



**Information
to the Condensed
Consolidated Report
of the
ENERGA Group**

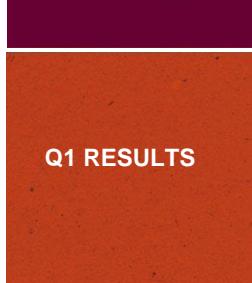
for Q1 2016

Gdańsk,
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1. SUMMARY OF Q1 2016



ENERGA GROUP AFTER Q1 2016

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

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

THIRD BIGGEST SELLER OF ELECTRICITY TO END USERS



PLN 645 m
EBITDA



Distribution network
with the length of over
182 thous. km



Installed capacity
1.31 GWe
of which **45%** are RES

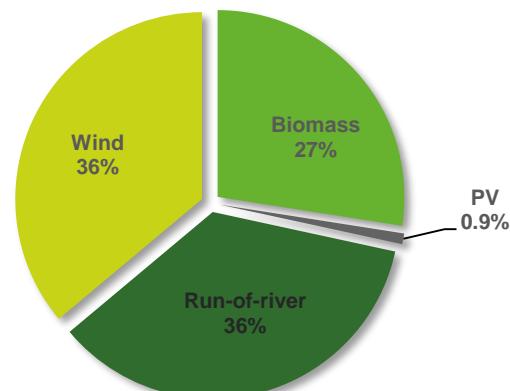


8.5 thousand
employees



- Heating plant
- Pumped-storage power plant
- Small hydropower plant
- CHP
- Photovoltaic power plant
- Must run power plant
- Large hydropower plant
- Wind farm
- Coal
- Biomass

Installed capacity
585 MWe



Market capitalization: PLN 5.4 bn*

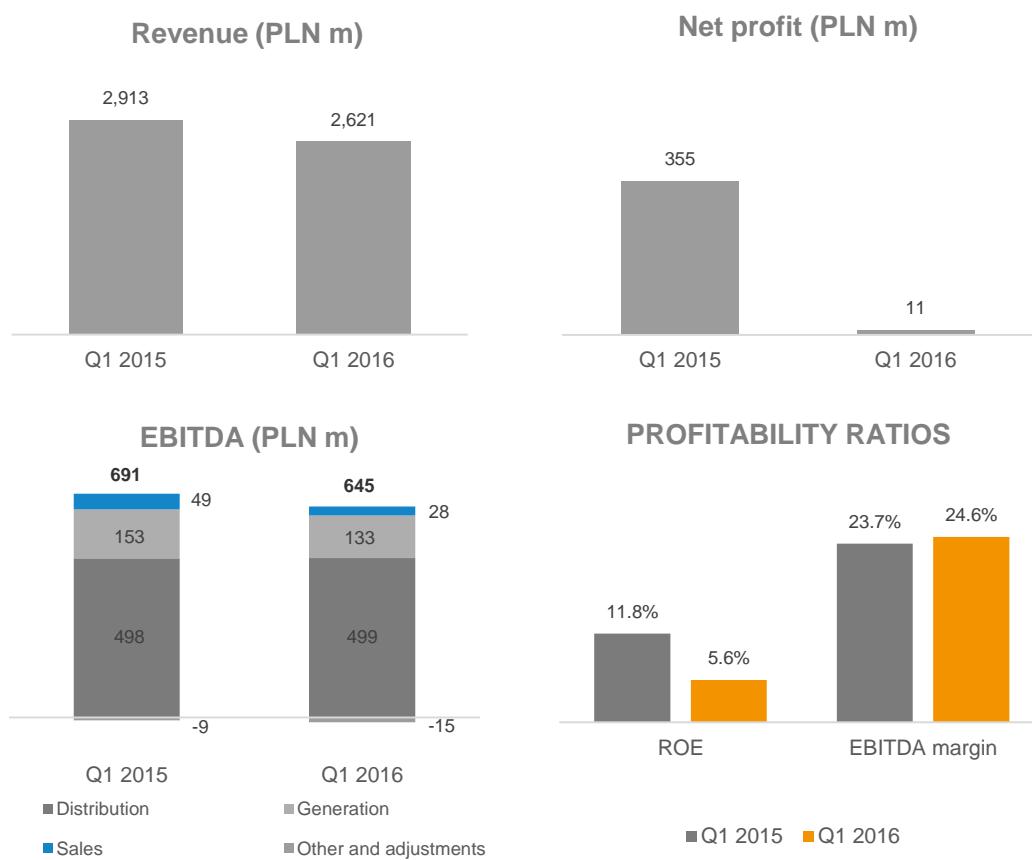
Indices: WIG20, WIG30, MSCI Poland, WIG Energia, WIG, WIGdiv, FTSE All World, RESPECT Index, MSCI Global Sustainability Indexes.

* According to the closing stock price on 31 March 2016.

OPERATIONAL DATA

	Q1 2015	Q1 2016
Volume of electricity supplied (GWh)	5,460	5,644
Gross electricity produced (GWh)	1,201	1,005
- incl. RES (GWh)	530	362
Electricity sold (GWh)	6,863	5,962
- incl. retail sales (GWh)	4,285	4,905

INVESTMENTS



Investment projects in the ENERGA Group

In Q1 2016, the ENERGA Group executed investment projects worth PLN 381 m, of which almost **PLN 269 m** in the Distribution Segment. Investment projects in the Distribution Segment included expansion of the grid to connect new clients and producers as well as modernization, which is aimed at improving the reliability of electricity supply. Expenditures were also made for innovative grid technologies and solutions.

As a result of these capital expenditures, in Q1 of this year **7.4 thousand new clients were connected**, **741 thousand km of medium and low voltage lines were built and modernized** and **55 MW of new renewable energy sources were connected to the grid**.

Key information about the Group



2. KEY INFORMATION ABOUT THE GROUP

2.1. Material events in the reporting period and after the balance sheet date

Capital investment in Polska Grupa Górnica Sp. z o.o.

On 15 March 2016, the Company submitted a non-binding conditional proposal of its capital contribution to the investment in Polska Grupa Górnica Sp. z o.o. in the amount of up to PLN 600 m. The submitted proposal was an expression of will for the Company to enter into good faith negotiations concerning the investment and to strive to complete the investment process smoothly giving consideration to the conditions presented in the proposal.

On 26 April 2016 ENERGA Kogeneracja Sp. z o.o. („ENERGA Kogeneracja”), an indirect subsidiary of ENERGA SA, signed the Memorandum of Agreement on commencing the operations of Polska Grupa Górnica Sp. z o.o. (“PGG”). The investors have declared in the Memorandum of Agreement that they plan to recapitalize PGG for a final amount of PLN 2,417 m. ENERGA Kogeneracja has declared that it will subscribe for shares in PGG for PLN 500 m.

To define the possible directions of, and grounds for, PGG’s further operation and development, its business plan has been devised and it assumes the following in particular:

- a) sale to PGG of KW’s enterprise consisting of 11 mines, 4 establishments and a set of support functions for mines and establishments currently termed the head office of Kompania Węglowa,
- b) PGG’s achievement of certain levels of profitability,
- c) enhancement of PGG’s operating efficiency giving consideration to the re-allocation of some assets.

PGG will operate on the basis of its business plan whose purpose is to keep coal production costs under strict control, achieve specific levels of profitability and enhance the company’s operational efficiency (current report no. 16/2016). Implementation of the Memorandum of Agreement required the execution of specific agreements, including the investment agreement, which was executed on 28 April of this year (“Agreement”). The Agreement regulates how the investment will be conducted and how to join PGG, contains the rules for the operation of PGG and its corporate bodies as well as the rules for the parties to divest their investment in PGG. The Agreement calls for recapitalization of PGG in 3 stages by ENERGA Kogeneracja:

1. To pay PLN 361.1 m for the newly issued shares in PGG during the first stage (payable within 4 business days after signing the Agreement). The first stage of recapitalization will enable ENERGA Kogeneracja to subscribe for 15.7% of PGG’s share capital.
2. To pay PLN 83.3 m for the newly issued shares in PGG during the second stage (by 3 November 2016), which will translate into a total stake of 16.6% in PGG’s share capital.
3. To pay PLN 55.6 m for the newly issued shares in PGG during the third stage (by 1 November 2017), which will translate into a total stake of 17.1% in PGG’s share capital.

The Agreement includes introduction of a number of ratios to monitor the implementation of the business plan, in particular pertaining to profitability, liquidity, the debt level and PGG’s operating efficiency. The Agreement contains clauses pertaining to providing regular information to the Investors’ representatives on the levels of the various ratios. Details on the Agreement are presented in current report no. 17/2016 of 28 April of this year.

Recognition of impairment loss on wind assets

In connection with changes in the market environment, such as the falling prices for the certificates of origin for energy and the persistently low electricity prices, certain factors have been identified that may result in a decline in the ENERGA Group's recoverable assets. In view of the foregoing, as a result of the impairment tests conducted for Q1 2016, on 11 April 2016 the decision was made to recognize impairment losses in the Generation Segment for property, plant and equipment totaling PLN 187.6 m. Accordingly, it was also necessary to conduct impairment tests on the goodwill coming from the acquisition of wind farms in 2013 and this contributed to recognizing an impairment loss of PLN 117 m. The total impact exerted by these impairment losses on the ENERGA Group's consolidated financial statements for Q1 2016 is PLN 304.6 m. These operations are non-cash in nature and do not affect the Group's current and future liquidity position. These tests have not demonstrated an impairment loss for the ENERGA Group's existing conventional generation assets. After taking these impairment losses, the book value of wind farms in the ENERGA Group's consolidated balance sheet is PLN 892.6 m, including PLN 86.9 m for future wind power plants (current report no. 14/2016).

Changes in the ENERGA SA Management Board

On 1 April 2016, the Company's Supervisory Board adopted a resolution to appoint Mr. Grzegorz Ksepko to the Company's Management Board as of 1 February 2016 to serve as the Vice-President of the Management Board for Corporate Matters (current report no. 7/2016).

On 26 February 2016, the Company's Supervisory Board adopted a resolution to dismiss Mr. Roman Pionkowski as of 26 February 2016 from the Company's Management Board who was serving as the Vice-President of the ENERGA SA Management Board for Strategy (current report No. 9/2016).

On 19 March 2016, the Company's Supervisory Board adopted a resolution to appoint to the Company's Management Board of the 5th term of office as of 21 March 2016: Ms. Mariola Anna Zmudzińska to serve as the ENERGA SA Management Board for Investor Relations and Mr. Przemysław Piesiewicz to serve as the Vice-President of the ENERGA SA Management Board for Strategy (current report no. 11/2016).

Change in the composition of the ENERGA SA Supervisory Board

On 7 January 2016, the Extraordinary General Meeting of the Company adopted a resolution to dismiss Mr. Mirosław Szreder and Mr. Jarosław Mioduszewski from the Company's Supervisory Board. At the same time, by decision of that General Meeting, Mr. Maciej Żółkiewicz, Mr. Marek Szczepaniec and Mr. Andrzej Powałowski were appointed as Supervisory Board members (current report no. 3/2016).

Other

Additional details are provided in note 20 to the Consolidated financial statements: *Other information significantly affecting the assessment of assets, financial position and the financial result of the Group.*

2.2. Activities of the ENERGA Group

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

The Distribution Segment – operating segment of key importance for the Group's operating profitability, involving distribution of electricity which in Poland is a regulated activity conducted on the basis of tariffs approved by the President of the Energy Regulatory Office (ERO). The ENERGA Group has a natural monopoly position in the northern and central part of Poland, where its

distribution assets are located, through which it supplies electricity to over 2.9 million customers, approx. 2.8 million of which are customers with comprehensive agreements and roughly 183 thousand are TPA customers. The distribution grid consists of power lines with a total length of over 182 thousand km (as at 31 December 2015) and covers almost 75 thousand km², or roughly 24% of the country's landmass. ENERGA-OPERATOR SA acts as the Segment Leader.

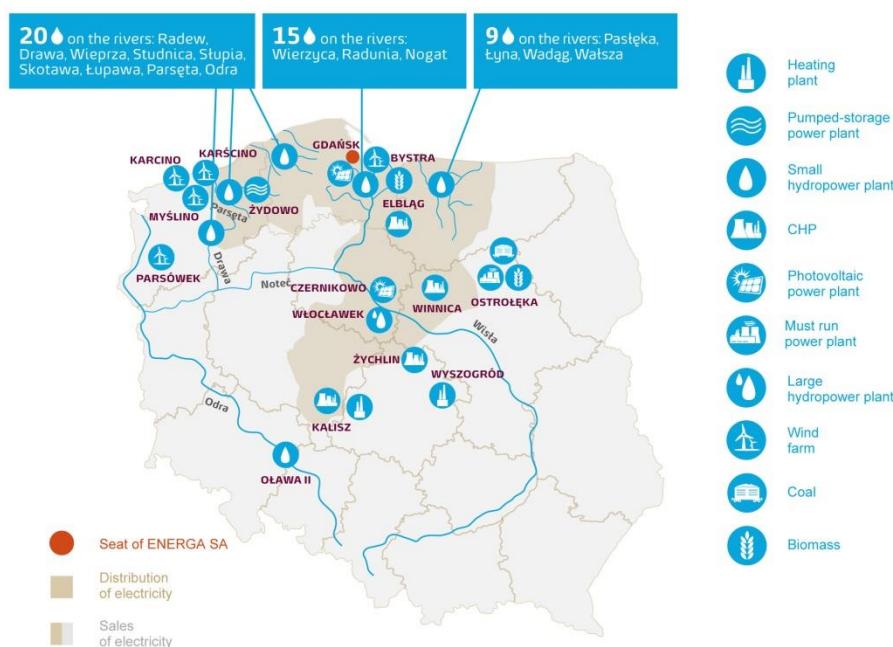
Figure 1: Electricity distribution area served by ENERGA-OPERATOR SA



Generation Segment operates on the basis of four business lines: the Ostrołęka Power Plant, Hydro, Wind and Other (including cogeneration – CHP). At the end of Q1, the total installed capacity in the Group's power plants was approximately 1.3 GW.

In Q1 2016, the Group's gross production was 1.0 TWh of electricity. The installed capacity of our power plants relies on diverse energy sources, such as hard coal, hydropower, wind, biomass and solar energy. In Q1 2016, 63% of the Group's gross energy production originated from hard coal, 26% from hydro, 10% from wind and 1% from biomass. The Segment Leader is ENERGA Wytwarzanie SA.

Figure 2: Distribution of the main generation assets of the ENERGA Group



The ENERGA Group owes its leading position in terms of the percentage of electricity from renewable energy sources in the total energy generated, primarily to the generation of energy in hydro power plants. Green energy is produced in 45 hydro power plants, 5 wind farms, in biomass-fired installations (ENERGA Kogeneracja Sp. z o. o) and in two photovoltaic farms.

At the end of Q1 of this year, the Group had 0.58 GW installed capacity in renewable energy sources, in which the Group's gross electricity production reached 362 GWh.

The Sales Segment sells electricity as a separate product and in packages with other utilities and services to all types of customers from industry to big, medium-sized and small businesses to households. The leader in this Segment is ENERGA-OBRÓT SA. The biggest share in terms of volume goes to industrial customers with households being the most numerous group of customers. At the end of Q1 2016, the ENERGA Group supplied 2.9 million customers, out of which 2.6 million were tariff G customers.

Construction of the customer portfolio is based both on acquisition activities outside the ENERGA-OPERATOR DSO and loyalty-enhancing actions protecting the existing customer base against competitors. The offering for the existing and prospective customers is based on precise understanding of their needs, simplicity of solutions and innovative pro-customer and environmental solutions.

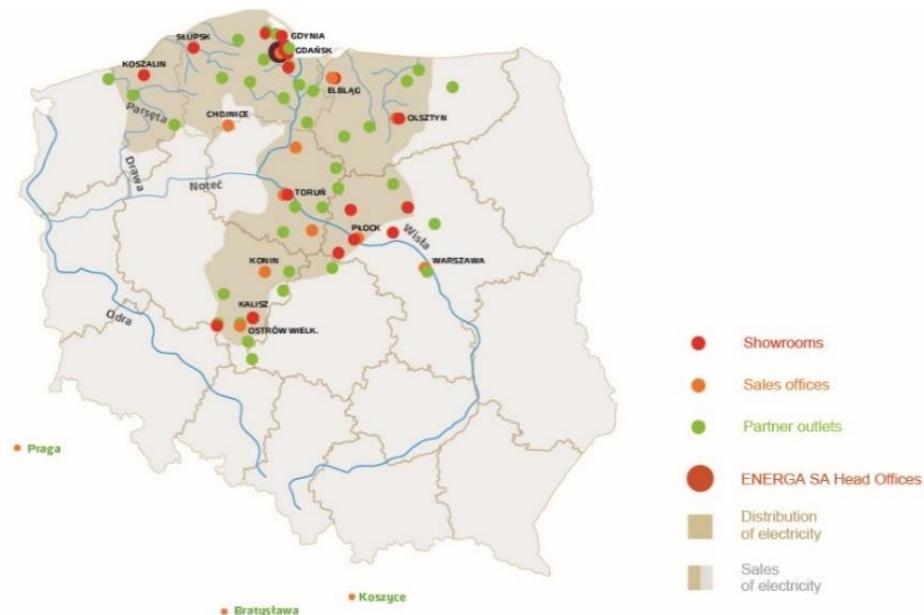
Precise mechanisms and actions are introduced to improve the sales dynamics of the dual-fuel offering based on electricity and gas. Analytical work is conducted to introduce further utilities into the segment's offering. At the end of Q1 2016, gas was sold to a total of 3,118 business clients.

