



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

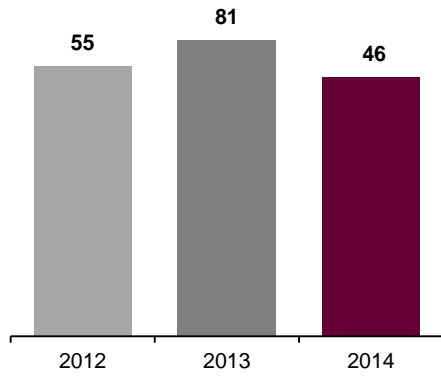
Gdańsk, 12 March 2015

## CONTENTS

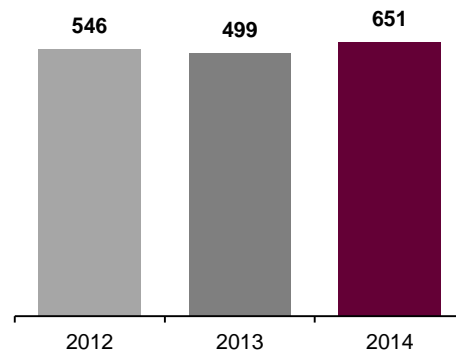
<b>1. SELECTED FINANCIAL DATA OF ENERGA SA FOR 2012-2014</b>	<b>3</b>
<b>2. INFORMATION ON THE COMPANY AND THE ENERGA GROUP</b>	<b>5</b>
2.1. Role of ENERGA SA in the Group	5
2.2. Activities of the ENERGA Group	5
2.3. Key changes in the Company's structure and organization	6
2.4. Key events and achievements of ENERGA	7
2.5. ENERGA Group's Development Strategy for 2013–2020	8
2.6. Risk management in the Company	12
2.7. Information on material agreements and transactions	18
2.8. Proceedings pending before the court, arbitration bodies or public administration bodies	22
2.9. HR and payroll situation	22
2.10. Social responsibility of the ENERGA Group	24
2.11. Awards and recognitions for the ENERGA Group	25
<b>3. ANALYSIS OF THE FINANCIAL SITUATION AND ASSETS</b>	<b>27</b>
3.1. Rules for preparing the consolidated annual financial statements	27
3.2. Explanation of the economic and financial data disclosed in the annual consolidated financial statements	27
3.3. Structure of the annual consolidated statement of financial position	31
3.4. Description of significant off-balance sheet items	31
3.5. Projected financial results	32
3.6. Ratings	32
3.7. Dividend	32
3.8. Information about the audit firm auditing the financial statements	33
<b>4. SHARES AND SHAREHOLDING STRUCTURE</b>	<b>35</b>
4.1. ENERGA's shareholding structure	35
4.2. Agreements pertaining to potential changes in the shareholding structure	36
4.3. Share Buyback	36
4.4. Employee stock ownership programs	36
4.5. Company stock prices on the Warsaw Stock Exchange	36
4.6. Investor relations in ENERGA SA	38
4.7. Recommendations for the shares in the Company	39
<b>5. REPRESENTATION ON THE APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES</b>	<b>41</b>
5.1. Corporate governance rules not used in the Company	41
5.2. Shareholders holding significant blocks of shares	42
5.3. Holders of securities giving special rights of control and description of these rights	42
5.4. Restrictions regarding the exercise of voting rights	43
5.5. Restrictions on the transfer of ownership title to securities	43
5.6. Rules for amending the Company's Articles of Association	43
5.7. Company's corporate bodies	44
5.8. Remuneration of persons in management and supervisory bodies	53
5.9. Primary attributes of the internal control and risk management systems in reference to preparing financial statements	54
<b>6. MANAGEMENT BOARD'S REPRESENTATION</b>	<b>58</b>
List of figures	59
List of tables	59
Glossary of terms and abbreviations	59

## 1. SELECTED FINANCIAL DATA OF ENERGA SA FOR 2012-2014

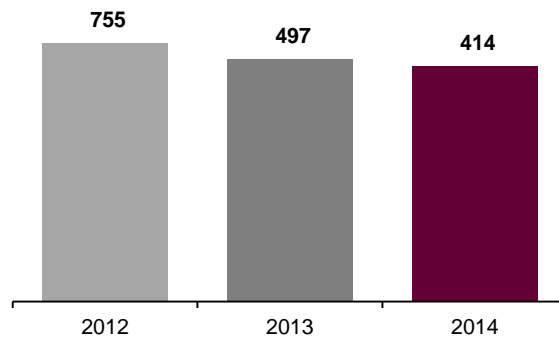
**Sales revenue (PLN m)**



**Net profit (PLN m)**



**Dividend (PLN m)**





# Key information about the Company



## 2. INFORMATION ON THE COMPANY AND THE ENERGA GROUP

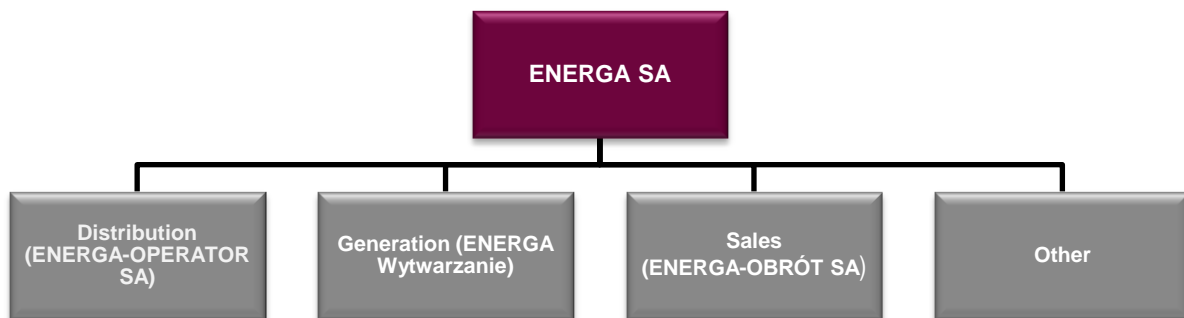
### 2.1. Role of ENERGA SA in the Group

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

### 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 three key operating segments: Distribution, Generation and Sales

Figure 1: Simplified organizational structure chart of the ENERGA Group



**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. As at 31 December 2014, the distribution grid consisted of power lines with a total length of over 184 thousand km<sup>1</sup> and covered almost 75 thousand km<sup>2</sup>, i.e. about 24% of the country's landmass. ENERGA-OPERATOR SA acts as the leader of this Segment.

**Generation Segment** involves mainly the production of electricity and operates on the basis of four business lines: the Ostrołęka Power Plant, Hydro, Wind and Other (including co-generation, i.e. CHP). At the end of 2014, the total installed capacity in the Group's power plants was approximately 1.4 GW. The leader in this segment is ENERGA Wytwarzanie SA.

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. At the end of 2014, the ENERGA Group supplied 2.9 million customers, out of which over 2.6 million were G tariff customers.

The area supporting the three main Segments in respect to accounting, administrative support, HR and IT is consolidated in the Others Segment.

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

### 2.3. Key changes in the Company's structure and organization

In 2014, the Company undertook efforts to change the principles of management of ENERGA SA and tidy up its organization. It also changed its approach to the principles and exercise of ENERGA SA's corporate governance and business oversight function in the Group.

