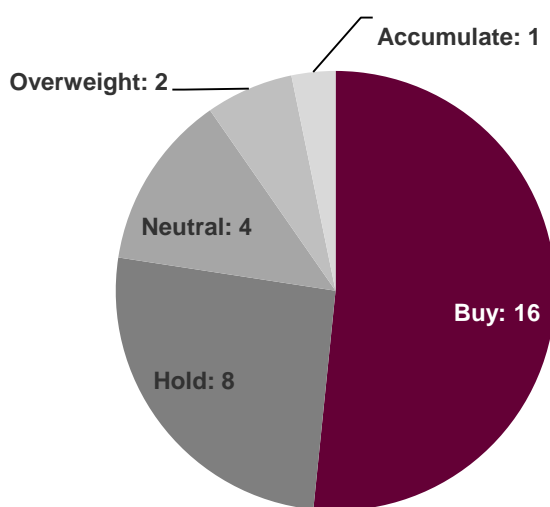
Investor Day and launch of a dedicated website. Additionally, ENERGA is an active participant of the 'Citizen Shareholders. Invest Knowingly' program.

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

5.7. Recommendations for the shares in the Company

In 2014, the analysts of brokerage houses and investment banks issued 31 recommendations for ENERGA SA shares. A list of the recommendations can be found at [the Company's Investor Relations website](#).

Figure 43: Structure of the recommendations issued for ENERGA's shares in 2014



Representation on the application of Corporate governance principles



6. REPRESENTATION ON THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

The Company and its authorities are subject to corporate governance rules, which are described in the set adopted by Resolution No. 19/1307/2012 of the WSE Board on 21 November 2012 as 'Best Practice for WSE Listed Companies' ('Best Practices', 'DPSN') and were posted on WSE's website (<http://corp-gov.gpw.pl>) and the Company's website in the Investor Relations tab. The Company has not adopted other corporate governance rules than those indicated above.

6.1. Corporate governance rules not used in the Company

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

In accordance with Chapter II item I sub-item 9a of DPSN, the Company should post the audio or video recording of the General Meeting on the corporate website. ENERGA SA's General Meeting Bylaws in their existing shape prevent application of this rule.

In accordance with Chapter IV item 10 of the Best Practices, the Company should enable its shareholders to participate in a General Meeting using electronic communication means through:

- a) real-time broadcast of General Meetings;
- b) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting.

At the moment the Company's Articles of Association do not envisage the possibility of participation in the General Meeting via means of electronic communication as defined by the Commercial Company Code.

The Company did not fully comply with the rule set forth in Chapter III item 8 of DPNS in respect to the operation of the Nomination Committee and the Remuneration Committee indicated in Annex I to Commission Recommendation of 15 February 2005.

In accordance with the provisions of the Articles of Association, within the framework of the ENERGA SA Supervisory Board the Audit Committee operates, currently composed of 4 Supervisory Board members. Its tasks and activities are consistent with Annex I to Commission Recommendation of 15 February 2005.

To ensure application of the aforementioned rules, the Company's Management Board moved to the Company's General Meeting to adopt resolutions to amend ENERGA SA's Articles of Association and the General Meeting Bylaws, proposing, among other things, the following provisions:

- 1) allowing for participation in the General Meeting using the means of electronic communication,
- 2) publication of recordings of the meetings on the Company's website, in the Investor Relations tab,
- 3) appointment, by the Supervisory Board, of other standing or ad hoc committees, except for the Audit Committee.

The General Meeting held on 15 December 2014 did not adopt resolutions in this respect.

Consequently, at the end of 2014 the Company did not employ the rules set forth in Chapter II item 1 sub-item 9a, Chapter IV item 10, Chapter III item 8 of the Best Practices, and the recommendation made in Chapter I item 12 of the Best Practices.

However, on 27 February 2015, the Supervisory Board appointed the Nomination and Compensation Committee with the following members:

- (1) Bogusław Nadolnik
- (2) Paula Ziemiecka-Księżak
- (3) Marian Gawrylczyk
- (4) Jakub Żołyniak.

The Company makes efforts to implement also the recommendations included in part I of Best Practices. Nevertheless, the recommendation for an equal representation of women and men in the Management Board and the Supervisory Board (Chapter I.9 of DPSN) is not applied.