The Sales Segment is focused on increasing efficiency of its sales activity and continues to grow its sales network, which included the following at the end of Q1 2016:

- 9 showrooms in cities with the largest concentration of ENERGA-OBRÓT customers,
- 9 sales points (retail islands) in shopping centers in selected cities of Poland,
- 44 partnership outlets located in the operating area of the DSO ENERGA-OPERATOR,
- 407 certified salesmen focused on selling ENERGA's offering to clients throughout Poland,
- 50 phone-based salesmen selling products and services within the framework of customer service operations.

Sales are conducted in the locations listed above (which include concluding a new agreement, extending an existing one, activating products, changing a client assigned to a meter, complaints), while the matters related to enforcement and settlement of electricity bills are handled by telephone and electronic Customer Service Center (BOK).

Figure 3: Location of ENERGA-OBRÓT SA's Showrooms and Partnership Outlets



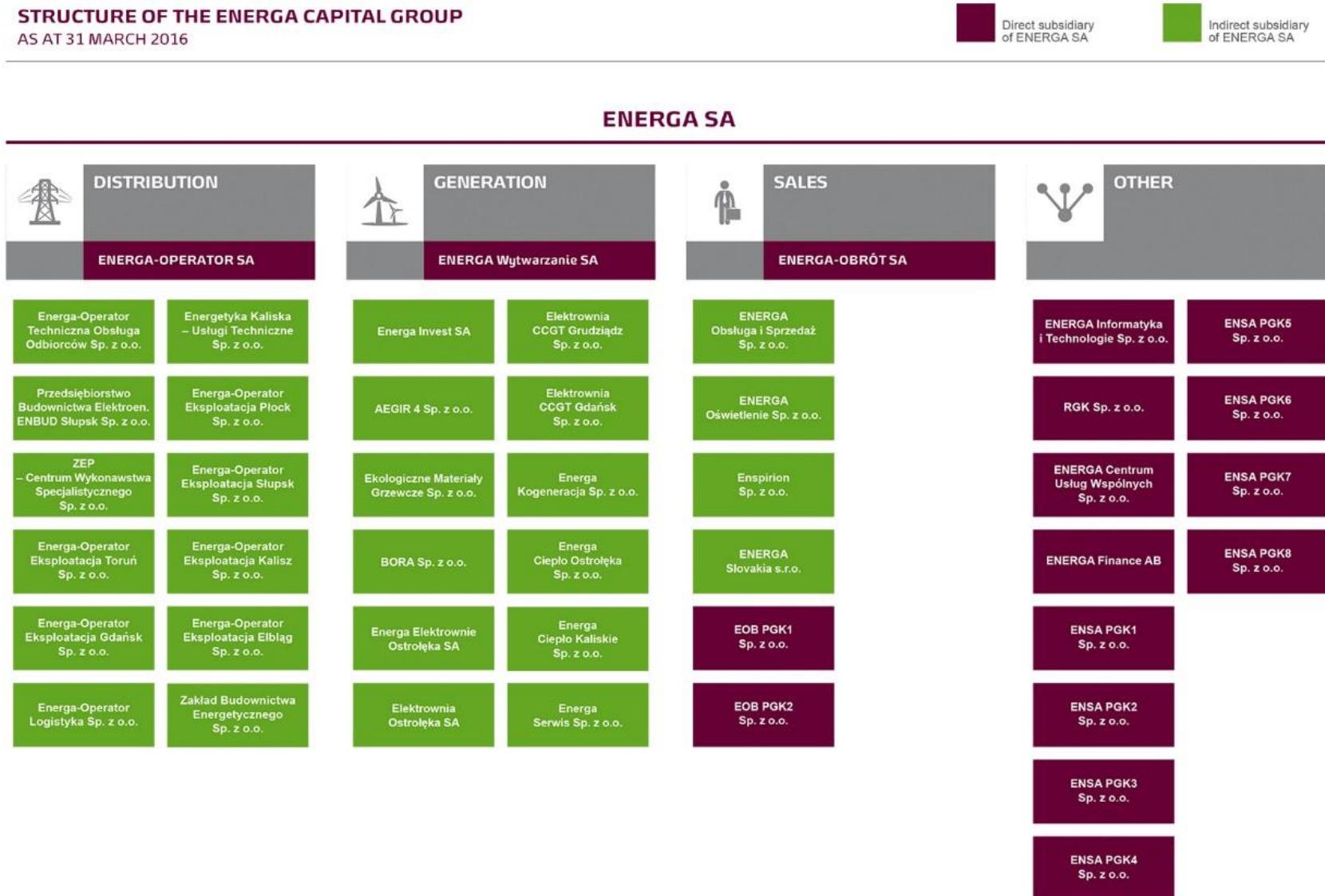
As the level of digitization of Poland's society increases, the electronic sales channel, which includes web and mobile sales, will become more and more important. The Sales Segment plans to increase the number of users of online customer service channels (eBOK, meBOK) up to 50% from the current 19% by 2020. Efficient data management and digitization and appropriate selection of service/sales channels make it possible to ensure the required effectiveness of loyalty-enhancement actions and acquisition. A project is carried out entitled "Digitization and development of electronic contact channel", which aims to acquire customers by building the concept for an eCommerce Transaction Environment in the Sales Segment.

Improvements are implemented to enhance the effectiveness of sales activities and to augment the quality of customer service, guaranteeing satisfaction of the main customer expectations at the lowest possible cost. There is a continuing drive towards cost reduction in the companies of the segment, in particular through streamlining service and support processes, optimization of marketing costs of changes in IT systems, designed to ensure simplicity and continuity of operation of ENERGA-OBRÓT SA in a contemporary and reliable fashion.

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

As at 31 March 2016, the ENERGA Group was composed of the parent company ENERGA SA and 46 subsidiaries. The Group companies are grouped in 3 business segments managed by ENERGA SA's direct subsidiaries which are Segment Leaders. The fourth group comprises the so-called Other Companies, ENERGA SA's direct subsidiaries providing shared services for the Group and performing tasks for ENERGA SA.

Figure 4: Composition of the ENERGA Group as at 31 March 2016



All of the parent's subsidiaries are consolidated.

On 23 January 2016, the Extraordinary General Meeting adopted a resolution to dissolve and launch the liquidation process of Zakład Energetyczny Toruń - ENERGOHANDEL Sp. z o.o. The Company was deleted from the National Court Register on 25 January 2016.

On 1 February 2016, ENERGA Kogeneracja Sp. z o.o. (acquiring company) merged with ZEC Żychlin Sp. z o.o. Sp. z o.o. (acquired company) without increasing the share capital of the acquiring company. Following the merger, ZEC Żychlin Sp. z o.o. was deleted from the National Court Register.

In connection with the fact that ENERGA Kogeneracja Sp. z o.o. purchased 3 shares from the prior shareholder of ENERGA Ciepło Ostrołęka Sp. z o.o. (a natural person), as of 6 April 2016, ENERGA Kogeneracja Sp. z o.o. became the only shareholder of ENERGA Ciepło Ostrołęka Sp. z o.o.

On 27 April of this year, in connection with the resolution adopted by the General Meeting of ENERGA Kogeneracja Sp. z o.o. to increase the company's share capital by PLN 215,606,000, ENERGA SA submitted a representation of accession to ENERGA Kogeneracja Sp. z o.o. as a new shareholder (previously, ENERGA Kogeneracja was an indirect subsidiary of the Issuer) and subscription to 431,212 new shares, which will be covered by a cash contribution of PLN 510 m, with a reservation that the surplus of the cash contribution over the aggregate nominal value of the new shares in the amount of PLN 294.4 m will be allocated to ENERGA Kogeneracja's supplementary capital.

2.4. Implementation of the investment program

In Q1 2016, the ENERGA Group executed investment projects worth PLN 381 m, of which PLN 269 m in the Distribution Segment and PLN 63 m in the Generation Segment. Investment projects in the Distribution Segment included expansion of the grid to connect new clients and producers as well as modernization, which is aimed at improving the reliability of electricity supply. Expenditures were also made for innovative grid technologies and solutions.

In the Generation Segment, the work on the operational launch of the 26 MW Parsówek Wind Farm is in the final stage. Work related to the achievement of compliance of the Ostrołęka Power Plant with environmental requirements constitutes an important part of the Segment's capital expenditures.

Table 1: Implementation status of the investment program on 31 March 2016 and as at the date of preparing this Information

Description of the project	Location	Capital expenditures (PLN m)	Execution stage
GENERATION SEGMENT			
Overhaul of the power plant unit	Elektrownia Ostrołęka B	42.0	In progress
Construction of a NOx emission reduction installation	Elektrownia Ostrołęka B	7.1	In progress
Modernization of electrostatic precipitators	Elektrownia Ostrołęka B	4.7	In progress
Construction of a 26 MWe wind farm	Parsówek Zachodniopomorskie Voivodship	4.9	Work in the final stage
Modernization of hydro sources	Small hydro power plants, Włocławek, ESP Żydowo	3	In progress
Other projects and adjustments	-	1	-
DISTRIBUTION SEGMENT			
Grid development related to connection of new customers.	Distribution areas	109.3	In progress continuously

Grid development and modernization related to connection of RES plants.	Distribution areas	5.7	In progress continuously
Distribution grid modernization to improve reliability of supply.	Distribution areas	127.3	In progress continuously
Smart meters and other elements implementing the smart grid concept, including AMI.	Distribution areas	8.8	In progress continuously
Other capital expenditures and adjustments	Distribution areas and Distribution Segment companies	17.9	In progress continuously

2.5. Research and development

The key current research and development projects in the ENERGA Group include:

Upgrid Project

Municipal grid of the future – project executed with co-funding from the European Union under the Horizon 2020 program. The project is aimed at analyzing selected technologies in terms of the possibility of improvement of reliability and optimization of the operation of the MV and LV grids on the selected grid area, with special focus on development of new IT solutions and utilization of data from IT systems, in particular the AMI system. The work currently performed is associated with the modernization of the grid and installation of new devices to monitor the MV and LV grid. Moreover, a technical design is prepared for an IT system that will enable a new approach to managing the LV grid. The project will be executed until 2017.

Smart Toruń

Pilot implementation of Smart Grid by the ENERGA Group. As part of the project, investment tasks were completed by 4 consortium participants, i.e. ENERGA-OPERATOR SA, ENERGA Wytwarzanie SA, ENERGA-OBRÓT SA and ENERGA Oświetlenie Sp. z o.o., subsidized by the National Fund for Environmental Protection and Water Management. The Smart Toruń project is a laboratory for pilot implementations of smart grid technologies and devices cooperating with and making up the smart grid, installed also on the part of the participants connected to the grid. The organization of the Smart Toruń area will be aimed at facilitating verification of the solutions and technologies applied and their environmental protection effectiveness (i.e. avoiding CO₂ emissions).

Construction of a local balancing area

The project is aimed at developing and implementing the Local Balancing Area technology which, in a specified area of the electrical power system, allows for integrated management of its power resources. Implementation of the solution developed in the project will make it possible to increase the capability of connection to the distributed generation network based on renewable energy sources (RES), improve the efficiency of the use of electricity, reduce the costs of operation of the electrical power system and improve reliability and security of energy supplies, leading as a result to an environmental effect in the form of reduction of national CO₂ emissions. In August 2015 an agreement on subsidizing the project by Narodowe Centrum Badań i Rozwoju (National Centre for Research and Development) under the Gekon Program was signed. The project will be executed until the end of 2017.

Energa Living Lab

The essence of the Energa Living Lab project implemented by Enspirion is to demonstrate the effectiveness and to popularize demand response tools, using the formula of tests in a live laboratory consisting of 300 households in Gdynia. The project is co-financed by the European Commission (50%) and the National Fund for Environmental Protection and Water Management (45%) within the

LIFE+ Instrument. The project received the Euros symbol 2015 award in the Innovation category (by "Monitor Rynkowy", "Dziennik Gazeta Prawna" and "Monitor Biznesu" in "Rzeczpospolita") and the Polish Innovation Award (Polska Nagroda Innowacyjności) (by the Polish Agency for Enterprise Development and editors of "Forum Przedsiębiorczości" w "Dziennik Gazeta Prawna").

eMobility

Within the framework of the eMobility project conducted by the ENERGA Group, the work has been completed on the report identifying the possible business models in the electric mobility market area. Under the project for Tri-City residents, five public electric car charging stations operated by the ENERGA Group were opened, where electric cars can be charged for free (provided that the vehicles have charging inlets). Also, studies were conducted in order to learn and research how Gdańsk, Gdynia and Sopot residents use their electric cars.

Energy storage project executed with NEDO

In May 2015, a Cooperation Agreement was signed between ENERGA Wytwarzanie SA, ENERGA-OPERATOR SA, Polskie Sieci Elektroenergetyczne SA and Hitachi Ltd., which set forth the details of cooperation of the parties in preparing a Project Feasibility Study on the implementation of a system to support the safety of operation of the National Electrical Power System based on the Special Protection Scheme and electricity storage. A draft Feasibility Study has already been developed and the work is in progress on its final version. After the Study is approved, a decision will be made on the possible commencement of the demonstration stage and execution of an agreement, i.e. an *Implementation Document*. Such an agreement will define the allocation of tasks, financial commitments and responsibilities of the parties.

2.6. Information on material contracts

Material contracts

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

in connection with the signing by ENERGA-OPERATOR SA ("EOP") and Polskie Sieci Energetyczne SA („PSE") of a document specifying the detailed rules for cooperation between EOP and PSE and the security related thereto in March 2016, cooperation between these entities was launched. The subject matter of the cooperation agreement is in particular the provision of electricity transmission services encompassing domestic transmission services and electricity cross-border exchange services rendered by PSE for EOP. This Agreement has been concluded for an indefinite term. The estimated value of the agreement over a one year period is PLN 916 m, corresponding to PLN 4,580 m over a five year period. In connection with commencing cooperation according to the rules prescribed by the above agreement, the agreement in force to date for the provision of electricity transmission services executed by and between EOP and PSE on 29 August 2007, which was described in the Company's Prospectus approved by the Polish Financial Supervision Authority on 15 November 2013, has expired (current report no. 13/2006).

Agreements for loans and borrowings and a domestic bond issue program

Details on the agreements for loans and borrowings and a domestic bond issue program are provided, among others, in note 16 *Financial instruments* to the consolidated financial statements.

The table below presents the nominal value of long-term bonds subscribed by ENERGA SA and outstanding, broken down into individual issuers from the ENERGA Group, as at 31 March 2016.

Table 2: Nominal value of bonds subscribed by ENERGA SA and outstanding, by issuer, as at 31 March 2016

No.	Company name	Nominal value of subscribed bonds (PLN 000s)
1.	ENERGA-OPERATOR SA	3,480,623
2.	ENERGA Wytwarzanie SA	1,213,000
3.	ENERGA Kogeneracja Sp. z o.o.	63,141
4.	ENERGA Elektrownie Ostrołęka SA	132,000
Total		4,888,764

Guarantees and sureties given

As at 31 March of this year, sureties extended by ENERGA SA to Group companies, in the total amount of PLN 2,212 m, include:

- surety extended by ENERGA SA for liabilities of ENERGA Finance AB on account of a PLN 2,099 m Eurobond issue,
- surety extended by ENERGA SA for liabilities of ENERGA Group companies arising from bank guarantees granted by Bank PKO BP SA under guarantee facilities dedicated to ENERGA Group companies in the amount of PLN 103 m,
- surety extended by ENERGA SA for liabilities of ENERGA Wytwarzanie SA on account of a loan granted by WFOSiGW in Toruń in the amount of PLN 10 m.

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

All the transactions within the ENERGA Group are made on the basis of the market prices of goods, products or services based on their manufacturing costs.

Information on the transactions with affiliated entities is presented in Note 18 to the condensed interim consolidated financial statements for the three-month period ended 31 March 2016.