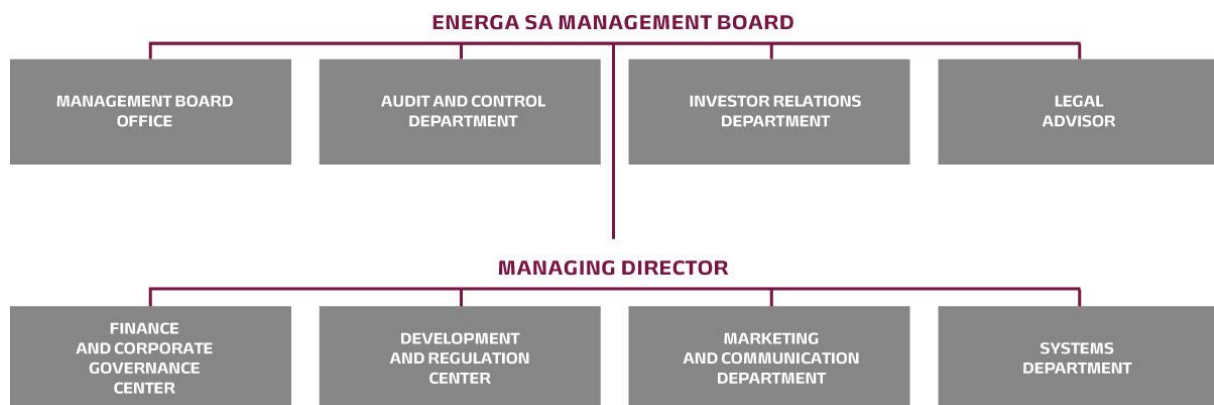
The following new solutions were accepted:

- (1) ENERGA SA exercises oversight over segment leaders and over the companies that are not included in none of the three segments. Segment leaders oversee the companies comprising their segments;
- (2) The Group is managed from the ENERGA SA level is based on the objectives and accountability methodology. ENERGA SA has abandoned process management at the strategic level, recognizing the management by objectives methodology as a more effective formula for implementing the Group Development Strategy.

Following ENERGA SA's IPO on the Warsaw Stock Exchange (WSE), its structure was remodeled and adjusted to new challenges and tasks.

The chart below shows the organizational 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 2: ENERGA SA's organizational structure chart as at 31 December 2014



The new organizational bylaws of ENERGA SA were introduced in April 2014 to implement the following assumptions:

- (1) operational tasks are performed in the Segments and the Segment leader is responsible for their execution; this is also where the powers regarding the knowledge and skills associated with current business management are located,
- (2) ENERGA SA performs tasks of strategic and general nature,
- (3) the new organizational structure should contribute to the optimization of the Group's operating expenses.

The following operate in the new structure:

- Two organizational centers responsible for setting directions for the Group's strategic development, i.e.:
  - (1) the Finance and Corporate Governance Centre – it is responsible for raising and using financing and for managing the Group's assets. The new organizational unit was formed by merging the Finance Management Center and the Asset Management Center,
  - (2) the Development and Regulation Center is responsible for developing strategic investment project, coordinating research, development and innovation, analyzing the state's regulatory policy for the energy sector. The Center was created on the basis of the previous Investment Center.



- There are two departments that will provide support to business:
  - (1) Marketing and Communication Department - responsible for communication and image of the Group;
  - (2) Systems Department – handles tasks related to defining, maintaining and developing the rules for managing the IT systems, safety and risk systems in place in the Group. This new organizational unit was established based on: the IT Center, Risk, Process and Project Management Department, IT Center, Institutional Relations Department and Security Systems Department.
- Three organizational departments, which provide support mainly to the Company's Management Board in respect to its relations with the capital market, managing the Group using audit and control mechanisms and offering direct support to the Management Board in its work:
  - (1) Audit and Control Department;
  - (2) Investor Relations Department;
  - (3) Management Board Office.
- Legal Advisor reporting directly to the Company's Management Board.

In terms of efficiency, the new organizational solution resulted in limiting headcount in the Company by about 40 FTEs.

## 2.4. Key events and achievements of ENERGA

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

The ENERGA Group closed 2014 with EBITDA in the range of PLN 2,307 m (up 17% y/y) and net profit of PLN 1,006 m (up 35% y/y), 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 y/y, which resulted from the decrease of return on invested capital by 6% y/y (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 in EBITDA in the Generation Segment by PLN 465 m y/y 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 72 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](#) of 21 May 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 amount 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.

### 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](#) of 7 October 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](#) of 17 December 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](#) of 18 February 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](#) of 11 April 2014.

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

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

Figure 3: Pillars of ENERGA Group's Development Strategy

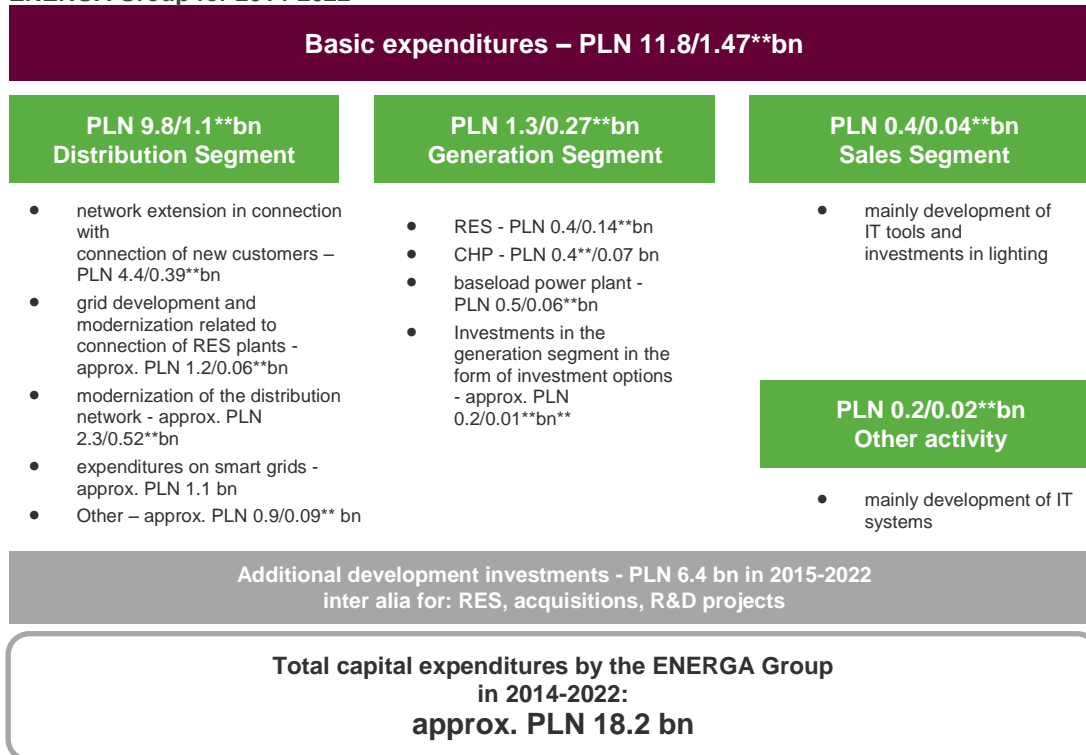


### Long-term Strategic Investment Program (WPIS)

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 2014-2022 period. 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 4: 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.*

## Research and development

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 Wytwarzanie, 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 Varmia 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 emissions in electricity production, increase in efficiency in energy distribution and consumption as well as development of smart distribution and transmission grids. 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.