Supervisory Board members are appointed in accordance with the provisions of the Articles of Association by the General Meeting and the State Treasury within its personal rights, while Management Board Members by the Supervisory Board. The rules applicable in this respect do not introduce any limitations on the eligibility to participate in the Company's governing bodies or in pre-qualification proceedings based on gender.

Irrespective of the above, the Company makes every effort to maintain equal representation of women and men in management reporting directly to the Company's Management Board. In 2014, the percentage of women on the management staff was 63%.

At the same time, by implementing the requirement set forth in Chapter II item 1.2a) of the Best Practices, in Q4 2014, the Company placed information on the participation of women and men in the Management Board and Supervisory Board in two most recent years on its corporate website.

6.2. Shareholders holding significant blocks of shares

Table 41: Shareholding structure of the Company at 31 December 2014 and as at the date of this Report

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

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

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

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

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

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

6.4. Restrictions regarding the exercise of voting rights

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

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

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

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

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

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

6.5. Restrictions on the transfer of ownership title to securities

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

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

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

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

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

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

On 17 February 2014, the General Meeting of ENERGA SA adopted a resolution on amending § 33 section 2 of the Articles of Association, according to which a shareholder's personal entitlements expire on the date when its share in the share capital declines under 20% (instead of 10%). This amendment was entered in the Business Register of the National Court Register on 2 April 2014.

6.7. Company's corporate bodies

General Meeting

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

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

Manner of convening the General Meeting

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

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

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

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

Course of a General Meeting

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

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

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

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

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

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

Powers of the General Meeting

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

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

Three General Meetings of the Company were held in 2014: on 17 February, 20 May and 15 December. The content of the resolutions adopted during these Meetings was published in current reports no of 18 February 2014, [no. 25/2014](#) of 21 May 2014 and [no. 47/2014](#) of 15 December 2014.

Supervisory Board

Rules for appointing and dismissing Supervisory Board members

The Supervisory Board may consist of five to twelve persons appointed for a joint three-year term.

The General Meeting appoints and dismisses Supervisory Board members and sets their compensation level. However, the State Treasury has the following personal rights:

- 1) if the General Meeting decides that the Supervisory Board will have an even number of members, the State Treasury will appoint one-half of Supervisory Board members plus one Supervisory Board member,
- 2) if the General Meeting decides that the Supervisory Board will have an odd number of members, the number of Supervisory Board members appointed by the State Treasury will be calculated by dividing the number of Supervisory Board members by two and then rounding up to the nearest whole number,

- 3) The State Treasury names one Supervisory Board member from among the Supervisory Board members appointed by the State Treasury, who will serve as Supervisory Board Chairperson. This right applies also if the Supervisory Board is elected by separate group voting following the procedure set forth in Article 385 of the Commercial Company Code,
- 4) Supervisory Board Members will be appointed and dismissed and the Supervisory Board Chairperson will be named by way of a written representation submitted to the Management Board, which will be deemed submitted to the Management Board upon its delivery,
- 5) Only the persons who passed the exam referred to in Article 12 sec. 2 of the Commercialization and Privatization Act of 30 August 1996 (i.e.: Journal of Laws of 2013 No. 216) may be appointed as Supervisory Board members representing the State Treasury.

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

Supervisory Board member submits resignation to the Company's Management Board.

The Supervisory Board appoints the Supervisory Board Deputy Chairman and Secretary from amongst its members at the first meeting in a new term.

No Supervisory Board member may perform any activities contradicting his or her duties or potentially leading to a suspicion of partiality or pursuit of self-interest.

At least two Supervisory Board members should satisfy the criteria envisaged for independent supervisory board members within the meaning of the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC), taking into account the requirements following from the Code of Best Practices for Warsaw Stock Exchange Listed Companies (*Independent Supervisory Board Members*).

A candidate for an independent Supervisory Board member will submit to the Company, before being appointed to the Supervisory Board, a written representation on meeting the independence criteria.

If circumstances occur in which the independence requirements are not satisfied, the Supervisory Board member will be obligated to immediately inform the Company thereof.

The Company publishes information about the current number of independent Supervisory Board members.