2.7. Risk management

Finance area

The macroeconomic situation impacts the conditions in which the ENERGA Group conducts its activity. Variations in business conditions measured by GDP change rates, inflation or unemployment rates translate to electricity, heat and gas prices and shape demand for products supplied by Group companies.

Correct calculation of sales prices translates directly into the results attained by ENERGA-OBRÓT SA. As a result of the obligation to obtain the ERO President's approval for the tariff rates, in the event a negative decision is issued and the procedure closed, customers cannot be invoiced for the completed sales and, as a consequence, no revenues are earned. As far as this risk is concerned, there may be a situation where the rates approved by the ERO President in the tariff will not guarantee profitable sales. The risk control mechanism has the form of a current market benchmark, however the possibilities regarding objective assessment are very limited due to the complexity of the factors impacting the competitiveness of the given offering. The risk measures applied include, among others, the number of accepted offers, financial and economic ratios, including the level of contracted margins, and market ratios such as market value, market share or market growth.

Loss of electricity sales volume and loss of the market share are the next key risks for the Sales Segment. Higher customer awareness and increased competition may impair the revenue levels. To measure risk the Group analyzes the churn of existing customers and the number of new customers acquired. The current control mechanisms make it possible to mitigate the risk however constant market monitoring and further improvement of the solutions in place is required. Marketing and product projects are being executed to retain customers.

The product price levels (electricity, property rights, CO₂) also has decisive influence on the Generation Segment. The significant fluctuations observed in the market may translate into high deviations from the planned revenues. To secure against the risk, the Group constantly monitors the price levels in the market and transaction execution is planned in such a way as to avoid accumulation of negative trends of price changes of all products at the same time.

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

Interest rate risk

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

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

According to the interest rate risk policy, risk of variation in interest rates is mitigated by maintaining a portion of debt with fixed interest rate. As part of those assumptions, in Q2 2014, 2-year IRS transactions were concluded to hedge the risk of the WIBOR 3M interest rate, which is used as the base for the company's debts in PLN.

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

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

Foreign exchange risk

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

Credit risk

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

In this respect, the ratings of financial institutions with which the ENERGA Group cooperates are monitored on a regular basis to minimize credit risk. Credit risk is also incurred in the case of funds involved in participation units in the ENERGA Trading SFIO fund dedicated to the ENERGA Group. According to the adopted investment policy, the fund invests in assets such as treasury bills and bonds and commercial debt instruments. Credit risk associated with investments in treasury bills and

bonds is referred to the solvency risk of the State Treasury. Credit risk associated with investments in commercial debt instruments is mitigated through the fund's properly defined investment policy. The fund may invest its monies only in assets characterized by an investment rating awarded by rating agencies or internally by the fund manager.

Liquidity risk

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

ENERGA Group companies monitor the liquidity risk using a periodic liquidity planning tool. The tool takes into account the payment due/maturity dates both for investment liabilities and financial assets and liabilities and projected cash flows from operating activity. The Group aims at maintaining the balance between continuity and flexibility of financing through use of various sources of financing, such as working capital and investment loans, local bonds and Eurobonds. Since the Group's debt is centralized in ENERGA, this company monitors the fulfillment of covenants on an ongoing basis and their forecasts in the long term, which allows it to determine the ENERGA Group's debt capacity, its capability to conduct capital expenditures and affects its capacity to pay liabilities on a timely basis in the longer term.

To efficiently manage the liquidity of Group companies, the ENERGA Group used the mechanism of issuing short-term bonds offered by the issuer – a Group company – only to other Group companies. The procedure was coordinated by ENERGA, which made it possible to optimize the entire process in terms of its organization. As of January 2016, the ENERGA Group implemented the zero-balancing cash pooling service, which comprises functions associated with issue of short-term bonds, and additionally maximizes the possibility of using the Group's cash surpluses to finance the current operations of individual Group companies.

Moreover, ENERGA has concluded loan agreements with several financial institutions, which represent an immediate liquidity reserve in case of any liquidity needs. When cash surplus is needed, the recently established ENERGA Trading SFIO fund offers the possibility to retire units at any time, thus allowing for an unlimited and immediate access to the invested funds.

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

As at 31 March 2016, ENERGA Group was a party to 5,509 court proceedings. The Group acted as a plaintiff in 3,731 cases where the aggregated value of the disputed matters was approx. PLN 168 m. The Group acted as a defendant in 1,748 cases where the aggregated amount of the disputed matters was approx. PLN 590 m.

As at 31 March 2016, the total amount of claims for locating power devices on properties of other parties without the necessary legal title, awarded by final judgments, was approx. PLN 14.2 m in 2,381 cases. There were 2,677 pending court cases and the value of the disputed matters in such pending cases was PLN 294.5 m. Based on the available data about the value of pending procedures, we assume that the actual amount to be paid after the disputes are resolved may reach PLN 76.9 m, with a reservation that this amount may change if new court cases related to placement of power devices on third party's real properties without the necessary legal title are launched against ENERGA-OPERATOR SA.

These data do not include the cases in which court and enforcement-based collection is conducted on behalf and for ENERGA-OBRÓT SA as the company pursues amounts due from its customers, with the exception of the case filed by ENERGA-OBRÓT SA against Ergo Energy Sp. z o.o. for approx. PLN 13 m. The aggregated amount of all such cases was about PLN 188 m as at 31 March 2016.

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

Out of the eight proceedings described in the Company's Prospectus approved by the Polish Financial Supervision Authority on 15 November 2013, two of them – one brought by Ergo Energy Sp. z o.o.

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

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

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

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

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

On 6 April 2015, ENERGA-OPERATOR SA filed a claim with the Regional Court in Gdańsk, IX Commercial Division, for payment against T-matic Systems S.A. with its registered seat in Warsaw and ARCUS S.A. in Warsaw. The statement of claim includes contractual penalties under agreements to supply and launch a meter infrastructure, to execute a PLC enabling infrastructure and the agreement to sell, supply and install GPS systems. The value of the dispute is over PLN 23 m. In June 2015 a statement of defence was received and ENERGA-OPERATOR SA replied to it in its pleading of 30 September 2015. On 18 December 2015 the defendant filed a second rejoinder comprising similar argumentation to the one presented in the statement of defense, but extended to include a charge of invalidity of the agreements due to their lack of precision and contractual inequality of the parties. On 13 January 2016 the hearing was held at which the Court obligated ENERGA-OPERATOR SA to file a reply to the defendant's second rejoinder within 45 days. The plaintiff's pleading was sent on 25 February 2016. The next court session date was set at 6 March 2016.

On 14 March 2016, ENERGA-OPERATOR SA received a request from T-matic Systems SA and ARCUS SA with a call for a settlement conference regarding ENERGA-OPERATOR SA's claims for payment by contractors of the amount of PLN 157,063,142 under the execution agreement of 1 February 2013 to supply and launch a meter infrastructure. The Company is currently analyzing its next steps in this case.

On 19 April 2016, the Court of Appeals in Warsaw announced its judgment in the case brought by ENERGA-OPERATOR SA with its registered office in Gdańsk Branch in Płock against PKN Orlen SA in Płock. The court partially dismissed the defendant's appeal and consequently the judgment of the

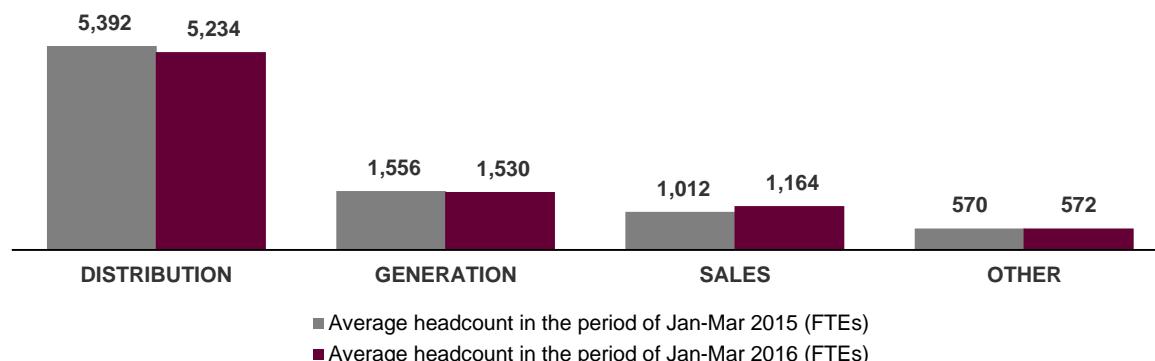
Regional Court in Warsaw of 27 October 2014, case file XVI GC 782/11 became final, awarding the plaintiff PLN 16.1 m with interest from 30 June 2004, i.e. PLN 32 m in total as at the judgment date. This amount constitutes indemnification due to ENERGA-OPERATOR SA for the transmission fee not paid by PKN Orlen in the part related to the system service provided to that company as a power producer. The judgment is final and the parties may file a cassation complaint against the Appellate Court's judgment to the Supreme Court. The history of the case has been described in detail in the Company's Prospectus approved by the Polish Financial Supervision Authority on 15 November 2013 and updated in the document entitled "Information to the Condensed Consolidated Report of the Group for 3 quarters of 2014."

2.9. Headcount in the Group

Headcount in the ENERGA Group

As at 31 March 2016, total headcount in the ENERGA Group was 8,516, compared to 8,529 at the end of Q1 of the previous year. No major change in headcount levels took place in Q1 of this year. The Group recorded a headcount increase by 16 persons, (or 0.2%). The average headcount (FTEs) in the ENERGA Group in the period from January to March 2016 period was 8,500 FTEs, compared to 8,530 FTEs in the corresponding period of the previous year. The chart below presents the average headcount by segment.

Figure 5: Average headcount in the ENERGA Group, 1 January to 31 March 2015 and 2016



2.10. Collective disputes

The overall analysis of the social situation in the Group indicates that there are no major conflict situations. No group layoffs were conducted in ENERGA SA and in the ENERGA Group in Q1 2016. At present, there are two pending collective disputes in the ENERGA Group: in ENERGA-OPERATOR Eksplotacja Płock Sp. z o.o. and in ENERGA Elektrownie Ostrołęka SA, which are described below. Both disputes were launched in 2015.

Table 3: Collective disputes in the Group

Continuing and pending disputes	
❖	Dispute in ENERGA Elektrownie Ostrołęka SA (EEO SA) started in September 2015 associated with the demands made by the trade unions active in EEO SA regarding payment of the cash award from the net profit for 2014. The employer is of the position that the demands of the trade unions do not have any legal grounds. As at the date of the Q1 2016 report, the parties have not reached an agreement and mediations will be continued.
❖	The dispute in ENERGA-OPERATOR Eksplotacja Płock Sp. z o.o. from April 2015 associated with receipt of the demands from KP NSZZ "Solidarność" in ENERGA-OPERATOR Eksplotacja Płock Sp. z o.o. pertaining to specific employee matters, including those pertaining to increase of employee compensations. In July 2015 the parties entered into an agreement concerning the remuneration demand. To the remaining extent, as at the preparation date of the Q1 2016 report, the dispute is at the mediation stage.

Analysis of the financial situation and assets



3. ANALYSIS OF THE FINANCIAL STANDING AND ASSETS

3.1. Rules for preparing the interim condensed consolidated financial statements

The condensed interim consolidated financial statements of the ENERGA Group for the three-month period ended 31 March 2016 were prepared:

- in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union,
- on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives,
- in millions of PLN ("PLN m"),
- based on the assumption that the Group would continue as a going concern in the foreseeable future. As at the date of the financial statements there is no evidence indicating significant uncertainty as to the ability of the ENERGA Group to continue its business activities as a going concern.

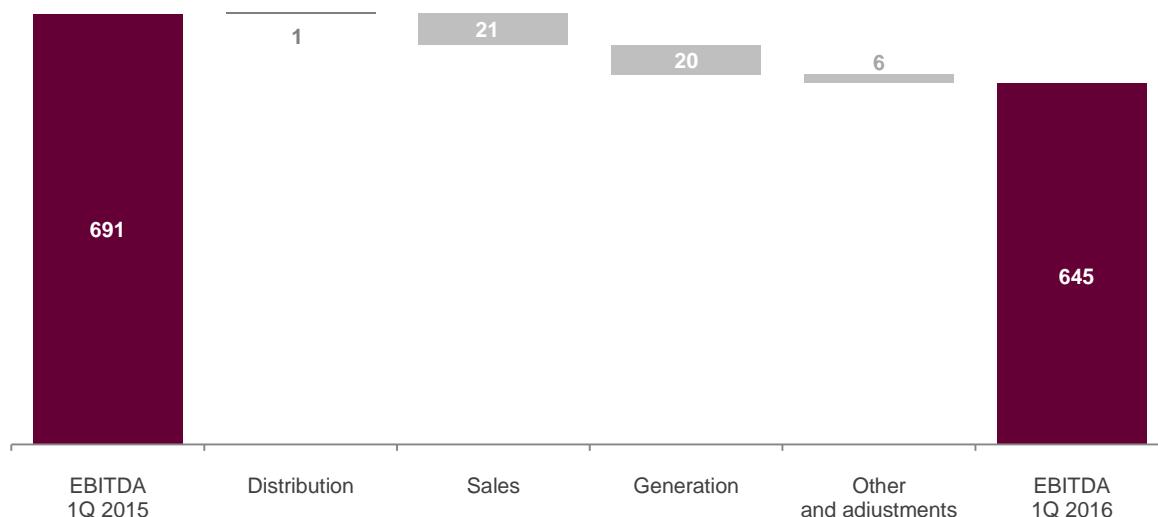
The accounting (policy) principles used to prepare the annual consolidated financial statements were presented in Note 7 to the condensed interim consolidated financial statements of the ENERGA Group for the three-month period ended 31 March 2016.

3.2. Discussion of the economic and financial data disclosed in the condensed consolidated financial statements

Table 4: Consolidated statement of profit or loss

PLN m	Q1 2015	Q1 2016	Change	Change (%)
Revenue	2,913	2,621	(292)	-10%
Cost of sales	(2,277)	(2,233)	44	2%
Gross profit on sales	636	388	(248)	-39%
Other operating income	27	15	(12)	-44%
Selling and distribution expenses	(77)	(84)	(7)	-9%
General and administrative expenses	(87)	(80)	7	8%
Other operating expenses	(32)	(133)	(101)	< -100%
Operating profit	467	106	(361)	-77%
Result on financial activity	(49)	(62)	(13)	-27%
Share of profit (loss) of associates	-	-	-	-
Profit before tax	418	44	(374)	-89%
Income tax	(63)	(33)	30	48%
Net profit for the period	355	11	(344)	-97%
EBITDA	691	645	(46)	-7%

Figure 6: EBITDA bridge, by segment



In Q1 2016 the Group's revenue amounted to PLN 2,621 m and was 10%, or PLN 292 m, lower than in Q1 2015. The biggest decline in revenue occurred in the Sales Segment (by 9% or PLN 147 m), which was driven mainly by the lower total volume of electricity sales. Lower revenue was also recorded in the Generation Segment (by 28% or PLN 125 m). The lower revenues were largely caused by the decline in sales revenues in the business lines of the Ostrołęka Power Plant and Hydro (a total of PLN 113 m). The lower amounts are mainly due to the decline in revenue on the sale of electricity and property rights.

In Q1 of the current year, the Group's EBITDA was PLN 645 m, down by 7% compared to the same period of the previous year. The negative change in the EBITDA of the Sales Segment by PLN 21 m (43%) yoy and of the Generation Segment by PLN 20 m (13%) yoy were the key contributors to this decline. The Distribution Segment EBITDA was at a similar level when compared to Q1 2015.

The Distribution Segment contributed the most to the Group's EBITDA in Q1 2016 (77%), while the Generation Segment accounted for 21% and the Sales Segment accounted for 4% (in adding up the contributions, please take into consideration the 'Other and adjustments' line item).

The operating profit in Q1 of this year fell by 77% or PLN 361 m compared to Q1 of the previous year. In addition to the factors already mentioned above in the revenue analysis, the yoy decline in EBIT was affected mainly by the impairment losses recognized on property, plant and equipment in the total amount of PLN 188 m and on goodwill arising from the acquisition of wind farms in the amount of PLN 117 m.

The Group's net result in Q1 2016 was PLN 11 m, down 97% from Q1 2015.

After the definition of EBITDA changed, requiring elimination of impairment losses on non-financial non-current assets in Q1 2016 and in Q1 2015, no other significant events occurred that adjusted EBITDA.