### **Development 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.

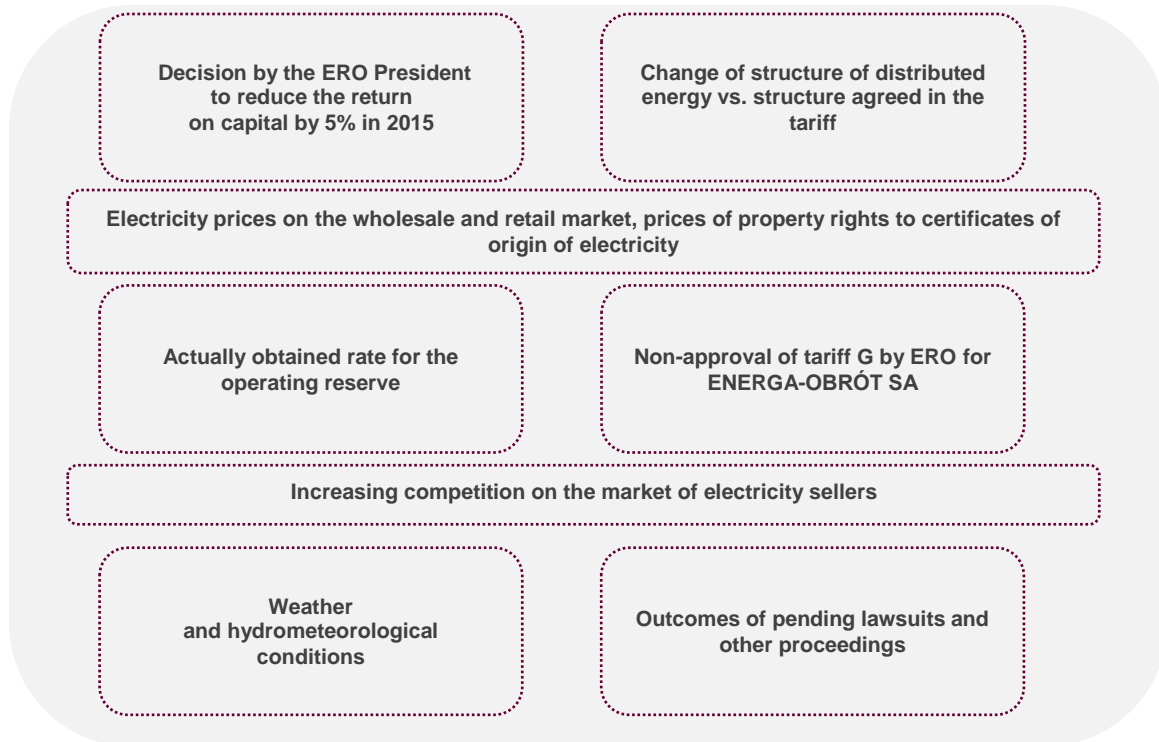
Activities will be continued aiming to minimize the impact on the environment. This will be possible owing to increasing capital expenditures for projects in the RES area. One of environment friendly projects to be performed will be modernization of ENERGA Elektrownie Ostrołęka SA by building a system 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.

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

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

Figure 5: Material factors relating to development 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.

## 2.6. Risk management in the Company

### Integrated Risk Management System in the ENERGA Group

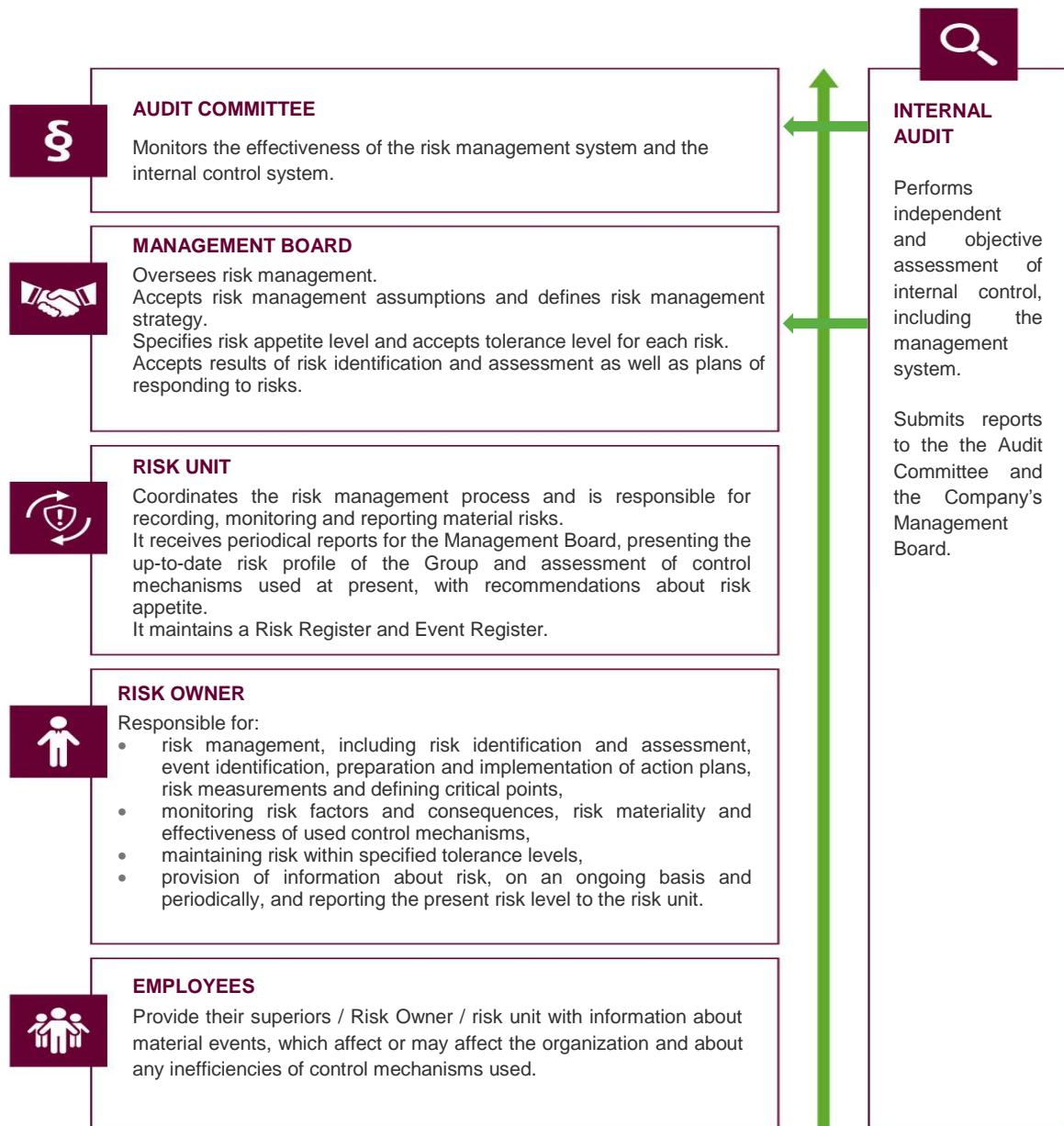
The Integrated Risk Management System (ERM), operating in the ENERGA Group since 2011, consists of individual systems implemented in the main companies and the system for the entire Group. The risk management systems of the individual companies are based on a single common model and, as a result, together they form a comprehensive risk management system. 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.