Personnel composition

In financial year 2014, the ENERGA SA Supervisory Board was composed of the following persons:

- 1) in the period from 1 January to 16 January 2014:
 - a) Zbigniew Wtulich - Supervisory Board Chairman,
 - b) Marian Gawrylczyk - Supervisory Board Deputy Chairman,
 - c) Agnieszka Poloczek - Supervisory Board Secretary,
 - d) Iwona Zatorska-Pańtak - Supervisory Board Member,
 - e) Roman Kuczkowski - Supervisory Board Member,
 - f) Mirosław Szreder - Supervisory Board Member,
- 2) in the period from 16 January to 20 May 2014:
 - a) Zbigniew Wtulich - Supervisory Board Chairman,
 - b) Marian Gawrylczyk - Supervisory Board Deputy Chairman,
 - c) Agnieszka Poloczek - Supervisory Board Secretary,
 - d) Iwona Zatorska-Pańtak - Supervisory Board Member,
 - e) Roman Kuczkowski - Supervisory Board Member,
 - f) Mirosław Szreder - Supervisory Board Member,
 - g) Bogusław Nadolnik - Supervisory Board Member (appointed by the State Treasury Minister's statement as of 16 January 2014),

- 3) from 20 May to this date:
- a) Bogusław Nadolnik - Supervisory Board Chairman,
 - b) Marian Gawrylczyk - Supervisory Board Deputy Chairman,
 - c) Paula Ziemiecka-Księżak - Supervisory Board Secretary,
 - d) Jarosław Mioduszewski - Supervisory Board Member,
 - e) Mirosław Szreder - Supervisory Board Member,
 - f) Zbigniew Wtulich - Supervisory Board Member,
 - g) Jakub Żołyniak - Supervisory Board Member.

In connection with the end of the Supervisory Board's 3rd Term of Office, on 20 May 2014 the Annual General Meeting of ENERGA SA set the number of Supervisory Board members and appointed three Supervisory Board members for the 4th Term of Office: Mirosław Szreder, Marian Gawrylczyk and Jarosław Mioduszewski.

By the representation from the State Treasury Minister of 20 May 2014 made by the power of its personal rights, the following were appointed to the Supervisory Board: Bogusław Nadolnik (as Supervisory Board Chairman), Zbigniew Wtulich, Paula Ziemiecka-Księżak and Jakub Żołyniak.

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

Bogusław Nadolnik graduated from the Warsaw School of Economics (Management and Marketing), and completed postgraduate studies in internal audit and control. He graduated from Small Business Management faculty of the Georgetown University Washington D.C. (U.S.A.) Currently, he is the Director of Post-Privatization Activities Department in the Ministry of Treasury. He has served on the ENERGA SA Supervisory Board since January 2014, currently as Chairman.

Marian Gawrylczyk graduated from the University of Gdańsk (Faculty of Economy and Transportation). Currently, he is the CEO of Sigma Real Estate Sp. z o.o., Signum Corporate Finance Sp. z o.o., advisor to the President of Polish Tourism Organization, and management board's proxy on strategy and development at PKP Cargo S.A. He has served on the ENERGA SA Supervisory Board since January 2008, currently as Deputy Chairman and since March 2013 as an Audit Committee member.

Paula Ziemiecka-Księżak graduated from the Leon Kozminski Entrepreneurship and Management College. At present she is an employee of the Key Companies Department at the State Treasury Ministry, overseeing four Polish energy groups. She has served on the ENERGA SA Supervisory Board since May 2014 as the Supervisory Board Secretary.

Jarosław Mioduszewski – graduate of the University of Agriculture and Technology in Olsztyn (specializing in agriculture economics) and holds a Ph.D. degree in management sciences. Currently employed by the University of Warmia and Mazury in Olsztyn. He has served on the ENERGA SA Supervisory Board since May 2014 and since June 2014 also as an Audit Committee member.

Mirosław Szreder graduated from the University of Gdańsk (Faculty of Economic Cybernetics and IT), and is the professor of economics. Currently Vice-Rector on Development and Finance of the University of Gdańsk. Member of the International Association for Statistical Education. He has served on the Company's Supervisory Board since January 2008; Audit Committee Chairman since March 2013.

Zbigniew Wtulich graduated from Warsaw University of Life Sciences (Faculty of Drainage and Water Engineering), and completed postgraduate studies in real estate valuation. He is a sub-department head in the State Treasury's Department of Assets. Served on the ENERGA SA Supervisory Board since March 2011. Member of the Audit Committee since June 2014.

Jakub Żołyniak – graduate of the Law and Administration Department of Maria Curie-Skłodowska University in Lublin, Affiliate Office in Rzeszów. He runs a business activity specializing in financial advisory services, training, local and European aid funds and a law firm. Member of the ENERGA SA Supervisory Board since May 2014.