Table 5: Consolidated statement of financial position

PLN m	Balance as at 31 Dec 2015	Balance as at 31 Mar 2016	Change 2016/2015	Change 2016/2015 (%)
ASSETS				
Non-current assets				
Property, plant and equipment	12,912	12,855	(57)	-0%
Intangible assets	395	419	24	6%
Goodwill	143	26	(117)	-82%
Deferred tax assets	260	267	7	3%
Other non-current financial assets	60	69	9	15%
Other non-current assets	103	101	(2)	-2%
	13,873	13,737	(136)	-1%
Current assets				
Inventories	513	638	125	24%
Current tax receivables	47	81	34	72%
Trade receivables	1,762	1,890	128	7%
Investments in the financial assets portfolio	322	317	(5)	-2%
Other current financial assets	38	48	10	26%
Cash and cash equivalents	1,669	989	(680)	-41%
Other current assets	232	485	253	> 100%
	4,583	4,448	(135)	-3%
TOTAL ASSETS	18,456	18,185	(271)	-1%
EQUITY AND LIABILITIES				
Equity				
Share capital	4,522	4,522	-	-
Exchange differences resulting from conversion of a foreign entity	-	-	-	-
Reserve capital	447	447	-	-
Supplementary capital	661	661	-	-
Cash flow hedge reserve	6	7	1	17%
Retained earnings	3,134	3,162	28	1%
Equity attributable to equity holders of the Parent Company	8,770	8,799	29	0%

Non-controlling interest	44	47	3	7%
	8,814	8,846	32	0%
Non-current liabilities				
Loans and borrowings	2,475	2,428	(47)	-2%
Bonds issued	3,116	3,120	4	0%
Non-current provisions	664	650	(14)	-2%
Deferred tax liabilities	591	610	19	3%
Deferred income and non-current grants	531	535	4	1%
Other non-current financial liabilities	25	17	(8)	-32%
	7,402	7,360	(42)	-1%
Current liabilities				
Trade liabilities	877	580	(297)	-34%
Current loans and borrowings	203	196	(7)	-3%
Bonds issued	76	25	(51)	-67%
Current income tax liability	2	-	(2)	-100%
Deferred income and grants	161	121	(40)	-25%
Short-term provisions	471	453	(18)	-4%
Other financial liabilities	193	102	(91)	-47%
Other current liabilities	257	502	245	95%
	2,240	1,979	(261)	-12%
Total liabilities	9,642	9,339	(303)	-3%
TOTAL EQUITY AND LIABILITIES	18,456	18,185	(271)	-1%

As at 31 March 2016, total assets of the ENERGA Group reached PLN 18,185 m and were PLN 271 m lower than on 31 December 2015.

In non-current assets the most important change pertained to the goodwill line item. The PLN 117 m reduction resulted from the need to recognize an impairment loss on goodwill arising from the acquisition of wind farms in 2013. In current assets, the most significant changes were associated with the cash line item (a decrease of PLN 680 m described in the section discussing the consolidated statement of cash flows) and other current assets (an increase of PLN 253 m driven mainly by the increase in accrued expenses related to property tax).

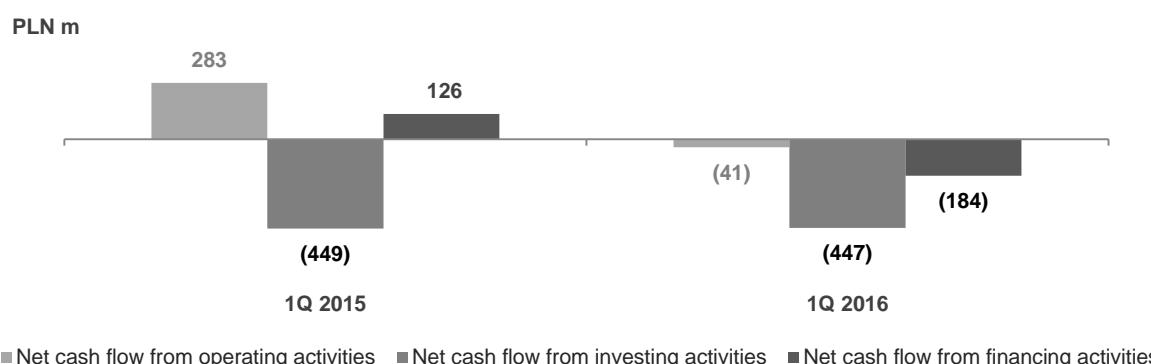
In liabilities and equity, significant changes occurred in current liabilities, including trade liabilities (down by PLN 297 m) and other current liabilities (up by PLN 245 m; this increase was driven mainly by the increase in property tax liabilities).

The ENERGA Group's equity as at 31 March 2016 was PLN 8,846 m and financed 48.6% of the Group's assets.

Table 6: Consolidated statement of cash flows

in PLN m	Q1 2015	Q1 2016	Change 2016/2015	Change 2016/2015 (%)
Net cash flow from operating activities	283	(41)	(324)	<-100%
Net cash flow from investing activities	(449)	(447)	2	0%
Net cash flow from financing activities	126	(184)	(310)	<-100%
Net increase / (decrease) in cash	(40)	(672)	(632)	<-100%
Cash and cash equivalents at the end of the period	1,871	986	(885)	-47%

Figure 7: Group's cash flows in Q1 2016 and 2015



As at 31 March 2016, the balance of the Group's cash was PLN 986 m and was PLN 885 m (or 47%) less than the cash balance one year earlier.

The total net cash flows from the Group's operating, investing and financing activities in Q1 2016 were negative at PLN 672 m, compared to the negative cash flows of PLN 40 m in the same period of the previous year.

Cash flow from operating activities decreased by PLN 324 m (114%) compared to the previous year. The decrease in cash flows from operating activities compared to Q1 2015 was driven mainly by changes in working capital (mainly increase in receivables and decrease in trade liabilities). Moreover, the provision for the mandatory redemption of certificates fell, which resulted from the fact that redemption of the certificates of origin was performed earlier than in the previous year.

Net cash flows from investing activities in Q1 2016 increased by PLN 2 m, driven mainly by higher expenditures incurred to purchase property, plant and equipment and intangible assets. This effect was partially offset by lower net cash flows related to investing assets in the ENERGA Trading fund units.

In the period in question cash flows from financing activities were negative and amounted to PLN 184 m, or PLN 310 m less than in the corresponding period of 2015. In Q1 2015, PLN 268 m of the financing from EIB and NIB was drawn down, while there was no new financing in the current year.

3.3. Structure of the annual consolidated statement of financial position

Figure 8: Structure of assets and liabilities

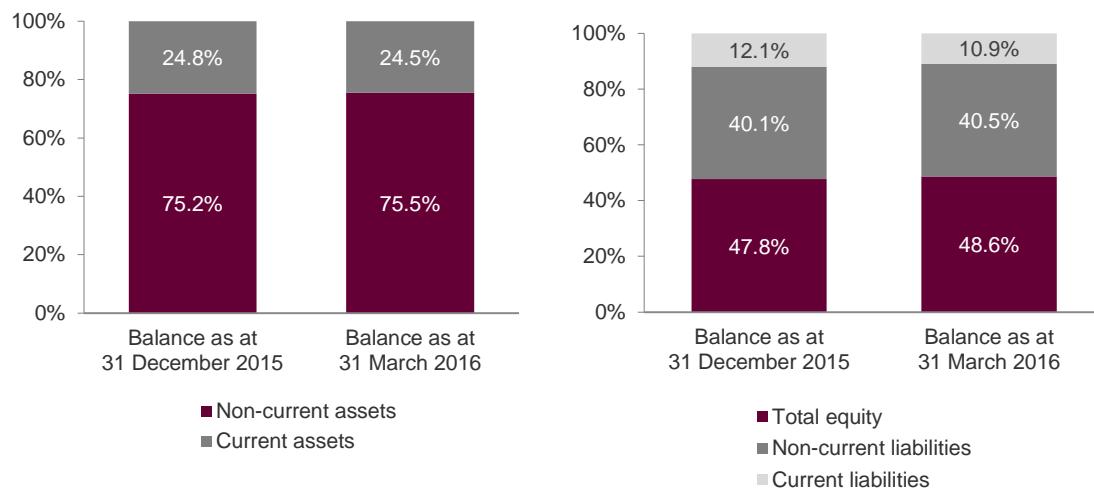


Table 7: Financial ratios of the ENERGA Group

Ratio	Definition	Q1 2015	Q1 2016
Profitability			
EBITDA margin	operating result + depreciation + impairment losses on non-financial non-current assets / revenue	23.7%	24.6%
return on equity (ROE)	net profit for the period* / equity at the end of the period	11.8%	5.6%
return on sales (ROS)	net profit for the period / sales revenues	12.2%	0.4%
return on assets (ROA)	net profit for the period* / total assets at the end of the period	5.6%	2.7%

* net profit for the last 12 months

Ratio	Definition	Balance as at 31 Dec 2015	Balance as at 31 Mar 2016
Liquidity			
current liquidity ratio	current assets/current liabilities	2.0	2.2
Indebtedness			
financial liabilities (PLN m)	sum of liabilities under loans and borrowings and under long- and short-term debt securities	5,870	5,769
net financial liabilities (PLN m)	financial liabilities - cash and cash equivalents	4,201	4,780
net debt / EBITDA ratio	net financial liabilities / EBITDA*	1.9	2.2

* EBITDA for the last 12 months

Following the recognition of impairment losses, in Q1 2016 the ENERGA Group's profitability ratios for the most recent 12 months declined. On the other hand, in connection with the changed definition of EBITDA, the EBITDA margin remained at a similar level.

The liquidity ratio is at a safe level comparable to its level as at 31 December 2015.

Compared to the end of 2015, financial liabilities fell (by 2%). The higher level of the net debt to EBITDA ratio during the 3 months of this year in relation to the end of last year was attributable to the

change of net financial liabilities (up by 14%) and a decline of the Group's results for the past 12 months compared to 2015 (by 2%).

3.4. Description of significant off-balance sheet items

Information on this subject is provided in the section entitled *Guarantees and sureties given* in this Information and in Note 19: *Contingent assets and liabilities* of the consolidated financial statements.

3.5. Key operational data of the ENERGA Group

Table 8: Distribution of electricity, by tariff groups

Distribution of electricity, by tariff groups (invoiced sales) in GWh	Q1 2015	Q1 2016*	Change	Change (%)
Tariff Group A (HV)	984	1,036	52	5%
Tariff Group B (MV)	1,888	1,996	108	6%
Tariff Group C (LV)	1,135	1,113	(22)	-2%
Tariff Group G (LV)	1,453	1,499	45	3%
Total distribution of energy	5,460	5,644	183	3%

*For the Q1 2016 data (for tariffs C and G), the data on invoiced sales were increased by the supplied electricity volume (based on meter readings) which has not been invoiced because the billing process was postponed following the migration of data to new billing systems.

In Q1 2016, compared to the corresponding period in 2015, the volume of electricity in distribution increased by 3%, while the average price of distribution services fell by almost 3%. The increased volume of the distribution service occurred mainly in tariff groups A and B and was associated with higher demand from one of the customers and an increasing number of customers.

Table 9: SAIDI and SAIFI

	SAIDI			SAIFI		
	Unplanned incl. catastrophic	Planned	Total	Unplanned incl. catastrophic	Planned	Total
	Number of minutes per customer in the relevant period			Disruptions per customer in the relevant period		
Q1 2015	77.8	10.3	88.1	0.8	0.1	0.9
Q1 2016	16.9	8.6	25.5	0.3	0.1	0.4
Change	(60.9)	(1.7)	(62.6)	(0.5)	(0.0)	(0.5)
Change (%)	-78%	-17%	-71%	-60%	-18%	-57%

In Q1 2016, ENERGA-OPERATOR SA achieved SAIDI and SAIFI at 25.5 min./cust. and 0.4 interruptions, respectively. The improvement in both these indices compared to Q1 2015 is a result of mass failures caused by the Felix hurricane in January of the previous year.

Table 10: Gross production of electricity in the ENERGA Group

Gross electricity produced (GWh)	Q1 2015	Q1 2016	Change	Change (%)
Power plants - coal-fired	619	589	(30)	-5%

Power plants - biomass cofiring	146	-	(146)	-100%
CHP plants - coal-fired	43	42	(1)	-2%
CHP plants - biomass-fired	12	10	(2)	-18%
Run-of-river plants	252	249	(4)	-1%
Pumped-storage plant	9	12	3	38%
Power plants - wind	120	103	(17)	-14%
Power plants - photovoltaics	0	1	0	> 100%
Total electricity production	1,201	1,005	(196)	-16%
<i>incl. RES</i>	530	362	(168)	-32%

In Q1 2016, ENERGA Group's generation assets produced approx. 196 GWh (16%) less electricity than they did in the corresponding period of the previous year. The main driver was the reduced production in the Ostrołęka power plant (176 GWh), which was caused, among others, by PSE's lower demand for must-run production and the general overhaul of one unit of the must-run power plant (from 1 March 2016). Additionally, absence of the biomass-fired production in the Ostrołęka power plant was caused by the coming into force of the RES Act (on 1 January 2016), which reduced support for large biomass co-fired sources. Additionally, lower production from the Group's wind farms was recorded due to worse wind conditions.

Moreover, since the beginning of 2016, the RES production volume has not corresponded to the quantity of property rights arising on renewable energy production, because the new RES Act reduced support for depreciated hydro sources with capacity exceeding 5 MW. As a result, the run-of-river power plant in Włocławek has been eliminated from the support system since the beginning of 2016.

Table 11: Production of heat

Gross heat production in TJ	Q1 2015	Q1 2016	Change	Change (%)
ENERGA Kogeneracja Sp. z o.o.	876	934	58	7%
ENERGA Elektrownie Ostrołęka S.A.	511	542	31	6%
Ciepło Kaliskie Sp. z o.o.	136	156	21	15%
Total gross heat production	1,523	1,632	110	7%

In Q1 2016, heat production increased by approx. 110 TJ (or 7%) which was driven mainly by the increasing demand on the local markets experienced by Group companies.

Table 12: Volume and cost* of consumption of key fuels

Fuel consumption*	Q1 2015	Q1 2016	Change	Change (%)
Coal				
Quantity (thous. tons)	340	314	(26)	-8%
Cost (PLN m)	86	74	(11)	-13%
Biomass				

Quantity (thous. tons)	105	8	(97)	-92%
Cost (PLN m)	42	3	(38)	-92%
Total fuel consumption (PLN m)	127	78	(50)	-39%

* including the cost of transportation

In Q1 2016, the producers in the ENERGA Group consumed approx. 26 thousand tons (or 8%) of black coal less than the year before. In the same period, biomass consumption fell by approx. 97 thous. tons (or 92%).

The significant reduction of the Group's fuel consumption expenses was caused by three key factors. The first one is the change of the fuel mix used in the Ostrołęka power plant (it is assumed that biomass-fired production will resume after the biomass feeding installation is adapted to the new legal norms, no earlier than in Q3 2016). The second factor is the lower production of electricity in the Ostrołęka power plant, because of PSE's lower demand for must run production. The third factor is that the change in consumption volumes of individual fuel types was accompanied by a decrease in average unit cost (PLN per MWh) of electricity and heat production (by 15% for coal and 40% for biomass). This was caused, among others, by the lower purchase price of the fuels and the higher share of co-generation sources in the production process (especially in the case of biomass).

Table 13: Sales of electricity by the Sales Segment

Sales of electricity by the Sales Segment in GWh	Q1 2015	Q1 2016	Change	Change (%)
Retail electricity sales	4,285	4,905	620	14%
Electricity sales on the wholesale market, of which:	2,578	1,057	(1,521)	-59%
<i>Electricity sales to the balancing market</i>	105	122	16	16%
<i>Electricity sales to ENERGA-OPERATOR to cover network losses*</i>	(16)	394	410	> 100%
<i>Other wholesale</i>	2,489	541	(1,948)	-78%
Total electricity sales	6,863	5,962	(901)	-13%

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

In Q1 2016, the total volume of electricity sold by the Segment decreased by 13% (or 0.9 TWh) compared to Q1 2015, which is attributable to the decrease of the sales volume on the wholesale market (by 59%, or 1.5 TWh), whereas retail sales increased by 14% (or 0.6 TWh) in relation to the previous year.

In retail sales in Q1 2016, increases in volumes sold to business customers were recorded, including to customers in the Slovak market, while sales volume to households remained at a similar level. The increasing retail sales volume is the effect of acquiring several new business customers with relatively high electricity consumption. In terms of volume, sales to households (tariff G) in Q1 2016 accounted for 31% of the sales billed to end users by ENERGA-OBRÓT SA (34% in the corresponding period of the previous year).