ENERGA SA as the managing company also handles strategic risk management in the Group, which includes responsibility to identify any events that may affect the implementation of any of ENERGA Group's objectives. It defines risk appetite levels for the Group and cascades them to individual Segments. It develops the Risk Management Policy, which provides a formal framework for the ERM system, and the Risk Management Methodology for the ENERGA Group.

In connection with a change to the Group Management Model and the introduction of the management by objectives system, the Risk Management Policy for 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 6: Organizational chart of the Integrated Risk Management System in the ENERGA Group



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 1: List of risk factors and their impact on the Group

Risk factors	Impact
1. Planned investments	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	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"> <li>A. failure to cover operating expenses or to ensure expected return on equity</li> <li>B. the level of margin and revenues generated by Group companies</li> <li>C. prolonging the approval process for new tariffs</li> </ul>
4. Political factors	<ul style="list-style-type: none"> <li>A. decisions of regulatory institutions</li> <li>B. decisions to consolidate the industry</li> <li>C. changes in the regulatory environment</li> </ul>
5. Relationships with trade union organizations	<ul style="list-style-type: none"> <li>A. social unrest, strikes, manifestations</li> <li>B. reduction in the valuation of the Company</li> <li>C. disturbances to the operation of the organization</li> </ul>
6. Regulatory environment	<ul style="list-style-type: none"> <li>A. amendments to the energy policy in Poland and in the European Union</li> <li>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.)</li> <li>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)</li> <li>D. regulations on emissions of CO<sub>2</sub> (additional capital expenditures or restricting the business activity)</li> <li>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 CO<sub>2</sub> at prices higher than market prices</li> <li>F. changes to the area of environmental protection (capital expenditures, charges for using water by power facilities)</li> <li>G. additional duties of a DSO</li> <li>H. localization restrictions for RES installations (wind farms)</li> </ul>
7. Unregulated legal status of real estate	<ul style="list-style-type: none"> <li>A. claims from property owners</li> <li>B. necessity to remove machines, installations or structures belonging to the Group's companies found on properties owned by third parties</li> </ul>
8. Court and administrative proceedings	<ul style="list-style-type: none"> <li>A. image deterioration, loss of reputation</li> <li>B. costs of proceedings</li> <li>C. indemnities</li> <li>D. criminal, penal fiscal and administrative sanctions</li> </ul>
9. Weather factors	<ul style="list-style-type: none"> <li>A. demand for electricity and heat</li> <li>B. failures of machines causing interruptions or disturbances to the production, distribution or sales processes</li> <li>C. threats to the security of persons and property</li> </ul>
10. Business continuity	<ul style="list-style-type: none"> <li>A. disturbances to the implementation of strategic objectives</li> <li>B. threats to the security of persons and property</li> <li>C. additional costs associated with the need to repair / replace destroyed machines</li> <li>D. obligation to pay damages</li> <li>E. possibility of imposed penalties</li> <li>F. loss of reputation</li> </ul>
11. Procurement process	<ul style="list-style-type: none"> <li>A. disturbances to the implementation of capital expenditure programs</li> <li>B. operating expenses of the organization</li> <li>C. quality of provided services</li> <li>D. contractual penalties, court proceedings</li> </ul>

### 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 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. Since the tariff for electricity sales by ENERGA-OBRÓT in 2015 has not been approved, since 1 January 2015 the Company has been charging its clients according to the rates in the 2014 tariff. 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**

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.

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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.

In accordance with the adopted Financial Policy of the ENERGA Group, ENERGA SA is responsible for arranging debt financing on financial market for all Group companies and for distributing such funds to operating companies using the mechanism of internal bond issues. ENERGA SA acts here in the capacity of an investor purchasing long-term securities issued by ENERGA Group companies. This structure generates credit risk for ENERGA SA associated with the service of bonds issued by the company.

#### 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.

## 2.7. Information on material agreements and transactions

### Material contracts

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

### 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 capital expenditure program 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 2: 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
	<b>TOTAL</b>	<b>4,974,898.0</b>

## 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.

## Granted guarantees and sureties

Table 3: 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**
<b>TOTAL</b>						<b>5,432,650.78</b>	<b>2,229,442.6</b>

\*/ 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, 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

Information on the transactions with affiliated entities is presented in Note 29 to the individual financial statements for the period of one year 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.

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

As at 31 December 2014, ENERGA SA was party to 4 court proceedings. In all the cases, the Company acted in the capacity of a defendant. The total value of the subject matter of the dispute was approx. PLN 591.6 thousand.

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 aggregated amount of all of the proceedings has not exceeded 10% of the Issuer's equity, neither for ENERGA SA nor the ENERGA Group.

## 2.9. HR and payroll situation

### Headcount in ENERGA SA

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

Table 4: Headcount in the ENERGA Group as at 31 December 2014\*

Headcount as at 31 Dec 2012	Headcount as at 31 Dec 2013	Headcount as at 31 Dec 2014	Average headcount in 2012	Average headcount in 2013	Average headcount in 2014
persons	persons	persons	FTEs	FTEs	FTEs
143	135	104	174.42	137.24	114.8

\* Average headcount excluding unpaid, parental or rehabilitation benefits.

The headcount decreased because of the reorganization of the Company, which was carried out to adjust its structure and staffing to the new tasks defined in the Organizational Bylaws of the Company introduced in April 2014.

### Remuneration systems

The Company's remuneration system is described in the Rules for remunerating ENERGA SA employees approved by Resolution No. 46/I/2007 adopted by the ENERGA SA Management Board on 25 July 2007. Due to acquisition of employees through a trilateral agreement (agreement between work establishments), the following regulations are also applicable to certain remuneration components:

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

In 2014, average gross remuneration paid from the remuneration fund was PLN 12,329.45. This represents a 14.94% decrease from PLN 14,494.45 in 2013. The decline in average remuneration in 2014 was caused by changes in employment levels.

As at 31 December 2014, the Company's Management Board (3 people), Managing Director and 6 other Directors were employed on the basis of management contract and their remuneration is no longer part of the remuneration fund.

## Important information affecting the HR and payroll situation

### Employee benefits

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

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

The Company offers its employees training packages and other forms of development to prepare the employees to perform their duties, improve their knowledge and increase their efficiency, motivation and commitment to work. Training activities executed in 2014 were focused mainly on increasing the employees' qualifications in specialized areas. The employees also developed their management skills and their personal efficiency, improved their English skills and took parts in conferences and science symposia related to the energy sector.

### 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, in a letter of 5 September 2014, 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.

### Group layoffs

The Company did not carry out any group layoffs in 2014.

### Collective disputes

As at 31 December 2014, union membership in the Company was above 19%. The following three union organizations operate in the Company:

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

In 2014, the Employer was not a party to collective disputes with trade unions.