A detailed description of the experience and competence of Supervisory Board members has been published on the [Company's website](#).

Supervisory Board's powers

The Supervisory Board's powers include in particular:

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

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

Operation of the Supervisory Board

The Supervisory Board exercises permanent supervision over the Company's activity, in accordance with the Commercial Company Code and the Company's Articles of Association. A detailed description of its operation is defined by the Supervisory Board Bylaws posted on the corporate website.

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

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

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

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

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

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

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

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

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

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

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

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

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

According to the Articles of Association, the Supervisory Board elects the audit committee from amongst its members.

In the period between 1 January and 31 December 2014, the ENERGA SA Supervisory Board held 8 meetings and passed 70 resolutions. All the meetings were attended by the full composition of the Supervisory Board. The Supervisory Board formed opinions on the topics directed by the Management Board at the General Meeting, specified the manner of executing voting rights at general meeting of subsidiaries in the scope implied by the Company's Articles of Association, assessed the financial statements, both stand-alone and consolidated, for 2013 together with the motion of profit division and approved of the economic and fixed assets plans of the Company and the Group. The most important matters which the Board was busy with were *inter alia*:

- 1) selection of the auditor to audit financial statements of the Company and the Group for the years 2015, 2016 and 2017.
- 2) approval of the Multiyear Strategic Investment Program for the year 2014-2020.
- 3) analysis of current situation of the Company and the Group.

Audit Committee

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

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

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

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

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

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

The Audit Committee is composed of at least three Supervisory Board members, including at least one member who satisfies the independence criteria and holds accounting or financial audit qualifications within the meaning of the Act on Auditors. According to the Articles of Association, this person should meet the requirements envisaged for independent Supervisory Board members. If the Supervisory Board consists of no more than five members, the tasks of the Audit Committee will be performed by the Supervisory Board members.

In the financial year 2014, the Audit Committee was composed of the following persons:

- 1) in the period from 1 January to 6 June 2014:
 - a) Mirosław Szreder - Committee Chairman,
 - b) Iwona Zatorska-Pańtak,
 - c) Marian Gawrylczyk;
- 2) from 6 June to this date:
 - a) Mirosław Szreder - Committee Chairman,
 - b) Jarosław Mioduszewski,
 - c) Marian Gawrylczyk,
 - d) Zbigniew Wtulich.

In connection with the end of the ENERGA SA Supervisory Board's 3rd Term of Office, on 6 June 2014, the Audit Committee appointed new members to the Audit Committee by issuing a relevant resolution. Committee members elected Mirosław Szreder as the Chairman.

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

In 2014 the Audit Committee had 6 meetings, of which 5 were held in the fullcomposition.

Management Board

Rules for appointing and dismissing Management Board Members

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

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

A Management Board Member may be also:

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

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

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

Personnel composition

In 2014, the Company's Management Board was composed of the following persons:

- 1) Miroslaw Bieliński – President of the Management Board,
- 2) Roman Szyszko – Executive Vice-President of the Management Board, Chief Financial Officer
- 3) Wojciech Topolnicki – Executive Vice-President of the Management Board, Strategy and Investments

No changes were made in the composition of Management Board in 2014.

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



Miroslaw Bieliński graduated from the University of Gdańsk (Faculty of Production Economics) and postgraduate studies of finance and accounting of the University of Gdańsk. Since 2008, he served as the President of the Management Board of ENERGA SA. Serves on the supervisory boards of the following companies: ENERGA-OPERATOR SA, ENERGA-OBRÓT SA and ENERGA Wytwarzanie SA. In the Company he oversees the areas of: corporate management, legal, HR management, internal audit, market communication and PR.



Roman Szyszko graduated from the University of Gdańsk (Faculty of Economics and Social Sciences) and the Finance Department of the University of Strathclyde (UK). Since 2008, he has been the Executive Vice-President of the Management Board, Chief Financial Officer at ENERGA SA. Currently sits on supervisory boards of: ENERGA-OPERATOR SA, ENERGA-OBRÓT SA and ENERGA Wytwarzanie SA. In the Company he oversees the following areas: risk management, accounting, taxes, financial management, controlling.