In the analyzed period, electricity sales fell in the wholesale market (by about 59%), despite the performance of the contract to sell electricity to ENERGA-OPERATOR SA to cover network losses started in the beginning of 2016. Such a significant reduction was caused by the lower production of energy from renewable sources in the area of operation of ENERGA-OPERATOR SA, where ENERGA-OBRÓT SA is obligated to accept such energy as the "offtaker of last resort", which resulted in lower sales of excess volumes. An additional factor contributing to the lower electricity sales volume on the wholesale market is the change in the forward contracting strategy in effect from 2016.

3.6. Financial results by operating segments

Table 14: EBITDA of the ENERGA Group, by Segment

EBITDA (PLN m)	Q1 2015	Q1 2016	Change	Change (%)
DISTRIBUTION	498	499	1	0%
GENERATION	153	133	(20)	-13%
SALES	49	28	(21)	-43%
OTHER and consolidation eliminations and adjustments	(9)	(15)	(6)	-67%
Total EBITDA	691	645	(46)	-7%

Distribution Segment

Figure 9: Results of the ENERGA Group's Distribution Segment (PLN m)

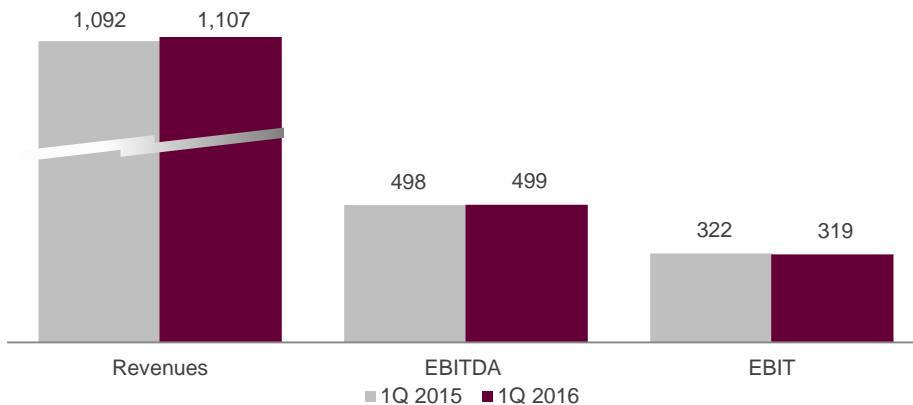
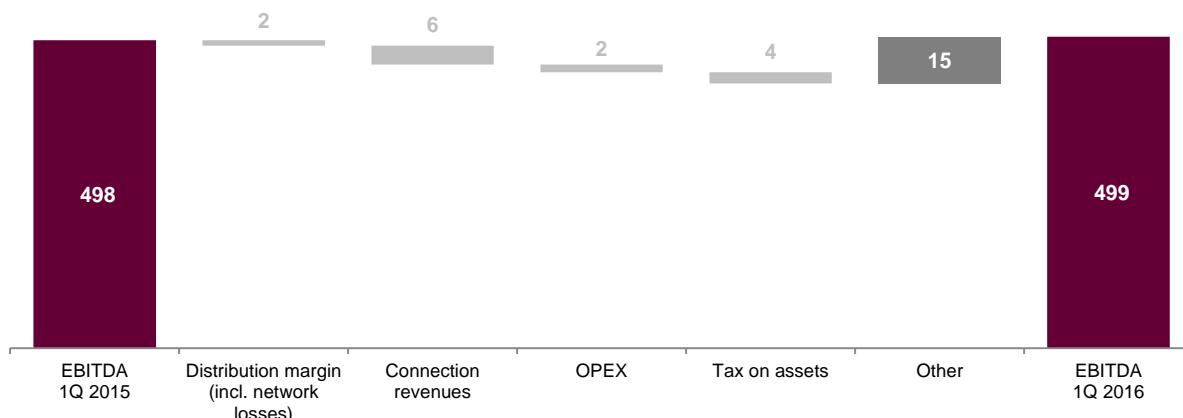


Table 15: Results of the Distribution Segment

PLN m	Q1 2015	Q1 2016	Change	Change (%)
Revenue	1,092	1,107	15	1%
EBITDA	498	499	1	0%
amortization and depreciation	176	180	4	2%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	322	319	(3)	-1%
Net profit	235	226	(9)	-4%

Figure 10: EBITDA Bridge of the Distribution Segment (PLN m)



In Q1 2016, the Distribution Segment contributed about 77% to ENERGA Group's EBITDA (72% in the comparative period).

The Q1 revenue of the Distribution Segment was 1% higher than in the corresponding period of the previous year. The increase in revenues was driven mainly by: higher volume of electricity in distribution (by 3%) offset by a reduction of the average rate charged for distribution services (by almost 3%). In Q1 2016, revenues from connection fees were PLN 14 m, which is PLN 6 m less than in the same quarter of 2015.

EBITDA was maintained at the previous year's level, at PLN 499 m, and EBIT amounted to nearly PLN 319 m (down by 1% yoy). The lower result on regulated activity was significantly affected by the lower tariff in effect in 2016, which was offset by the improved balance on other operations, driven by lower costs incurred yoy for the remedial of unexpected losses.

Net profit in Q1 2016 was PLN 9 m lower than in the same quarter the year before. The balance of the financing activity was PLN 5 m worse than in the corresponding period of the previous year.

Generation Segment

Figure 11: Results of the ENERGA Group's Generation Segment (PLN m)

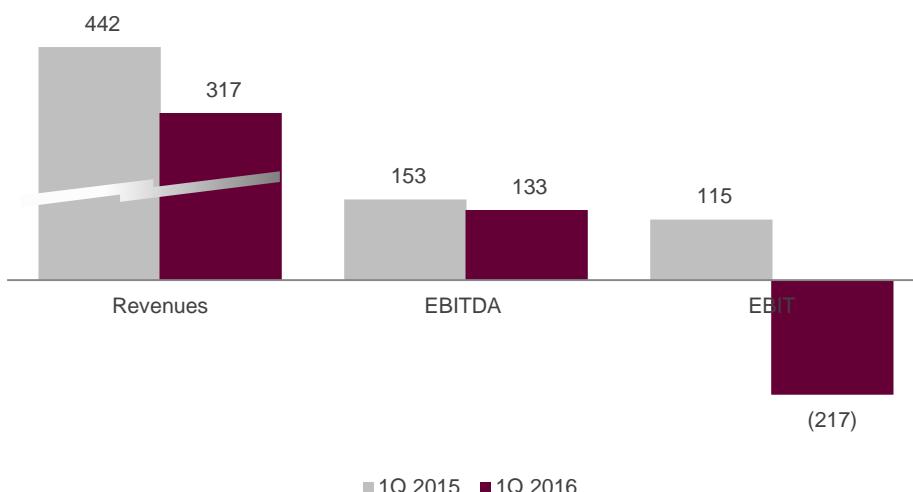


Table 16: Results of the ENERGA Group's Generation Segment

PLN m	Q1 2015	Q1 2016	Change	Change (%)
Revenue	442	317	(125)	-28%
EBITDA	153	133	(20)	-13%
amortization and depreciation	38	45	7	18%
impairment losses on non-financial non-current assets	-	305	305	100%
EBIT	115	(217)	(332)	< -100%
Net profit	79	(213)	(292)	< -100%

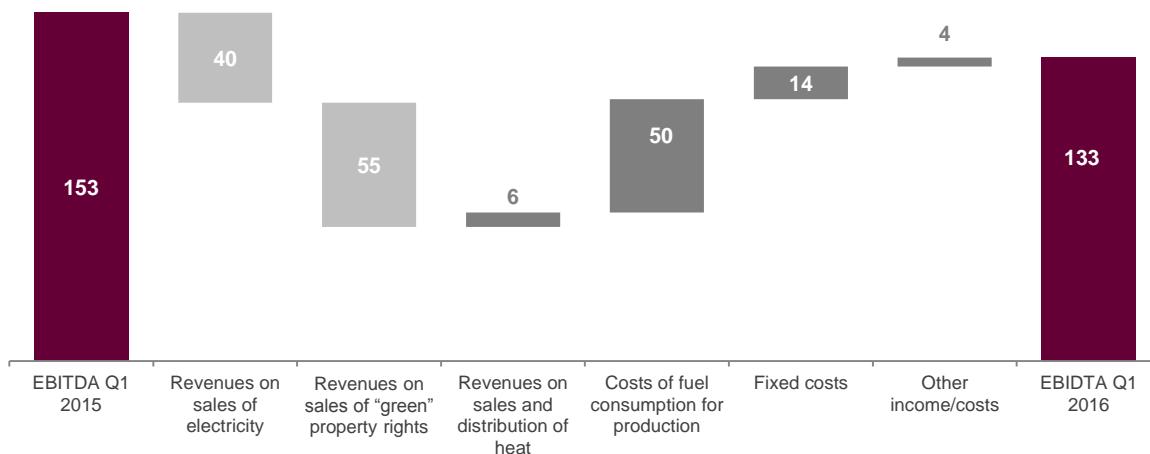
The table below presents a breakdown of EBITDA of the Generation Segment by business lines. This table includes individual data plus the management cost charge for managing the Generation Segment, elimination of transaction concluded between individual business lines and consolidation adjustments.

The data presented for Q1 2015 may be slightly different than the presented historical data, because the methodology for allocating Segment results to individual business lines changed slightly.

Table 17: EBITDA of the Generation Segment, by business line

EBITDA (PLN m)	Q1 2015	Q1 2016	Change	Change (%)
Hydro	67	39	(28)	-42%
Wind	22	18	(4)	-16%
Ostrołęka Power Plant	44	39	(5)	-12%
Other and adjustments	21	38	17	83%
Total Generation	153	133	(20)	-13%

Figure 12: EBITDA Bridge of the Generation Segment (PLN m)



In Q1 of this year, the Generation Segment's contribution to the Group's EBITDA was 21% (22% in the corresponding period of the previous year). The drop in EBITDA was PLN 20 m and was caused primarily by the lower revenues on sales of electricity and property rights, which were offset by lower fuel consumption expenses, lower fixed costs and the additional revenue on heat sales.

The decrease in revenues on sales of electricity was caused by three major factors: Firstly, there was a significant drop in the electricity generation volume in the Ostrołęka Power Plant business line (by 176 GWh) because of PSE's lower demand for must run production and by the planned renovation and repair work (general overhaul of one unit in Ostrołęka). Secondly, because of the worse weather conditions than in the previous year, electricity production in the Wind business line fell yoy (by 14%). And thirdly, compared to the corresponding period of the previous year, the official electricity sales price announced by the ERO President also fell (which is particularly important for the Hydro and Wind business lines). This is due to the fact that, during the two first calendar months (January and February), the previous year's price is used for sales settlements. In first months 2015 the price was 181.55 PLN/MWh (the 2014 price), while in first months 2016 it was 163.58 PLN/MWh (the 2015 price).

As of 1 January 2016, the new RES Act came into effect, which suspended support for hydro power plants with the capacity exceeding 5 MW (which resulted in the loss of green certificates for electricity production in the run-of-river power plant in Włocławek in the Hydro business line) and reduced support for large biomass co-fired sources (biomass-fired production was suspended in the Ostrołęka Power Plant business line until a dedicated biomass installation is launched, which is planned in Q3 2016). Moreover, the market price of property rights fell (the OZEX_A index in Q1 of the previous year was 148 PLN/MWh, compared with 114 PLN/MWh in Q1 2016).

The costs of consumption of key fuels (including transportation) in the Generation Segment in Q1 fell by 39%, or PLN 50 m yoy. The significant reduction of the Group's fuel consumption expenses was caused by three key factors: change of the fuel mix following from the coming into force of the RES Act, lower production in the Ostrołęka Power Plant and the Segment's lower unit fuel purchase cost (the unit purchase cost of biomass is much higher than the unit purchase cost of coal).

The Segment noted higher revenue on sales and distribution of heat (up by PLN 6 m) because of the considerably higher production of heat on local markets two main companies: ENERGA Kogeneracja and ENERGA Elektrownie Ostrołęka.

The Segment additionally recorded lower fixed costs (down by PLN 14 m), which resulted from deferred cost decisions, in particular to contract external services, and savings in the operation of the Segment itself.

In addition to the aforementioned drivers of the yoy pre-tax results of the Generation Segment, it should be noted that, as a result of the impairment tests conducted for Q1 2016, a decision was made on 11 April 2016 to recognize impairment losses on property, plant and equipment in the total amount of PLN 188 m. Accordingly, an impairment tests was conducted also for the goodwill arising from the acquisition of the wind farms portfolio in 2013. Following the test, an impairment charge of PLN 117 m was recognized. The overall effect of the impairment charges on the performance was PLN 305 m.

In order to enhance transparency and simplify analyses (by ensuring comparability of the key parameter in the industry in which the Group operates), the definition of EBITDA will change starting from Q1 2016. According to the new definition, performance calculations at the EBITDA level does not include impairment losses on non-financial non-current assets.

Hydro

Table 18: Results of the Hydro business line

PLN m	Q1 2015	Q1 2016	Change	Change (%)
Revenue	92	60	(32)	-35%
EBITDA	67	39	(28)	-42%
EBIT	60	31	(29)	-49%
CAPEX	3	3	(1)	-23%

Wind

Table 19: Results of the Wind business line

PLN m	Q1 2015	Q1 2016	Change	Change (%)
Revenue	34	28	(5)	-16%
EBITDA	22	18	(4)	-16%
EBIT	11	(112)	(124)	< -100%
CAPEX	9	-	(9)	-100%

Ostrołęka Power Plant

Table 20: Results of the Ostrołęka Power Plant business line

PLN m	Q1 2015	Q1 2016	Change	Change (%)
Revenue	248	167	(81)	-33%
EBITDA	44	39	(5)	-12%
EBIT	32	22	(9)	-29%
CAPEX	41	51	10	23%

Other and adjustments

Table 21: Results of the Other and adjustments business line

PLN m	Q1 2015	Q1 2016	Change	Change (%)
Revenue	68	61	(7)	-10%
EBITDA	21	38	17	83%
EBIT	12	(157)	(169)	< -100%
CAPEX	19	9	(10)	-54%

Sales Segment

Figure 13: Results of the ENERGA Group's Sales Segment (PLN m)

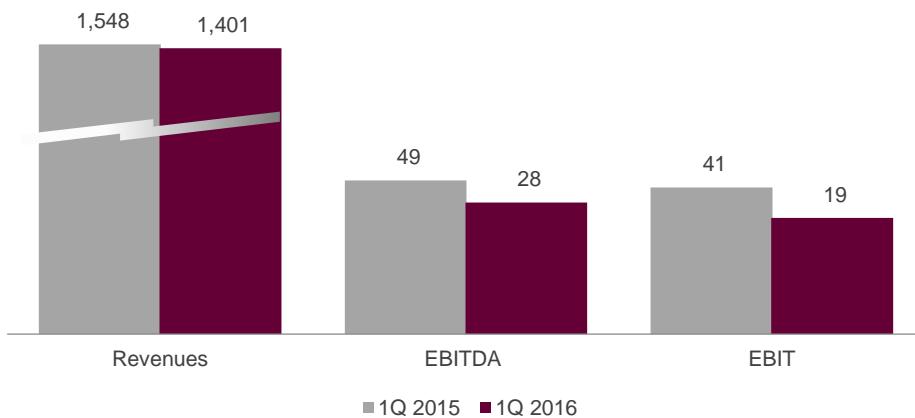
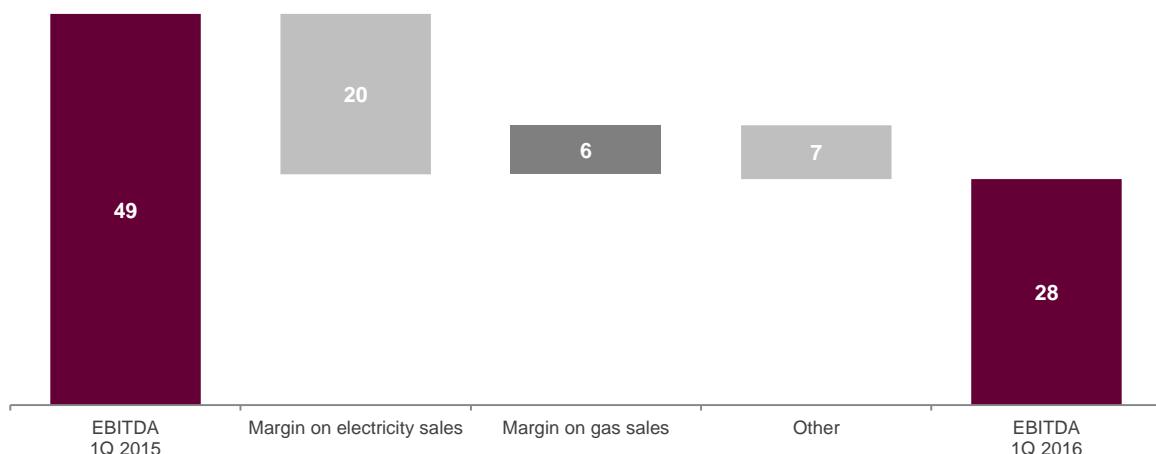


Table 22: Results of the ENERGA Group's Sales Segment

PLN m	Q1 2015	Q1 2016	Change	Change (%)
Revenue	1,548	1,401	(147)	-9%
EBITDA	49	28	(21)	-43%
amortization and depreciation	8	9	1	13%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	41	19	(22)	-54%
Net profit	37	16	(21)	-57%

Figure 14: EBITDA Bridge of the Sales Segment (PLN m)



In Q1 2016, the Sales Segment earned EBITDA of PLN 28 m, i.e. about 4% of ENERGA Group's total EBITDA, compared to PLN 49 m in Q1 2015, when the Segment's contribution to the Group's EBITDA was 7%.