## 2.10. 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 7: Features of ENERGA Group's CSR Reports in 2012-2014



## 2.11. Awards and recognitions for the ENERGA Group

Table 5: Awards received in 2014

2014		
<b>17 February 2014</b> Distinction for ENERGA SA for the highest IPO value in 2013 granted by WSE	<b>15 February 2014</b> 2013 Sponsor of the Year Award for ENERGA SA awarded by the President of Toruń for the contribution to development of sports in Toruń.	<b>1 April 2014</b> 3rd place for ENERGA SA in the "Investor Relations" category in the ranking named "Listed Company of the Year" awarded by Puls Biznesu
<b>21 May 2014</b> 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	<b>3 May 2014</b> 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	<b>25 June 2014</b> Premium Brand 2014 title after an audit of reputation of brands among consumers and companies in the business environment organized by MMT Management
<b>6 October 2014</b> "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	<b>7 November 2014</b> 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	<b>9 December 2014</b> 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

# 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 Individual Financial Statements of ENERGA SA for the twelve-month period ended 31 December 2014 were prepared:

- (1) in accordance with the International Financial Reporting Standards and IFRS 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) unless stated otherwise, in thousands of Polish zloty (PLN 000s),
- (4) under the assumption of ENERGA SA's being a going concern for the foreseeable future and there are no circumstances indicating a threat to the Company's continuing operations.

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

The accounting (policy) principles used to prepare the annual individual financial statements are presented in Note 8 to the individual financial statements of ENERGA SA for the twelve-month period ended 31 December 2014.

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

Table 6: Individual statement of profit or loss

PLN 000s	2012	2013	2014	Change 2014/2013	Change 2014/2013 (%)
<b>Sales revenues</b>	<b>55,135</b>	<b>80,996</b>	<b>46,329</b>	<b>-34,667</b>	<b>-43%</b>
Cost of sales	(61,662)	(84,569)	(56,108)	28,461	-34%
<b>Gross loss on sales</b>	<b>(6,527)</b>	<b>(3,573)</b>	<b>(9,779)</b>	<b>-6,206</b>	<b>174%</b>
Other operating income	7,284	7,588	11,268	3,680	48%
General and administrative expenses	(79,754)	(97,864)	(73,807)	24,057	-25%
Other operating expenses	(2,691)	(4,543)	(5,463)	-920	20%
Financial income	995,776	942,948	1,032,870	89,922	10%
Financial costs	(393,266)	(341,089)	(308,783)	32,306	-9%
<b>Profit before tax</b>	<b>520,822</b>	<b>503,467</b>	<b>646,306</b>	<b>142,839</b>	<b>28%</b>
Income tax	9,354	(4,418)	4,231	8,649	>100%
Discontinued activity and non-current assets classified as held for sale	15,419	-	-	-	-
<b>Net profit for the period</b>	<b>545,595</b>	<b>499,049</b>	<b>650,537</b>	<b>151,488</b>	<b>30%</b>



PLN 000s	Q4 2013	Q4 2014	Change	Change (%)
<b>Sales revenues</b>	<b>28,741</b>	<b>4,320</b>	<b>-24,421</b>	<b>-85%</b>
Cost of sales	-35,993	-22,972	13,021	-36%
<b>Gross profit on sales</b>	<b>-7,252</b>	<b>-18,652</b>	<b>-11,400</b>	<b>157%</b>
Other operating income	1,353	5,023	3,670	>100%
General and administrative expenses	-31,136	-16,446	14,690	-47%
Other operating expenses	-983	-733	250	-25%
Financial income	67,543	64,383	-3,160	-5%
Financial costs	-71,370	-74,997	-3,627	5%
<b>Profit before tax</b>	<b>-41,845</b>	<b>-41,422</b>	<b>423</b>	<b>-1%</b>
Income tax	922	8,752	7,830	>100%
Discontinued activity and non-current assets classified as held for sale	-	-	-	-
<b>Net profit for the period</b>	<b>-40,923</b>	<b>-32,670</b>	<b>8,253</b>	<b>-20%</b>

ENERGA SA's revenue is largely related to the services provided by the Company to other Group companies. The decrease in revenue in 2014 resulted primarily from falling revenue on re-invoicing. In 2013, the costs of the following activities, among others, were re-invoiced to other Group companies: raising financing (launching a Eurobonds issue program, concluding loan agreements with the European Bank for Reconstruction and Development and the European Investment Bank for financing ENERGA-OPERATOR SA's investment program for 2012 - 2015), and acquisition activities related to purchase of wind assets from the DONG Group and the Iberdrola Group. In 2014, there were no material costs of activities to be re-invoiced.

Overhead costs fell by 25%, which was related to the high level in 2013 associated with the Company's IPO on the Warsaw Stock Exchange.

In 2014, as in 2013, the main source of the Company's financial income was dividend income, which went up by PLN 54 m compared to the previous year. In the reporting period no impairment allowances for financial assets were recognized, while in 2013, PLN 95 m of such allowances were recognized and PLN 26 m reversed. As a result, net financial income grew by PLN 122 m.

Accordingly, the net result of ENERGA SA reached PLN 651 m, which was 30% more than the net profit earned in 2013. In addition to the aforementioned factors, the net result was significantly affected by change of income tax.

Table 7: Individual statement of financial position

PLN 000s	2012	2013	2014	Change 2014/2013	Change 2014/2013 (%)
<b>ASSETS</b>					
<b>Non-current assets</b>	<b>9,341,013</b>	<b>10,465,281</b>	<b>10,857,563</b>	<b>392,282</b>	<b>4%</b>
Property, plant and equipment	7,256	10,962	10,467	-495	-5%
Investment property	11,736	11,079	3,470	-7,609	-69%
Intangible assets	26,987	25,680	37,489	11,809	46%
Shares in subsidiaries and associates measured at purchase price	5,953,106	6,170,698	5,980,032	-190,666	-3%



Deferred tax assets	10,653	-	10,479	10,479	-
Hedging derivatives	-	13,017	51,165	38,148	>100%
Bonds	3,147,730	4,104,817	4,632,543	527,726	13%
Other non-current assets	183,545	129,028	131,918	2,890	2%

<b>Current assets</b>	<b>1,024,425</b>	<b>1,099,806</b>	<b>1,259,442</b>	<b>159,636</b>	<b>15%</b>
Inventories	496	467	658	191	41%
Trade receivables and other financial receivables	22,600	39,864	31,533	-8,331	-21%
Interest and shares	11,119	1,000	-	-1,000	-100%
Bonds	232,941	335,787	284,175	-51,612	-15%
Cash and cash equivalents	688,261	710,399	905,800	195,401	28%
Other current assets	69,008	12,289	35,261	22,972	>100%
Assets classified as held for sale	-	-	2,015	2,015	-
<b>TOTAL ASSETS</b>	<b>10,365,438</b>	<b>11,565,087</b>	<b>12,117,005</b>	<b>551,918</b>	<b>5%</b>

## EQUITY AND LIABILITIES

### Equity attributable to equity holders

Share capital	4,968,805	4,521,613	4,521,613	-	-
Reserve capital	-	447,192	447,192	-	-
Supplementary capital	471,235	521,490	606,472	84,982	16%
Cash flow hedge reserve	-	26,539	38	-26,501	-100%
Retained earnings	591,233	543,184	694,637	151,453	28%
<b>Total equity</b>	<b>6,031,273</b>	<b>6,060,018</b>	<b>6,269,952</b>	<b>209,934</b>	<b>3%</b>