Wojciech Topolnicki graduated from the Gdańsk University of Technology (Faculty of Management and Economics) and L'université de Rouen (France). Since May 2012 Executive Vice-President of the ENERGA SA Management Board, Strategy and Investments. He sits on the supervisory boards of ENERGA-OPERATOR SA, ENERGA-OBRÓT SA and ENERGA Wytwarzanie SA. He oversees the following areas of ENERGA's activity: development strategy, regulations, IT, investment efficiency.

A detailed description of the experience and competence of Management Board Members has been published on the [Company's website](#).

Management Board's powers

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

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

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

Manner of the Management Board's functioning

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

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

By principle, the meetings are chaired by the President of the Management Board. Management Board meetings are held in the Company's registered office or at another location indicated by the person convening the Management Board meeting.

Moreover, the Management Board Bylaws admit the possibility of Management Board Members' participation in the meeting and voting on resolutions adopted during that meeting using remote means of direct communication, such as teleconferences and videoconferences, with the reservation that there is at least one Management Board Member present at location specified by the person convening the meeting and there exists a technical possibility of ensuring a connection.

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

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

In 2014 the Management Board held 44 meetings and adopted 268 resolutions. The most important activities and decisions of the Management Board were:

- 1) adoption of the 'Long-term Strategic Investments Program for the years 2014-2022' ('WPIS'),
- 2) continuation of the Business Model of Sales Support System (SOS) project in the ENERGA Capital Group including billing system and CRM system with the best industry practices in utilities sector,
- 3) adoption and implementation of the ENERGA SA's Code of Ethics,
- 4) continuation of the reorganization and sorting structure processes in the ENERGA Capital Group,
- 5) introduction of the 'Strategy of sustainable development and socially responsible business in ENERGA Capital Group'

- 6) starting the process of ENERGA Tax Capital Group establishment.

6.8. Remuneration of persons in management and supervisory bodies

Management Board

The total amount of remuneration, defined as the amount of remuneration, bonuses and benefits received in cash, in kind or otherwise, paid by the Company to Management Board members for 2014 was PLN 4,245.48 thousand. The total amount of remuneration and bonuses paid or due for 2014 included the gross amount of remuneration paid or due in the period from January to December 2014.

The remuneration model for Management Board members includes a dual remuneration system, which consists of:

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

Members of the Company's Management Board are not covered by the equity-base bonus scheme and receive no remuneration or bonuses for discharging functions in governing bodies of other ENERGA Group companies.

Individual remuneration of the Company's Management Board members in 2014 is presented in the table below.

Table 42: Remuneration of persons comprising the ENERGA SA Management Board in the period from 1 January to 31 December 2014 (PLN)

Full name	In office	Remuneration	Equalization of 2013 remuneration	Bonus remuneration ^{(1),(2)}	Other benefits	Total
Mirosław Bieliński	from 1 January to 31 December 2014	960,000.00	0.00	480,000.00	3,360.00	1,443,360.00
Roman Szyszko	from 1 January to 31 December 2014	900,000.00	14,024.39	450,000.00	4,560.00	1,368,584.39
Wojciech Topolnicki	from 1 January to 31 December 2014	900,000.00	0.00	450,000.00	97,563.71	1,447,563.71
TOTAL		2,760,000.00	14,024.39	1,380,000.00	105,483.71	4,259,508.10

Agreements concluded with managers, which include compensation

Agreements concluded between the Company and its managers provide for:

- 1) compensation for refraining from conducting a competitive activity (no-compete) for a period up to 12 months after the agreement termination date,
- 2) compensation in case the Management Board member is dismissed or the Company terminates his/her agreement for reasons not attributable to the Manager.

Supervisory Board

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

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

The remuneration will not be due for the month, in which the Supervisory Board member did not attend any of the formally convened meetings and failed to provide any formal justification. Remuneration of ENERGA SA Supervisory Board members in 2014 is presented in the table below.