The Sales Segment's revenue in Q1 2016 stood at PLN 1,401 m, declining by PLN 147 m (or 9%) when compared with Q1 2015. This was driven mainly by a 13% drop in the Segment's total electricity sales volume. Revenue on retail electricity sales increased by 8% compared with the previous year thanks to a 14% hike in volume, partially offset by a 5% decline in average sales price. On the other hand, revenue on wholesale electricity sales fell by as much as 60% in Q1 2016 due to sales volume plummeting by 59% and a 1% drop in the average sales price.

The margin on electricity sales, which is the key component of the Segment's results, fell in Q1 2016 in terms of value by PLN 20 m as compared to Q1 2015. This was the effect of a lower unit margin: average electricity sales prices to end users fell faster (-5% yoy) than the average unit variable cost, composed of the purchase cost of electricity, property rights and excise tax (-4% yoy). The changes in sales levels to end users follow the changes in variable cost and are determined by the increasing market competition. One additional element that increased the negative growth rate yoy of the average sales price was the fact that the cost of white certificates was not taken into account in the 2016 sales contracting process, since the obligation to redeem them was extended to 2016 at the end of December 2015. The decrease of the average electricity purchase cost was caused by the declining energy market prices and lower costs connected with the function of the "offtaker of last resort" performed by ENERGA-OBRÓT SA. The lower cost incurred under the "offtaker of last resort" scheme was caused by the lower volume of electricity purchased under this obligation and by the fact that the difference between the price of the President of the Energy Regulatory Office (at which electricity from renewable sources is purchased) and the market price is currently smaller than it was in the corresponding period of the previous year. In Q1 2016, the unit cost of redeeming property rights increased 7% yoy, which was caused by the increase (in percentage terms) of the obligation to redeem property rights ("green", "yellow" and "purple"), despite the significantly lower market prices of green certificates (in Q1 2016, prices were 22% lower yoy).

In Q1 2016, the margin on gas sales generated by the Segment was PLN 6 m higher yoy. The contribution of this business line to Segment results remains insignificant, but it grows dynamically in terms of volumes and margins. In Q1 of this year, gas sales reached 0.67 TWh, compared to 0.07 TWh in the same period of the previous year.

3.7. Ratings

On 27 November 2015, Fitch Ratings affirmed the Company's long-term ratings at the previous level of BBB: the Company's long-term rating in local and foreign currencies and the rating for the Company's junior unsecured debt in the local and foreign currencies. The rating outlook remained stable.

The Agency stated that the affirmation of the Company's ratings reflected the high share of the regulated Distribution Segment's business in EBITDA, which contributed to lower business risk and cash flow predictability. The Agency did not exclude that maintenance of a leading position of the Distribution Segment and elimination of certain regulatory weaknesses regarding, inter alia, the rules for setting the tariffs by the Distribution System Operators or obligation to purchase energy from Renewable Energy Sources effected as an obligation of an offtaker of last resort, might have a positive impact on the rating. At the same time, the Agency emphasized that a rating downgrade may result from material deterioration of the debt to operating cash flow ratio, which may result, among others from executing an excessive investment plan or from an adverse change in the Group's business profile.

Moreover, on 17 February 2016, the Agency upheld the Company's rating while supplementing its opinion from November of the previous year by adding its position on the Group's potential purchase

of shares in Polish mines. Then, on 18 March 2016, after the Company submitted a tentative non-binding offer of investment in PGG, the Agency issued a report indicating that there was no need to update the Company's rating in connection with the planned transaction. On 21 March 2016, a report on the planned investment project was also issued by the Moody's rating agency.

On 21 December 2015, the Moody's Investors Service rating agency affirmed the Company's ratings at Baa: the Company's long-term rating in domestic currency and rating for junior unsecured debt in domestic currency extended to the EMTN Facility of the subsidiary ENERGA Finance AB (publ) with a total value of EUR 1 bn guaranteed by ENERGA. The rating outlook remained stable.

The Agency stated that the rating was affirmed because of the ENERGA Group's strong financial condition and maintenance of a significant share of the regulated distribution business in the results, even in spite of the expected negative impact of changes in regulations applicable to DSOs in the tariff period from 2016 to 2020. At the same time, the Agency admitted that the factors that restricted the rating included a higher risk profile in the Sales and Generation Segments, low scale of production of energy affecting maintenance of a short position in the generation segment, adverse impact of changes in the support mechanism for renewable energy in Poland as well as the possible deterioration of the debt ratios in the case of a full implementation of the investment plan.

Considering the fact that the State Treasury is the majority shareholder (rating for Poland at A2 level with stable outlook), Moody's takes into consideration slight possibility of government's support in the situation of financial threat to the Company's rating. Accordingly, the Baa1 rating takes into account a one-point improvement of the Company's credit rating expressed by Moody's in its basic credit assessment at the Baa2 level. Maintenance of the stable outlook also reflects the agency's expectation that the Company will continue to manage its financial profile in accordance with the guidelines specified for the current ratings.

Table 23: Current ratings of 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 confirmation of rating	21 December 2015	27 November 2015

3.8. Dividend

By the date of approval of this information for publication, the proposed distribution of the 2015 profit has not been adopted.

3.9. ENERGA Group performance drivers in the next quarter and later

In the opinion of the ENERGA SA Management Board, the following factors will drive the results and operations of the Company and the ENERGA Group in the perspective of at least the next quarter:

Figure 15: ENERGA Group performance drivers in the next quarter

Change of structure of distributed energy vs. structure agreed in the tariff	Impact of the function of offtaker of last resort and RES source balancing	Introduction of an obligation to redeem "white" certificates that was previously not considered
Increasing competition in the electricity suppliers market	Loss of support for sources with the capacity exceeding 5 MW and change of the biomass support system	General overhaul of one power unit in ENERGA Elektrownie Ostrołęka in March-June 2016
Actual rate for the operating reserve	Must run production level at ENERGA Elektrownie Ostrołęka	Prices of CO ₂ emission allowances in the face of decreasing number of free allowances
Weather and hydro conditions	Possible coming into force and final wording of the distance act, RES act and the water law	Group's new strategy

Environment



4. ENVIRONMENT

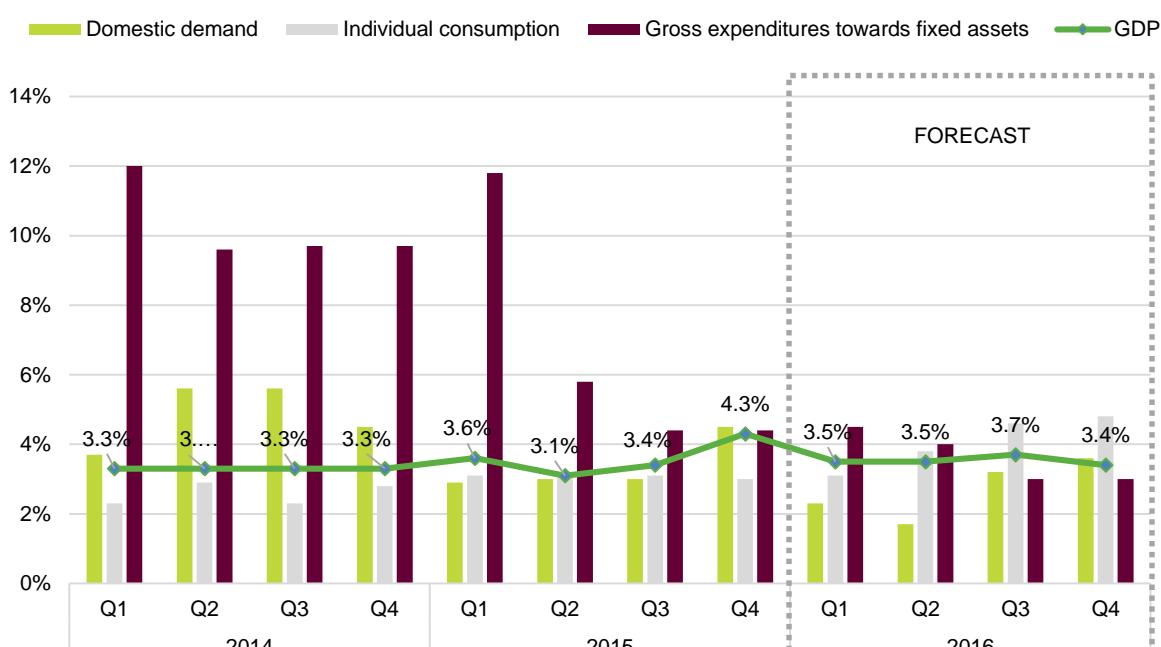
4.1. Macroeconomic situation

The domestic market is the main operating market of ENERGA Group companies and therefore variations in business conditions measured by GDP change rates, inflation or unemployment rates translate to electricity, heat and gas prices and shape demand for products supplied to customers.

According to the estimates of the National Bank of Poland (NBP) in Q1 2016 Poland maintained stable economic growth driven mainly by the increasing consumer demand supported by high employment and declining and declining unemployment, as well as an increase in salaries and good sentiments of households, related among others to the announced launch of the “500+” program. The factors with a positive effect on economic growth also included growing capital expenditures incurred by companies and higher exports. On the other hand, the factors restricting GDP growth included a reduction of capital expenditures by local governments, associated with the lower size of projects executed using EU funds and deterioration of growth prospects in the Polish economic environment.

NBP's GDP growth forecasts for 2016-2018 suggest that domestic economic growth in the current year will reach 3.4-3.9%. In Q1 2016, it is expected to slow down slightly as compared to the very good Q4 last year, when 4.3% GDP growth was recorded vs. the corresponding period of the preceding year.

Figure 16: Annual changes in GDP, domestic demand, individual consumption and expenditures



Source: GUS and forecasts by Bank Zachodni WBK

The positive trends in the Polish economy confirm the PMI readings for the industrial sector, which rose to 53.8 in March, thus reaching its highest point since July 2015. This was driven by a stronger influx of new orders, a higher production, employment levels and higher inventories of purchased goods. The average PMI reading for the entire quarter was 52.5 points.

In the period from January to March of the current year, industrial production sold was 3% higher compared to the same period in 2015. In the case of the “generation and supply of electricity, gas, steam and hot water” sector, a negative growth rate was recorded (-1.3% yoy). The prices of industrial production sold in Q1 of this year were 1.4% yoy lower, which contributed to deflation in Poland's economy. According to the preliminary reading by the Central Statistical Office, the consumer goods and services price index (CPI) was -0.9% yoy in March and in the entire Q1. The decline in prices is

associated primarily with the impact of external factors, such as declining commodity prices on global markets and the related reduction of energy prices. Analysts forecast that the persisting stable economic growth and the positive situation on the labour market will work towards a gradual increase of price growth; deflation however is expected to remain until Q4 2016. This fact does not seem to inspire the Monetary Policy Council to reduce interest rates, which remain at the same level since March 2015.

The good situation on the labour market is reflected in average employment in the corporate sector, which increased in Q1 by 2.6% yoy, and the average monthly (gross) salary, which increased by 3.7% yoy in the same period.

The condition of Poland's economy is to a significant extent connected to the macroeconomic situation in its external environment NBP has noted that Poland's main trading partners experience moderate economic growth. According to a forecast prepared by Standard&Poor's analysts, 1.5% GDP growth rate is expected in 2016. The expansive monetary policy of the European Central Bank, including the purchase of assets conducted since Q1 2015, does have a stimulating effect, even though analysts believe that its effect on inflation and economic growth rate in the Euro zone is dwindling. There remains a risk related to the uncertain outlook for the global business conditions, driven mainly by declining activity in emerging economies. Fears also emerge about the future economic activity in the USA and in other developed economies. If these risks materialize, they will materially affect business conditions in Poland, especially if they weaken economic growth in the Euro zone – through the trading channel, but also through worse sentiments among consumers and businesses.

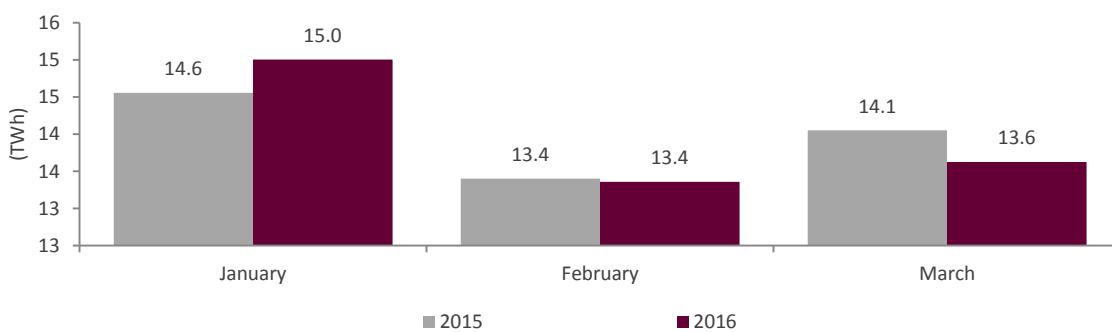
4.2. Electricity market in Poland

The situation in the market environment is really important for the Group's financial performance. In this context, one should mention in particular the production and consumption of electricity, Poland's intersystem exchange, electricity prices in Poland and in its neighboring countries, prices of property rights, fees for the operating reserve and the costs of emission allowances.

Domestic production and consumption of electricity

Production of electricity in Poland, according to the data published by Polskie Sieci Energetyczne ("PSE") in Q1 2016, reached 42.0 TWh, remaining at the same level as in the corresponding period of the previous year. Production levels varied in different months. In January, production was 3% higher than in 2015, while in March the Group experienced a 3% yoy drop in production. The differences in growth levels are determined by changes in net electricity flows between Poland and the systems in its neighboring countries.

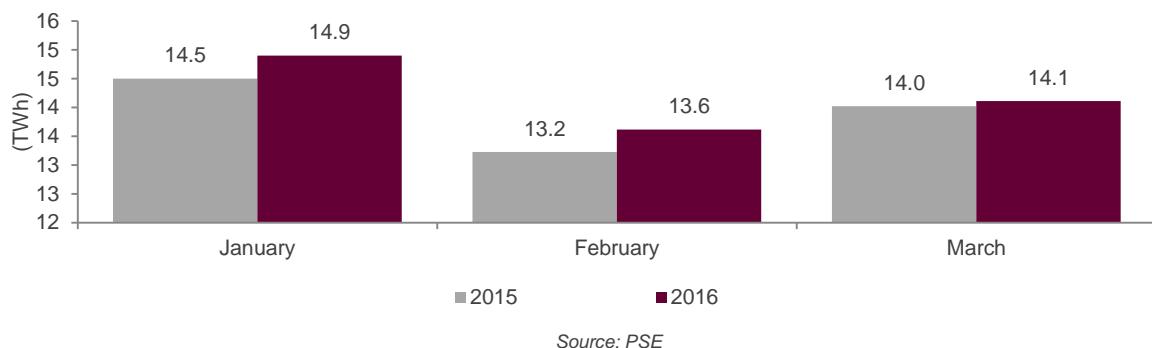
Figure 17: Production of electricity in Poland after Q1 2016 (TWh)



Source: [PSE](#)

Domestic consumption of electricity in Poland in Q1 2016 was 42.6 TWh, which was 0.9 TWh more than in the same period of the previous year (41.8 TWh). The highest increase in electricity consumption occurred in January (lower temperatures) and February (the leap year effect). In March, demand for electricity was similar to the last year's demand.