<b>Non-current liabilities</b>	<b>3,148,649</b>	<b>4,988,638</b>	<b>5,614,592</b>	<b>625,954</b>	<b>13%</b>
Loans and borrowings	2,000,547	3,866,077	4,504,675	638,598	17%
Bonds issued	1,079,219	1,059,781	1,000,000	-59,781	-6%
Non-current provisions	908	723	757	34	5%
Deferred income and non-current grants	67,975	62,057	86,412	24,355	39%
Hedging derivatives	-	-	22,748	22,748	-

<b>Current liabilities</b>	<b>1,185,516</b>	<b>516,431</b>	<b>232,461</b>	<b>-283,970</b>	<b>-55%</b>
Trade payables and other liabilities	23,911	23,468	18,006	-5,462	-23%
Current loans and borrowings	349,491	266,545	168,970	-97,575	-37%
Bonds issued	580,212	16,598	14,108	-2,490	-15%

Deferred income and government grants	8,611	8,251	18,331	10,080	>100%
Accruals	4,353	7,949	9,970	2,021	25%
Short-term provisions	162	144	23	-121	-84%
Other current liabilities	218,776	193,476	3,053	-190,423	-98%
<b>Total liabilities</b>	<b>4,334,165</b>	<b>5,505,069</b>	<b>5,847,053</b>	<b>341,984</b>	<b>6%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>10,365,438</b>	<b>11,565,087</b>	<b>12,117,005</b>	<b>551,918</b>	<b>5%</b>

As at 31 December 2014, total assets of ENERGA SA reached PLN 12,117 m and were PLN 552 m (5%) higher than on 31 December 2013. The most significant change was recorded in the liabilities under loans and borrowings line item, which was due to the disbursement of financing tranches of PLN 890 m from EIB and EBRD. Additionally, the Company repaid the principal of the loans disbursed in the previous years. The financing raised was then forwarded to the subsidiaries, which in turn increased the value of assets – purchased bonds.

The decline in other current liabilities was associated with lower liabilities related to capital increases in subsidiaries.

The most significant change in equity is related to the cash flow hedge reserve. In addition, the Company allocated PLN 414 m for dividends distributed to shareholders. As at 31 December 2014, equity covered 51.7% of the Company's assets, while the same ratio at the end of 2013 was 52.34%. Net debt increased PLN 283 m up to PLN 4,782 m.

**Table 8: Individual cash flow statement**

PLN 000s	2012	2013	2014	Change 2014/2013	Change 2014/2013 (%)
Net cash from operating activities	(101,758)	(96,704)	(85,911)	10,793	-11%
Net cash flow from investing activities	(659,796)	(348,797)	502,282	851,079	>100%
Net cash flow from financing activities	1,314,860	474,733	(230,760)	-705,493	>-100%
Net increase / (decrease) in cash and cash equivalents	553,306	29,232	185,611	156,379	>100%
Cash and cash equivalents at the end of the period	677,573	706,805	892,416	185,611	26%

The balance of ENERGA SA's cash as at 31 December 2014 was PLN 892 m, up by PLN 186 m, or 26%, from the same period of the previous year.

The total net cash flows from ENERGA Group's operating, investing and financing activities in 2014 were positive at PLN 186 m, compared to the cash flows of PLN 29 m in 2013.

Cash flows from operating activity were on a quite stable level and were related to the costs of Company's operations.

The increased net cash flows from the Company's investing activities were driven mainly by lower expenditures for the purchase of bonds from subsidiaries and increased interest income on the purchased bonds.

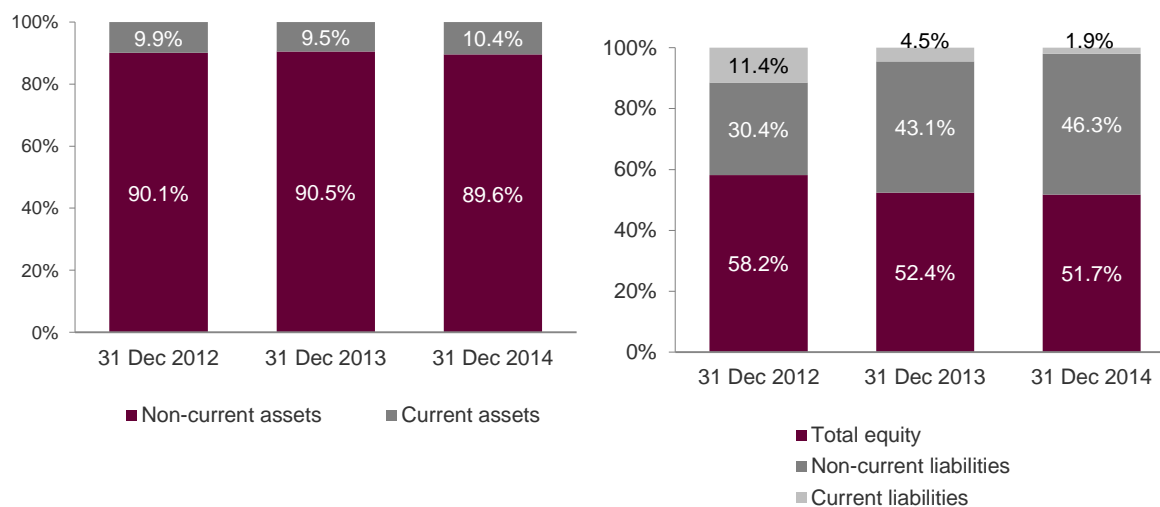
The lower net proceeds from financing activities resulted mainly from the lower receipts on disbursed financing, which was partially offset by lower expenditures for the redemption of debt securities.

### 3.3. Structure of the annual consolidated statement of financial position

Table 9: Structure of the annual individual statement of financial position

Statement of financial position	Balance as at 31 December 2012	Balance as at 31 December 2013	Balance as at 31 December 2014
<b>ASSETS</b>			
Non-current assets	90.1%	90.5%	89.6%
Current assets	9.9%	9.5%	10.4%
<b>TOTAL ASSETS</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Total equity</b>	<b>58.2%</b>	<b>52.4%</b>	<b>51.7%</b>
Non-current liabilities	30.4%	43.1%	46.3%
Current liabilities	11.4%	4.5%	1.9%
<b>Total liabilities</b>	<b>41.8%</b>	<b>47.6%</b>	<b>48.3%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Figure 8: Asset and liability structure



The structure of assets has not changed materially in 2014, non-current assets represented 90% of total assets and current assets represented 10% of total assets, which was similar to the last year's figures. Equity represented 47% of all liabilities and equity as at 31 December 2014, 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 47% and 45% of total assets at the end of 2014 and 2013, respectively.

### 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 individual financial statements in Note 30: Contingent assets and liabilities and security granted

### 3.5. Projected financial results

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

### 3.6. 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 10: 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
Last change of rating		12 October 2012
Last affirmation of rating	17 December 2014	7 October 2014

### 3.7. 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 supplementary 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 11: Information on dividends paid by ENERGA, 2011-2013**

Years	Dividend / Net profit (%)	Dividend paid (PLN)	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 31 December 2014, i.e. PLN 23.03

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

The entity authorized to audit the Financial Statements of ENERGA SA and the ENERGA Group is KPMG Audyty 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 12: Auditor's fee for services provided to the Company**

PLN 000s	Year ended 31 December 2013	Year ended 31 December 2014
Audit of the annual financial statements	40	41
Other assurance services, including a review of financial statements	3,349	239
Tax consulting services	-	-
Other services	-	-
<b>Total</b>	<b>3,389</b>	<b>280</b>

# Shares and shareholding structure



## 4. SHARES AND SHAREHOLDING STRUCTURE

### 4.1. ENERGA's shareholding structure

Table 13: 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.