Table 43: Remuneration of persons comprising the ENERGA SA Supervisory Board in the period from 1 January to 31 December 2014 (PLN)

No.	Full name	Period in office in 2014	Remuneration	Other benefits	Total
1.	Bogusław Nadolnik*	from 16 January to 31 December	39,809.92	5,389.38	45,199.30
2.	Marian Gawrylczyk	from 1 January to 31 December	41,454.96	18,829.24	60,284.20
3.	Paula Ziemiacka-Księżak	from 20 May to 31 December	25,736.62	5,302.24	31,038.86
4.	Jarosław Mioduszewski	from 20 May to 31 December	25,736.62	1,757.54	27,494.16
5.	Mirosław Szreder	from 1 January to 31 December	41,454.96	4,274.98	45,729.94
6.	Zbigniew Wtulich	from 1 January to 31 December	41,454.96	8,822.00	50,276.96
7.	Jakub Żołyński	from 20 May to 31 December	25,736.62	6,562.81	32,299.43
8.	Agnieszka Poloczek	from 1 January to 20 May	16,047.08	2,553.16	18,600.24
9.	Roman Kuczowski	from 1 January to 20 May	16,047.08	1,457.58	17,504.66
10.	Iwona Zatorska-Pańtak	from 1 January to 20 May	16,047.08	3,173.16	19,220.24
11.	TOTAL		289,525.90	58,122.09	347,647.99

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

As at 31 December 2014 and as at the date of preparing this Report, persons discharging management and supervisory functions in the Company held the following amounts of shares in the Company and shares in Company's related companies:

Table 44: Number of Company shares and shares in related companies held by persons in management bodies

No.	Full name	ENERGA shares		Shares in ENERGA's related companies	
		Number of shares	Par value in PLN	Number of shares	Par value in PLN
as at 31 December 2014 and at the date of this report					
1.	Mirosław Bieliński	2,500	27,300	0	0
2.	Roman Szyszko	0	0	0	0
3.	Wojciech Topolnicki	0	0	0	0

No member of ENERGA SA's Supervisory Board held shares in the Company as at 31 December 2014.

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

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

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

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

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

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

The external advisor's (i.e. PricewaterhouseCoopers Sp. z o.o.) report from the evaluation of the internal control system for 2013 identified the following best practices in the accounting and finance area:

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

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

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

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

In 2014, the Company's Supervisory Board ([current report no. 42/2014](#) of 6 November 2014), having examined the recommendation of the Audit Committee, selected the authorized entity PriceWaterhouseCoopers Sp. z o.o. in Warsaw, to be the chartered accountant to audit the standalone and consolidated financial statements of ENERGA SA and the ENERGA Group and to provide other affirmation services for the annual periods ended on 31 December 2015, 31 December 2016 and 31 December 2017, respectively.

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

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

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

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

Management board's representation



7. MANAGEMENT BOARD'S REPRESENTATION

The ENERGA SA Management Board hereby represents that:

- (1) according to the best knowledge, the annual consolidated financial statements and the comparative data were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of the ENERGA Group and its financial result. The Management Board Report on the activity of the ENERGA Group contains a true presentation of developments, achievements, and situation of the Capital Group, including a description of key risks and threats;
- (2) KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, an entity authorized to audit the financial statements, which audited the consolidated financial statements of the ENERGA Group for the financial year ended 31 December 2014, was selected in accordance with the applicable regulations. That entity as well as the auditors who audited the aforementioned financial statements satisfied the conditions for expressing an unbiased and independent opinion about the audit of the consolidated financial statements as required by the binding regulations and professional norms.

Signatures of ENERGA SA Management Board Members

Mirosław Bieliński
President of the ENERGA SA Management Board

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

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

Gdańsk, 12 March 2015

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Glossary of terms and abbreviations

AMI	Advanced Metering Infrastructure
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
BCSM	Business Continuity Management System
Billing	Itemized bill, statement of all fees for added services which a subscriber uses in a given settlement period
Biomass	Solid or liquid, biodegradable substances of plant or animal origin, originating from products, waste and remnants of agricultural and forestry production, the industry processing their products, and also a portion of other biodegradable waste, and