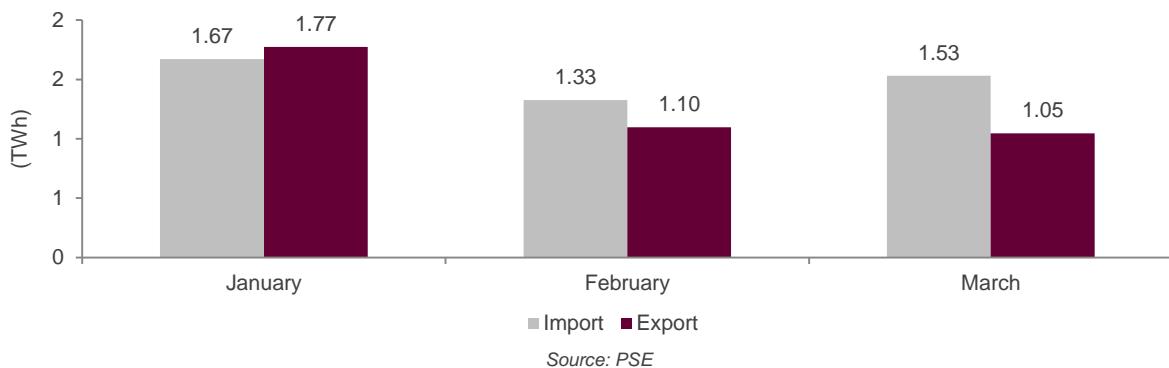
Figure 18: Consumption of electricity in Poland after Q1 2016 (TWh)



Poland's inter-system exchange

In December 2015, LitPol Link was launched, which is a new connection between Poland and Lithuania. In the first weeks after the interconnector became operational, it was dominated by export flows. In mid-February, Nordbalt connection was launched between Lithuania and Sweden, which led to a change in the flows. The increased imports in Q1 were also affected by the purchase of electricity from Ukraine. As a result of these factors, in Q1 Poland was a net importer of electricity of 0.6 TWh, compared with net exports of 0.3 TWh of electricity in the corresponding period of the previous year.

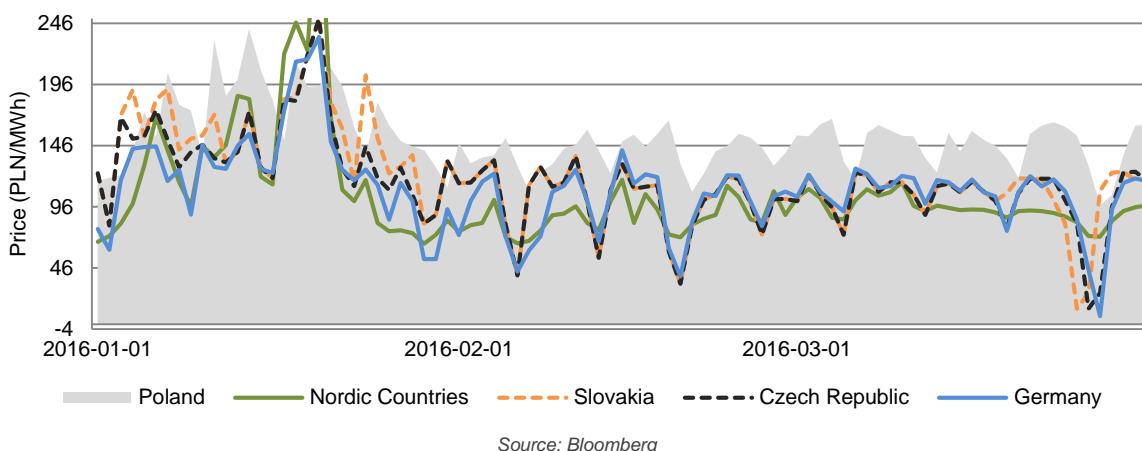
Figure 19: Monthly volumes of intersystem exchange in Poland after Q1 2016 (TWh)



Energy prices in neighboring countries

In order to compare energy prices in Poland to those in the neighboring countries, SPOT market prices were used as reference products. In Q1 2016, average prices in Poland were higher than they were in the neighboring countries. The greatest price difference existed in comparison to Nordic countries (+45%) and the smallest in comparison to Slovakia (+27%).

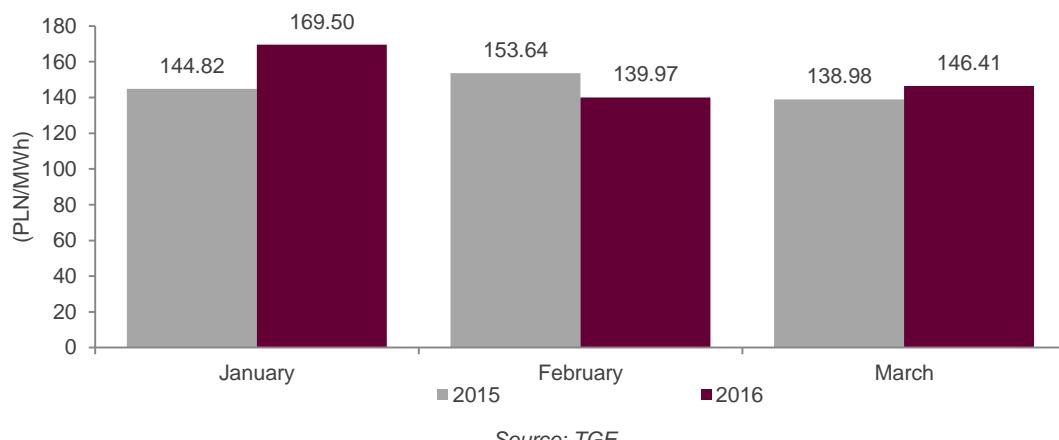
Figure 20: Electricity prices on the SPOT market in Poland and in neighboring countries after Q1 2016



Electricity Day-Ahead Market (DAM) in Poland

In Q1, the average level of the IRDN 24 index was 152.23 PLN/MWh and was 6.68 PLN/MWh higher than in the first three months of the previous year. The greatest price increase when compared with the previous year was recorded in January. A different situation occurred in February, when SPOT market prices were not only the lowest in the first quarter of 2016 but also lower than in February 2015.

Figure 21: Electricity prices on the Day-Ahead Market (DAM) after Q1 2016



The price level on the day-ahead market was affected mainly by the wind conditions. The relatively low production from wind farms raised prices in January, while the exceptionally good wind conditions in February led to a decline in prices. In March, the price level was affected by lower electricity production from wind and energy imported through LitPol Link.

Electricity forward market in Poland

Until mid-February, the electricity forward market followed a downward trend, as a result of which the prices fell to under 155 PLN/MWh. From that moment, the BASE 2017 market consolidated at the 150-155 PLN/MWh level.

Figure 22: Price of forward contracts – base with delivery in 2017, quoted in Q1 2016

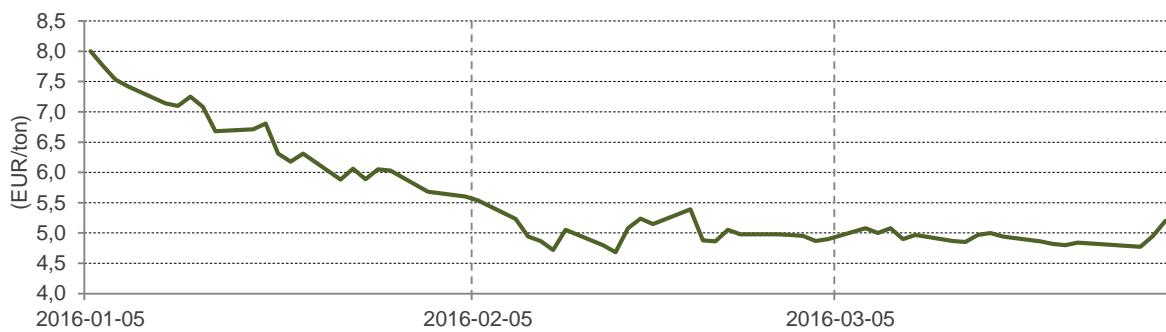


Source: TGE

Emission allowance market

In the beginning of 2016, there was a crash on the market for CO₂ emission allowances, which led to a decline in prices from above 8 EUR/ton to 5 EUR/ton. The correction can be explained by falling market prices of energy fuels: oil, coal and natural gas. The last time the prices were so low was in mid-2014.

Figure 23: EUA emission allowance prices in Q1 2016



Source: Bloomberg

Property rights market

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

Table 24: Average levels of property rights indices listed on the Polish Power Exchange

Index (type of certificate)	Index value		Obligation Percentage (%)	Substitution fee (PLN)
	Q1 2015	Q1 2016		
	(PLN/MWh)	(PLN/MWh)		
OZEX_A (green)	147.6	114.54	14.0*	300.03*
KG MX (yellow)	107.3	118.58	4.9*	121.63*
KECX (red)	10.7	10.80	23.2*	11.0*

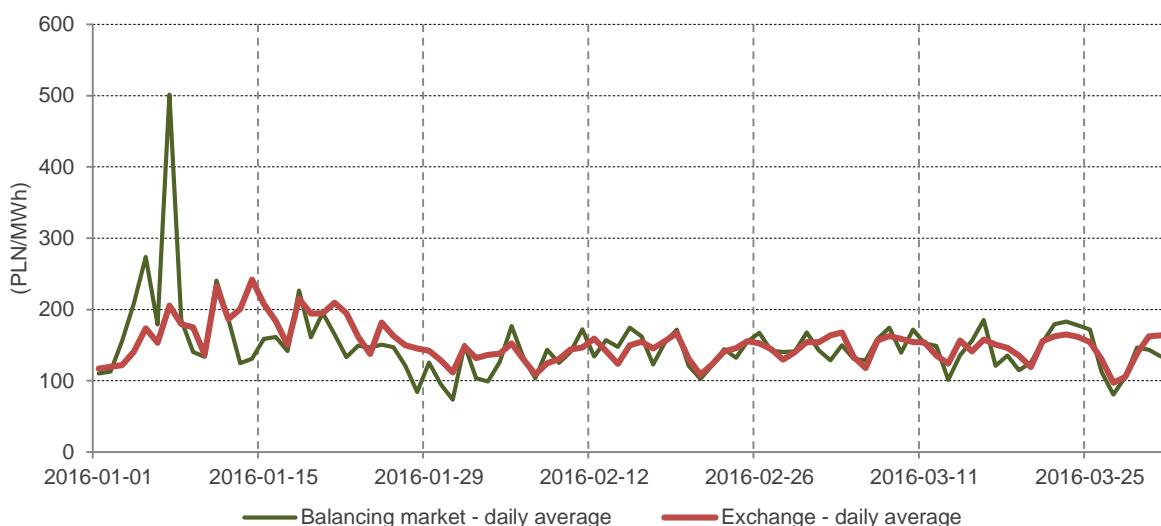
* Value of the substitution fee and redemption obligation in 2015.

From the standpoint of the Group's generation structure (high percentage of RES production) the quotations of green property rights are the most important. In Q1 2016, the prices for RES property rights in session transaction remained at 110-120 PLN/MWh, which was similar to Q4 of the previous year, and roughly 30 PLN/MWh below the Q1 2015 level. The main reason for the low prices as compared to the substitution fee is the surplus supply of RES certificates.

Balancing Market

In Q1 2016, electricity prices on the balancing market were similar to day-ahead market prices. An exceptional date was recorded on 7 January of this year when the daily average price on the balancing market was 501.22 PLN/MWh. This was also the maximum price in the first three months of 2016. Average prices on the balancing market were 149.90 PLN/MWh, compared to 146.19 PLN/MWh in the corresponding period of the previous year.

Figure 24: Statement of prices on the balancing market and SPOT market (Exchange) in Q1 2016

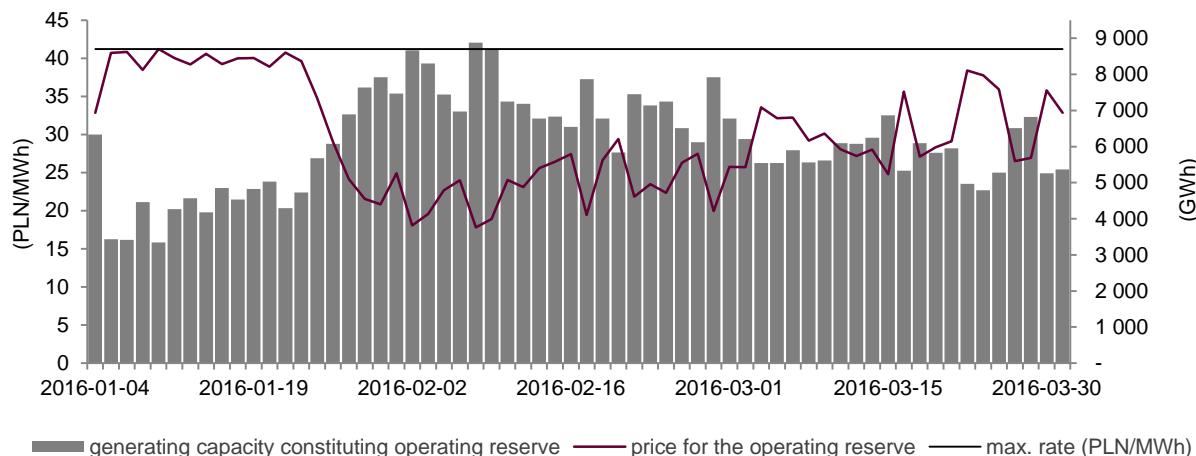


Source: TGE, PSE

Operating reserve

In 2016, the operating reserve service is continued, while its governing rules changed slightly. The reference price was raised to 41.20 PLN/MWh. Also an additional monthly and annual settlement of the operating reserve, in order to expend the remaining ORM budget in the case that daily settlements do not exhaust it fully. In Q1 2016, the average fee for the operating reserve service was 29.73 PLN/MWh, which was PLN 2.35 more than in the corresponding period of the previous year.

Figure 25: Prices and generating capacity constituting operating reserve after Q1 2016



4.3. Regulatory environment

Table 25: List of legal acts affecting the performance of the ENERGA Group

Legal act	Purpose of changes	Opportunities	Risks
RES act	Reform of the RES support system	<ul style="list-style-type: none"> (1) limitation of risks and excessive costs for “ofttaker of last resort” (in the ENERGA Group it is ENERGA-OBRÓT) (2) setting the rules regulating support for RES installations - introduction of an auction system (reduced investment uncertainty - opportunity to develop RES investments in the ENERGA Group) (3) new type of support for modernized RES installations (4) support for stable RES, for example dedicated biomass cofiring installations (5) change in the rules for settlements of electricity produced by prosumers (6) pro-market transition through reduction of the “RES substitution fee” set forth in Article 56 of the RES Act (7) liquidation of obligations imposed on offtakers of last 	<ul style="list-style-type: none"> (1) loss of support for hydro power plants > 5 MW and limitation of support for biomass cofiring; (2) support for new Group products depending on conditions obtained on RES auctions (reference price) (3) uncertainty regarding the full launch of the system within the assumed deadline, i.e. until today, only the Renewable Energy Settlements Operator company has been established, which has to operate as of 1 January 2016. Otherwise, companies performing the duties of “obligated sellers”, i.e. trading companies, will be obligated to purchase energy from RES generators at the auction price and will be exposed to losses) (4) risk associated with the unplanned amendment of the act in H1 2016 will result in increasing uncertainty about the regulations right before the launch of the auction system. Additionally, such an amendment may bring about many unplanned changes to the act (5) Interpretation of certain provisions of the act by the ERO President

Legal act	Purpose of changes	Opportunities	Risks
		resort and obligated sellers (8) liquidation of interpretation concerns in the RES Act	(6) lack of certainty about the RES support system (7) some changes may adversely affect the proceedings pending before the European Commission associated with support for RES – EC's negative decision (8) implementation date of the new RES support system deferred for some time, with current situation remaining without regulation
Amendment of the Water Law Act	Implementation of the requirements of the Water Framework Directive (WFD) in respect to the principles of water management	(1) rationalization and stimulation of investments in the area of water management in Poland (2) change of the financing model by the State Water Management Institution	(1) abandonment of exemptions from water fees for power facilities (2) unknown level of fees for business use of water for energy production and rates for handing over land covered by water for use, will generate important costs for owners of hydro power plants and conventional heat installations (power plants and combined heat and power plants) (3) uncertainty regarding the implementation date of the legal changes in 2016 (4) risk of legislative inconsistency of the new act because of its broad scope and the pace of legislative work
Assumptions of the bill of the act on the so-called smart metering	Specification of the rules of implementation of smart metering in Poland	(1) improvement of the efficiency of DSO companies (2) reduction of electricity consumption in Poland	(1) inconsistency of the bill's assumptions with the experience of the industry; (2) too ambitious implementation timetable (3) centralization and transfer of a database to a third party (Metering Information Operator) will make it much more difficult to take advantage of the potential of smart metering for changing the grid towards the smart grid
Amendment of the energy efficiency act	Implementation of the requirements of the EED Directive	(1) possibility of obtaining additional funds for execution of efficiency investments in the Group	(1) late implementation of the energy efficiency support system (it should have been launched before the end of 2015) (2) lack of full implementation of the EED directive result in a risk of it being challenged by the European Commission

Legal act	Purpose of changes	Opportunities	Risks
			(3) the proposed rules of the substitution fee may generate risk of financial losses if there is insufficient volume of white certificates on the market
Amendment of the Energy Law	Implementation of the REMIT regulation	(1) prevention of unauthorized manipulation and speculation in electricity market transactions	(1) None
Draft act on wind farm investment projects	Specification of the rules, conditions, the execution procedure and operation procedure for wind farms	none	(1) inhibition of growth of the wind energy sector (2) loss of profitability by the existing wind power plants, caused by excessive fees to the Technical Supervision Authority and a 75% increase in property tax (3) beginning of a series of bankruptcies of wind farm owners
Bill on audiovisual fee	Introduction of an additional public levy, which is to replace the current radio and tv subscription fee	none	(1) imposition of additional duties on companies responsible for distribution of electricity, which will result in additional significant costs (2) dissatisfaction of customers caused by additional components of the electricity distribution fee (3) changes required in the billing systems and additional training for staff (4) risk for the company providing distribution services associated with the function of the collector of the audiovisual fee

Shares and shareholding structure



5. SHARES AND SHAREHOLDING STRUCTURE

5.1. ENERGA's shareholding structure

Table 26: Issuer's shares by series and types

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

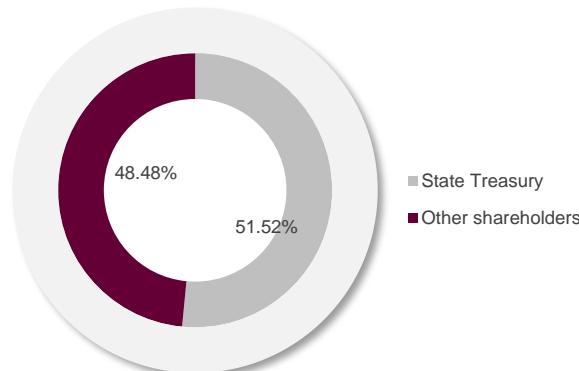
* One preferred share entitles its holder to 2 votes at the General Meeting. These shares are owned by the State Treasury.