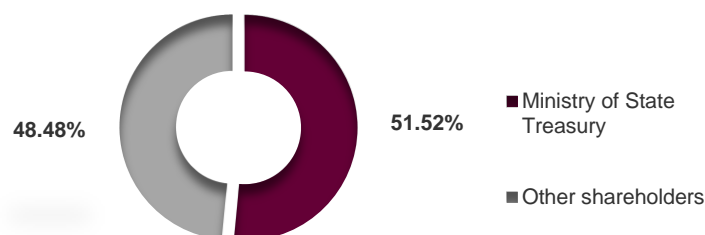
On 12 June 2014, the Company announced (current report [no. 31/2014](#)) that on this day the subsidiary, ENERGA Wytwarzanie SA, sold 3,190 shares of ENERGA SA at the average purchase price of PLN 20.36 per share, i.e. for the total amount of PLN 64,935.89. The Company's shares sold by ENERGA Wytwarzanie 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 14: 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.

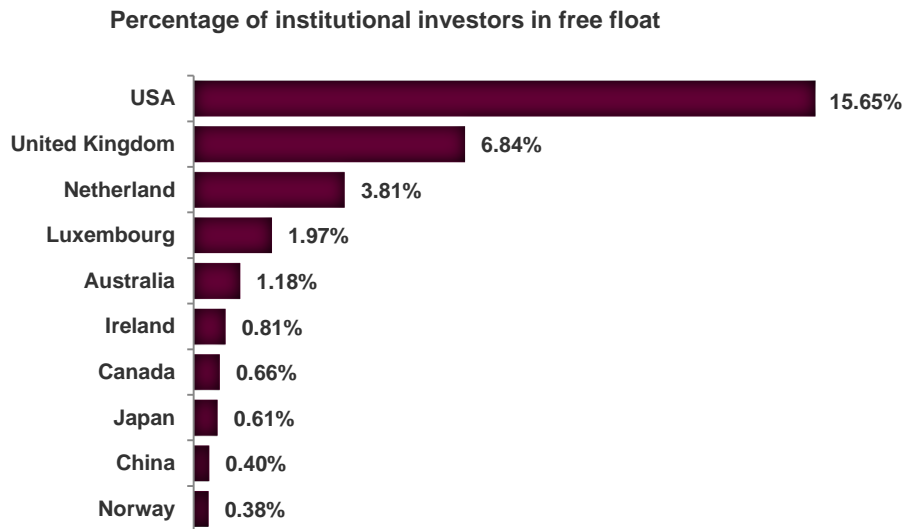
Figure 9: Shareholding structure of ENERGA as at 31 December 2014 and the date of preparing these financial statements



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 9: Information on ENERGA's foreign shareholders



Source: Proprietary materials

#### 4.2. 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.

#### 4.3. Share Buyback

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

#### 4.4. Employee stock ownership programs

The Company does not have employee stock ownership programs.

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

Table 15: 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

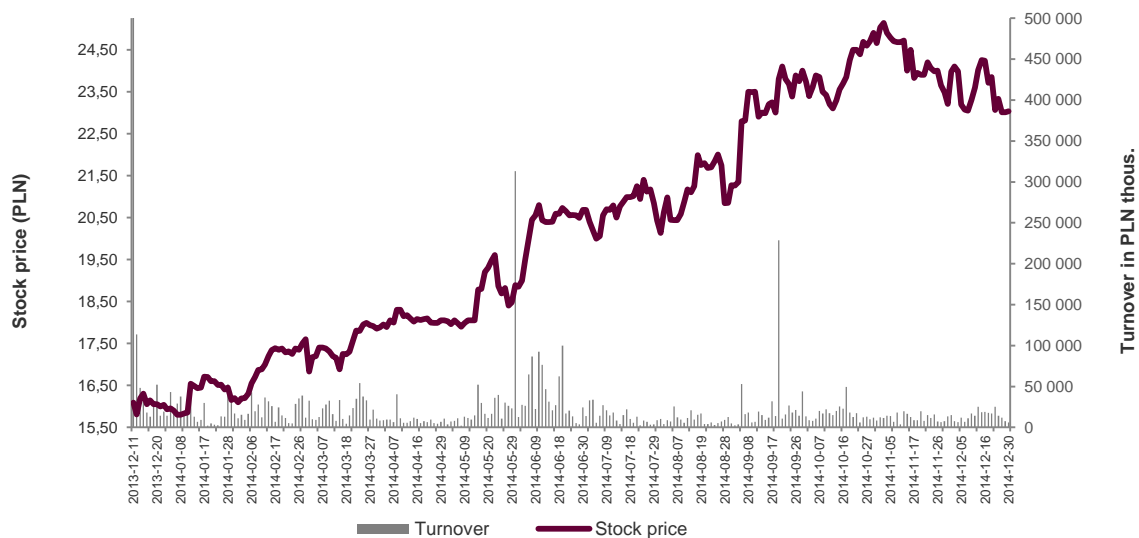


Average trading value	PLN 19,831 thous.
Average trading volume	1,002,146
Average number of trades	1,774

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

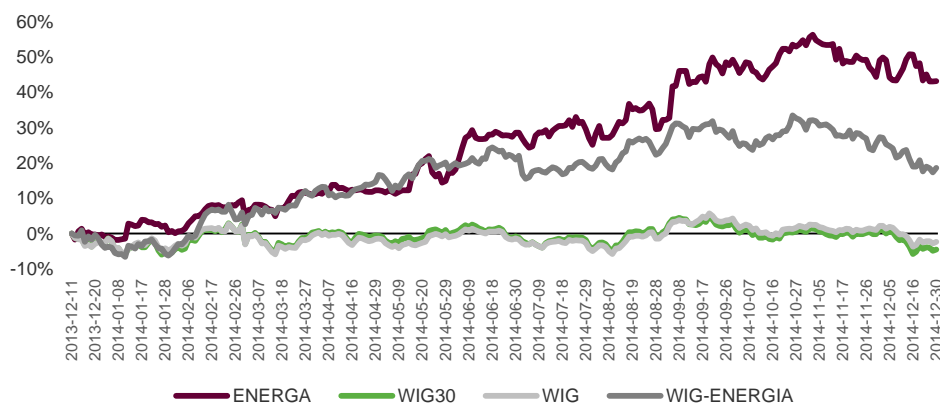
In the period from 1 January to 31 December 2014, the ENERGA SA stock price increased by 44%, i.e. from PLN 15.95 to PLN 23.03. The maximum price of Company's shares was PLN 25.14 on 3 November 2014, and the minimum price of PLN 15.80 was recorded on 7 January 2014. During Q4 2014, the price decreased 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 10: 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](http://gpwinfostrefa.pl)

Figure 11: Changes in ENERGA quotations in comparison with changes in WIG and WIG-ENERGIA indices



Source: Proprietary material based on data from [gpwinfostrefa.pl](http://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 characterised by the highest dividend rate at the end of November each year and over the past 5 financial years paid out dividends at least 3 times. ENERGA SA's share in the index 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, 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.

#### 4.6. Investor relations in ENERGA SA

In 2014 the Investor Relations Department 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.