	especially agricultural raw materials
BondSpot S.A.	Subsidiary of the Warsaw Stock Exchange running a regulated over-the-counter market and electronic trading platforms for securities and financial instruments, also on an unregulated market
Certificate of origin	Certificate of origin from renewable sources and certificate of origin from cogeneration
Certificate of origin from co-generation	Document issued by the ERO President pursuant to art. 9l of the Energy Law confirming the generation of electrical energy in highly-efficient cogeneration generated in: (i) a cogeneration unit fired with gaseous fuels or with the total installed electrical capacity at source being under 1 MW (known as a yellow certificate), (ii) a cogeneration unit fired with methane released and drained in the course of underground mining activity in hard coal mines that are active, that are being shut down or that have been shut down or with gas obtained by processing biomass (known as a purple certificate), or (iii) some other cogeneration unit (known as a red certificate)
Certificate of origin from renewable energy sources, green certificate	Document issued by the ERO President pursuant to art. 9e of the Energy Law confirming the generation of electrical energy in a renewable energy source (known as a green certificate)
CIRS, CCIR	Currency Interest Rate Swap, Cross-Currency Interest Rate Swap; Currency Interest Rate Swap transactions, as part of which payments will be made in two different currencies (CIRS) or more currencies (CCIRS) on the basis of variable interest rates for the set period of time and in the set frequency
Cofiring	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
CRM	Customer Relationship Management ; System to manage customer relationships
CRO	Settlement prices of the deviations
CVC	Corporate Venture Capital; A fund established by
DSO	Distribution System Operator; 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
EIB	European Investment Bank
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 IFRSS and it should not be treated as an alternative for measures and categories consistent with IFRSS. 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; Operating profit
EBRD	European Bank for Reconstruction and Development
EGM	Extraordinary General Meeting of ENERGA SA
EGM	Extraordinary General Meeting
ENERGA Capital Group, ENERGA Group, Group	Capital Group dealing with the distribution, sales and generation of electricity and thermal energy. It also conducts activity related to street lighting, design, procurement of materials, grid-related services, specialized transport, hotel and IT services
EMTN	Euro Medium Term Notes issue facility
ERO	Energy Regulatory Office
EU	European Union
EUA	European Union Allowance ; Emission allowances
EU ETS	European Union Greenhouse Gas Emission Trading Scheme; EU emissions trading scheme. The rules governing its operation are stated in ETS Directive.
EUR	Euro, currency used in countries belonging to the European Union's Eurozone
GDP	Gross Domestic Product
GUS	Główny Urząd Statystyczny (Central Statistical Office)
GW	Gigawatt, unit of power in the International System of Units, 1 GW = 109 W

Gwe	Gigawatt of electrical power
GWh	Gigawatt hour
IBnGR	Instytut Badań nad Gospodarką Rynkową (Market Economy Research Institute)
IPO	Initial Public Offering
ISE	Smart Grid
IRS	Interest Rate Swap
IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. (Clearing House of Mercantile Exchanges)
KNF	Polish Financial Supervision Authority
KPI	Krajowy Plan Inwestycyjny (National Investment Plan)
KRS	National Court Register
KTR	Krajowe Towarzystwo Reklamowe (National Advertising Association)
kWh	Kilowatt hour, unit of electrical energy generated or used by equipment with 1 kW of power in an hour; 1 kWh = 3,600,000 J = 3.6 MJ
MEW	Small hydro power plant
MoT	Ministry of Treasury
MPC	Monetary Policy Council
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
MWp	Megawatt of maximum power
NBP	National Bank of Poland, central bank in Poland
NCBiR	Narodowe Centrum Badań i Rozwoju (<i>National Centre for Research and Development</i>)
NFOŚiGW	National Fund for Environment Protection and Water Management
Off-peak	Contract for the supply of 1MWh of energy in low demand hours from 0:00-7:00 and 22:00-24:00
OTC	Over-the-counter market
OZEX_A	Volume-weighted average price using all transactions pertaining to the PMOZE_A contract on an exchange session
PEAK	Contract for the supply of 1MWh of energy during every peak hour 7:00- 22:00
PGE	PGE Polska Grupa Energetyczna SA
PKEE	Polski Komitet Energii Elektrycznej (<i>Polish Electricity Association</i>)
PLN	Polish zloty, national currency
PMOZE_A	Property rights to certificates of origin for electrical energy generated in RES whose period of generation, as specified in the certificate of origin, commenced after 1 March 2009
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
pp.	Percentage point
Property rights	Negotiable rights constituting a commodity arising from certificates of origin for energy generated from renewable energy sources and cogeneration
PSE	Polskie Sieci Elektroenergetyczne Spółka Akcyjna with its registered office in Warsaw, entered in the register of entrepreneurs of the National Court Register under file number KRS 0000197596; company designated by ERO President decision No. DPE-47-58(5)/4988/2007/BT of 24 December 2007 to be the electrical power transmission system operator in the Republic of Poland for the period from 1 January 2008 until 1 July 2014
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
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)
UOKiK	Office of Competition and Consumer Protection
WACC	Weighted average cost of capital
WIBOR	Warsaw Interbank Offered Rate
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)