Table 27: Shareholding structure of ENERGA as at 16 November 2015, 31 March 2016 and the date of preparing this Information

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

* 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 26: Shareholding structure of ENERGA as at 16 November 2015, 31 March 2016 and the date of preparing this Information



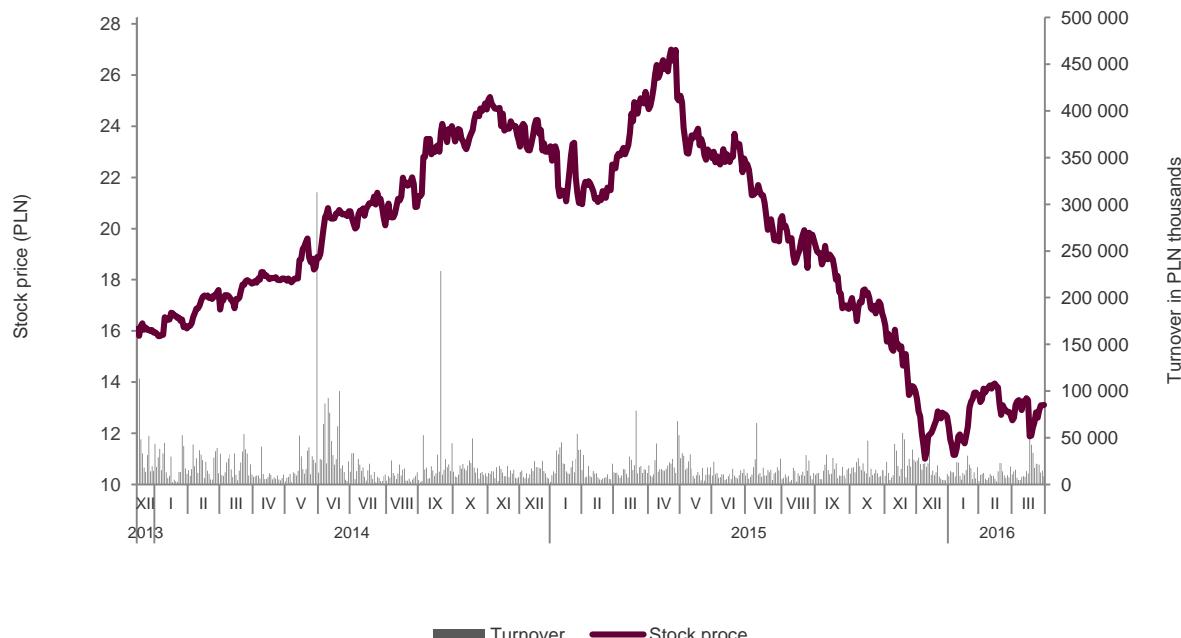
5.2. Company stock prices on the Warsaw Stock Exchange

Table 28: Information on ENERGA stock as at 31 March 2016

Data	Value
Issue price	PLN 17.00
Number of shares	414,067,114 shares
Stock price at the end of the period	PLN 13.11
Capitalization at the end of the period	PLN 5.4 bn
3M minimum at closing	PLN 11.15
3M maximum at closing	PLN 13.94
3M minimum	PLN 11.02
3M maximum	PLN 14.30
Average trading value	PLN 14,428 thousand
Average trading volume	1,145,428 shares
Average number of trades	2,133

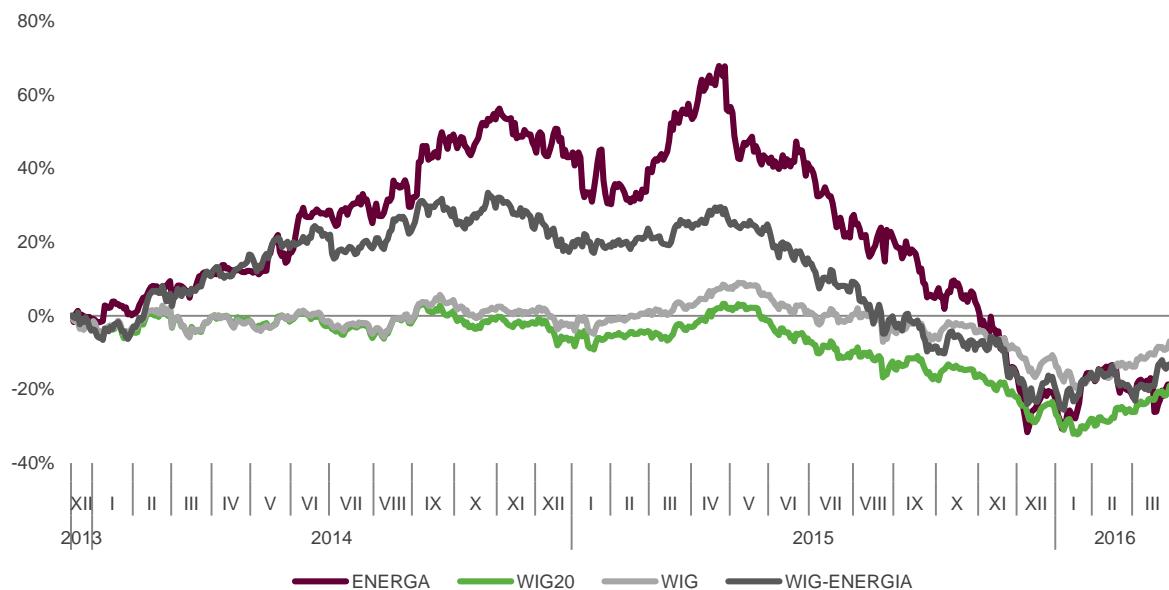
Source: Proprietary material based on data from www.gpwinfostrefa.pl

Figure 27: ENERGA SA stock price, in the period from IPO (i.e. 11 December 2013) to 31 March 2016



Source: Proprietary material based on data from gpwinfostrefa.pl

Figure 28: Changes in ENERGA stock prices in comparison with changes in WIG, WIG20 and WIG-ENERGIA indices



Source: Proprietary material based on data from gpwinfostrefa.pl

As at 31 March 2016, the Company comprised the following stock market indices:

WIG – an index comprised of all companies listed on the Main Market of the Warsaw Stock Exchange, which meet the base criteria for participation in the indices. The Company's share in the index was 1.57%.

WIG

WIG20 – is a price index (meaning that only prices of concluded transactions are taken into account in its calculation) grouping 20 largest and most liquid companies from WSE's Main Market. ENERGA SA's share in the index is: 2.29%.

WIG20

WIG30 – price index launched on 23 September 2013, comprising (30) companies with the highest position in the ranking determined on the basis of the data after the last session of January, April, July and October. The ranking is calculated on the basis of the trading volume for the past 12 months and the value of shares in free float as at the ranking date. ENERGA SA's share in the index is: 2.14%.

WIG30

WIG-Energia – a sectoral index, which is comprised of companies which participate in the WIG index and are at the same time categorized as "power sector" companies with ENERGA's share in the index of 15.50%.

WIGenergia

WIGdiv - index calculated since 2010, comprising up to 30 companies which in the index ranking were in a position not lower than 150 and are 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 – 4.11%.

WIGdiv

WIG-Poland – an index comprised only of shares of domestic companies listed on the Main Market of WSE, which meet the base criteria for participation in the indices. ENERGA SA's share in the index – 1.57%.

WIGPoland

RESPECT Index – index bringing together companies with the highest corporate social responsibility standards. It has existed on WSE since 2009 and is the only index of this type in Central European countries. ENERGA SA's share in the index – 4.46%.

RESPECT Index

FTSE All World – international index, comprised of shares of medium and large companies from the FTSE Global Equity Index Series. It is calculated for mature and emerging markets and forms the basis for investment products such as e.g. derivatives and the tracking passive fund portfolios. In addition to MSCI-Poland, this index is also an important measure for foreign funds investing in Polish equities. ENERGA SA's share in the index – 0.01%.

FTSE
THE INDEX COMPANY

MSCI-Poland – an index which is an important factor for foreign funds investing in Polish equities. Equities of a company may be eligible for the index if they have the required market capitalization and adequate liquidity. ENERGA SA's share in the index was 2.11%.



MSCI Global Sustainability Indexes is one of the indices calculated by MSCI ESG Research. The index has been developed for investors seeking companies with a profile focused on sustainable development.



5.3. Recommendations for the Company's stock

7 Analyst recommendations in Q1 2016	2 Buy recommendations 2 Hold recommendations 1 Neutral recommendation 1 Accumulate recommendation 1 Sell recommendation
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A detailed list of the recommendations can be found on the Company's Investor Relations website.

5.4. Shares held by executive and supervisory personnel

As at 16 November 2016, 31 March 2016 and as at the date of preparing this Information, no member of ENERGA SA's Supervisory Board and no member of ENERGA SA's Management Board held Company's shares, rights to Company's shares or shares in the Company's affiliates.

Gdańsk, 10 May 2016

Signatures of ENERGA SA Management Board Members

Dariusz Kaśków
President of the ENERGA SA Management Board

Mariusz Rędaszka
Vice-President of the ENERGA SA Management Board for Financial Matters

Grzegorz Ksepko
Vice-President of the ENERGA SA Management Board for Corporate Matters

Przemysław Piesiewicz
Vice-President of the ENERGA SA Management Board for Strategy

Mariola Zmudzińska
Vice-President of the ENERGA SA Management Board for Investor Relations

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Glossary of terms and abbreviations

Biomass	Solid or liquid, biodegradable substances of plant or animal origin, originating from products, waste and remnants of agricultural and forestry production, the industry processing their products, and also a portion of other biodegradable waste, and especially agricultural raw materials
CAPEX	Capital expenditures
Certificate of origin from renewable energy sources, green certificate	Document issued by the ERO President pursuant to art. 9e of the Energy Law confirming the generation of electricity in a renewable energy source (known as a green certificate)
CIRS, CCIRS	Currency Interest Rate Swap, Cross-Currency Interest Rate Swap; Currency Interest Rate Swap transactions, as part of which payments will be made in two different currencies (CIRS) or more currencies (CCIRS) on the basis of variable interest rates for the set period of time and in the set frequency
Cogeneration, CHP	Technological process of simultaneous production of heat and electrical or mechanical energy in the course of the very same technological process
Certificate of origin from co-generation	Document issued by the ERO President pursuant to art. 9l of the Energy Law confirming the generation of electricity in highly-efficient cogeneration generated in: (i) a cogeneration unit fired with gaseous fuels or with the total installed electrical capacity at source being under 1 MW (known as a yellow certificate), (ii) a cogeneration unit fired with methane released and drained in the course of underground mining activity in hard coal mines that are active, that are being shut down or that have been shut down or with gas obtained by processing biomass (known as a purple certificate), or (iii) some other cogeneration unit (known as a red certificate)
CO ₂	Carbon dioxide
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
DSO, Distribution System Operator	Utility dealing with the distribution of gaseous fuels or electricity, responsible for grid operation in the gaseous distribution system or in the electricity distribution system, the current and long-term operational safety of this system, the operation, maintenance, refurbishment and required expansion of the distribution grid, including connections with other gaseous systems or other electrical power systems
EIB	European Investment Bank
EBITDA	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) financial costs) adjusted by amortization and depreciation (posted to the profit and loss account). EBITDA has not been defined by IFRS and it should not be treated as an alternative for measures and categories consistent with IFRS. In addition, EBITDA does not have a single definition. The method of calculating EBITDA by other companies may significantly differ from the method in which ENERGA SA calculates it. As a result, EBITDA presented herein cannot be compared to EBITDA presented by other companies
EBIT	Earnings before interest and taxes; Operating profit
ENERGA SA, ENERGA	Parent company in the ENERGA Group
EMTN	Program to issue Euro Medium Term Notes
EUA	European Union Allowance; Emission allowances
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 heat. It also conducts activity related to street lighting, design, procurement of materials, grid-related services, specialized transport, hotel and IT services
ERO	Energy Regulatory Office
GDP	Gross Domestic Product
GW	Gigawatt, unit of power in the International System of Units, 1 GW = 10 ⁹ W
GWe	Gigawatt of electrical power
GWh	Gigawatt hour
IRM	Stimulated Demand Reduction
IRS (Interest Rate Swap)	An interest rate swap agreement between two parties, under which the parties pay interest on the contractual nominal amount calculated according to a different interest rate
KRS	National Court Register
kWh	Kilowatt hour, unit of electrical energy generated or used by equipment with 1 kW of power in an hour; 1 kWh = 3,600,000 J = 3.6 MJ
MW	Unit of power in the International System of Units, 1 MW = 10 ⁶ W
MWe	Megawatt of electrical power
MWh	Megawatt hour
NIB	Nordic Investment Bank
ORM	Operating reserve
OZEX_A	Volume-weighted average price using all transactions pertaining to the PMOZE_A contract on an exchange session
PLN	Polish złoty, national currency
PMI	Industrial economic activity index computed by Markit in cooperation with HSBC
PMOZE_A	Property rights to certificates of origin for electricity generated in RES whose period of generation, as specified in the certificate of origin, commenced after 1 March 2009

Polish Power Exchange, TGE	Polish Power Exchange S.A., a mercantile exchange on which commodities admitted to be traded on the exchange are traded, i.e. electricity, liquid and gaseous fuels, mine gas, pollution emission limits and property rights ensuing from certificates of origin whose price is directly or indirectly dependent on the price of electricity, liquid or gaseous fuels and the quantity of pollution emissions
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
RAB	Regulatory Asset Base
Renewable Energy Sources, RES	Sources converting the energy of the wind, solar radiation, geothermal energy, waves, currents and marine tides, run of rivers and energy obtained from biomass, garbage dump biogas as well as biogas ensuing from waste removal or treatment processes or the degeneration of stored plant and animal remains to generate electricity
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SFIO	Specialized Open-end Mutual Funds
SPOT	Day-Ahead Market (DAM) – energy market operating in the “day ahead” time interval (DA) providing for energy supply on day D
Tariff group	Group of customers off-taking electricity or heat or using electricity or heat supply services with respect to which a single set of prices or fee rates along with their terms and conditions are applicable
TSO, Transmission System Operator	Utility dealing with the transmission of gaseous fuels or electricity, 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 power systems
Tariff G	Tariff group for individual customers – households
TWh	Terawatt hour, a multiple unit of electricity in the International System of Units. 1 TWh is 10^9 kWh
WACC	Weighted average cost of capital
WIBOR	Warsaw Interbank Offered Rate
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
oy	Year on year