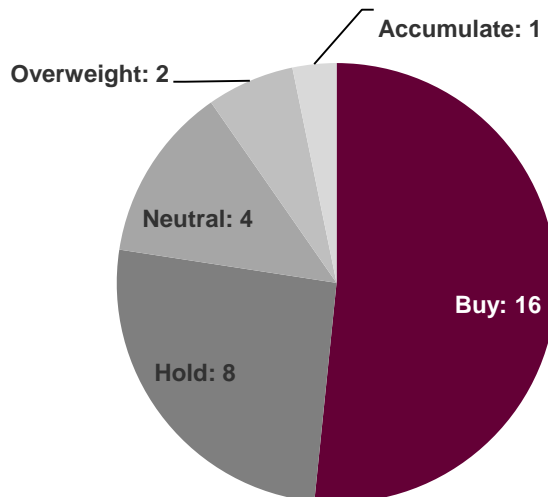
In 2014 the Company inaugurated a program dedicated to individual investors "Each share matters" under which it implements different initiatives, among others, the aforementioned organization of the Investor Day and launch of a dedicated website. Additionally, ENERGA is an active participant of the "Citizen Shareholders. Invest Knowingly" program.

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

#### 4.7. 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 12: Structure of the recommendations issued for ENERGA's shares in 2014





# Representation on the application of Corporate governance principles





## 5. 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 Practice", "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.

### 5.1. 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 1 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 does 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, 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 Ziemięcka-Księżak
- (3) Marian Gawrylczyk
- (4) Jakub Żołtyniak.

The Company makes efforts to implement also the recommendations included in part I of Good 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 Good 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.

## 5.2. Shareholders holding significant blocks of shares

Table 16: Shareholding structure of the Company as 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

## 5.3. 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.

#### **5.4. 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.

#### **5.5. 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.

#### **5.6. 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.

## 5.7. 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, wetting the dividend date or spreading the payment of dividend 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. 11/2014](#) 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 will publish 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 Żołyński - 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 Żołyński.

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. (USA). 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 Kozłowski 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 Żołyński** – 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.

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

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.

## **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.

#### Operation of the Management Board

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.

## 5.8. 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 17: 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 <sup>(1)</sup> <sub>,<sup>(2)</sup></sub>	Other benefits	Total
Miroslaw 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 18: 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 Ziemiecka-Księżak	from 20 May to 31 December	25,736.62	5,302.24	31,038.86
4.	Jarosław Mioduszeowski	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 Kuczkowski	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.	<b>TOTAL</b>		<b>289,525.90</b>	<b>58,122.09</b>	<b>347,647.99</b>

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

As at 31 December 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 19: 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.

## 5.9. 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 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 report (i.e. PricewaterhouseCoopers Sp. z o.o.) 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.

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

In 2014, the Company's Supervisory Board ([current report no. 42/2014](#) of 6 November 2014), having examined the recommendation of the Audit Committee, selected the authorized entity

PriceWaterhouseCoopers Sp. z o.o. in Warsaw, to be the chartered accountant to audit the 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





## 6. MANAGEMENT BOARD'S REPRESENTATION

The ENERGA SA Management Board hereby represents that:

- (1) according to the best knowledge, the annual financial statements and the comparative data were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of ENERGA SA and its financial result. The Management Board report on the activity of ENERGA SA contains a true presentation of developments, achievements and situation of the Company, including a description of key risks and threats;
- (2) KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, an entity authorized to audit the financial statements, which audited the financial statements of ENERGA SA 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 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

## List of figures

Figure 1: Simplified organizational structure chart of the ENERGA Group .....	5
Figure 2: ENERGA SA's organizational structure chart as at 31 December 2014 .....	6
Figure 3: Pillars of ENERGA Group's Development Strategy .....	8
Figure 4: Capital expenditures assumed in the "Long-term Strategic Investments Program of the ENERGA Group for 2014-2022 .....	9
Figure 5: Material factors relating to development of the ENERGA Group at least for the year 2015 .....	12
Figure 6: Organizational chart of the Integrated Risk Management System in the ENERGA Group .....	13
Figure 7: Features of ENERGA Group's CSR Reports in 2012-2014 .....	25
Figure 8: Asset and liability structure .....	31
Figure 9: Information on ENERGA's foreign shareholders .....	36
Figure 10: ENERGA SA stock price, in the period from IPO (i.e. 11 December 2013) to 31 December 2014 .....	37
Figure 11: Changes in ENERGA quotations in comparison with changes in WIG and WIG-ENERGIA indices .....	37
Figure 13: Structure of the recommendations issued for ENERGA's shares in 2014 .....	39

## List of tables

Table 1: List of risk factors and their impact on the Group .....	13
Table 2: Nominal value of bonds subscribed by ENERGA SA and outstanding, by issuer, as at 31 December 2014 .....	19
Table 3: Information on sureties and guarantees extended by ENERGA as at 31 December 2014 .....	20
Table 4: Headcount in the ENERGA Group as at 31 December 2014* .....	22
Table 5: Awards received in 2014 .....	25
Table 6: Individual statement of profit or loss .....	27
Table 7: Individual statement of financial position .....	28
Table 8: Individual cash flow statement .....	30
Table 9: Structure of the annual individual statement of financial position .....	31
Table 10: Ratings awarded to ENERGA .....	32
Table 11: Information on dividends paid by ENERGA, 2011-2013 .....	33
Table 12: Auditor's fee for services provided to the Company .....	33
Table 13: Issuer's shares by series and types .....	35
Table 14: Shareholding structure of ENERGA as at 31 December 2014 and the date of preparing these financial statements .....	35
Table 15: Data for ENERGA as at 31 December 2014 .....	36
Table 16: Shareholding structure of the Company as at 31 December 2014 and as at the date of this Report ...	42
Table 17: Remuneration of persons comprising the ENERGA SA Management Board in the period from 1 January to 31 December 2014 (PLN) .....	53
Table 18: Remuneration of persons comprising the ENERGA SA Supervisory Board in the period from 1 January to 31 December 2014 (PLN) .....	54
Table 19: Number of Company shares and shares in related companies held by persons in management bodies .....	54

## 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
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
BCSM	Business Continuity Management System
CAGR	Compound Annual Growth Rate
CAPEX	Capital expenditures
Catalyst	The Catalyst bond market is run on the transaction platforms of the Warsaw Stock Exchange and BondSpot.
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)
Cogeneration, CHP	Technological process of simultaneous combustion of heat and electrical or mechanical energy in the course of the very same technological process
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
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
ECB	European Central Bank
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
EMTN	Euro Medium Term Notes issue facility
ERM	Enterprise Risk Management
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
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
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
TSO	Transmission System Operator; Utility dealing with the transmission of gaseous fuels or electrical energy, responsible for grid operation in the gaseous transmission system or in the electrical energy transmission system, the current and long-term operational safety of this system, the operation, maintenance, refurbishment and required expansion of the transmission grid, including connections with other gaseous systems or other electrical energy systems
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
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
Vertically-integrated utility	Utility or group of utilities whose reciprocal relationships are prescribed by Article 3 sec. 2 of the Regulation on the Control of Concentrations, dealing with (i) in respect of gaseous fuels: transmission or distribution. or storage. or condensation and
WACC	Weighted average cost of capital
WIBOR	Warsaw Interbank Offered Rate
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
yoy	Year over year