



**Management Board  
Report  
on the activity  
of the ENERGA  
Group**

**for H1 2016**

Gdańsk,  
publication date: 11 August 2016

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## 1. SUMMARY OF Q2 2016



**GROUP AFTER Q2 2016: THIRD LARGEST INTEGRATED DISTRIBUTION SYSTEM OPERATOR IN TERMS OF THE VOLUME OF ENERGY SUPPLY, WITH THE HIGHEST NUMBER OF INSTALLED SMART METERS AND ONE OF THE MARKET LEADERS 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 CUSTOMERS**

### Q2 RESULTS



**PLN 445 m**  
EBITDA

### KEY RESOURCES



Distribution network longer than  
**184 thous. km**



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



**8.7 thousand**  
employees

### RENEWABLE ENERGY SOURCES

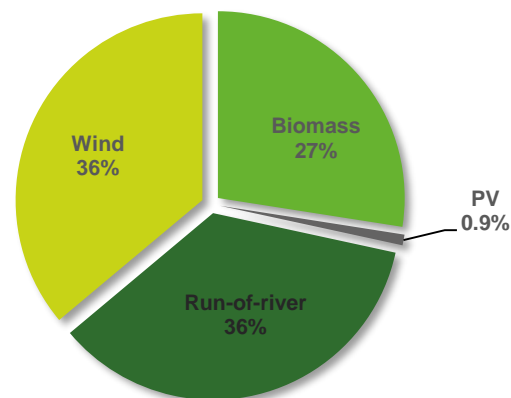
Installed capacity  
**585 MWe**



### ENERGA SA AT THE WSE

Market capitalization: PLN 3.9 bn\*  
Dividend of PLN 0.49 per share paid on 18 July 2016.  
Indices: WIG20, WIG30, MSCI Poland, WIG Energia, WIG, WIGdiv, FTSE All World, RESPECT Index, MSCI Global Sustainability Indexes.

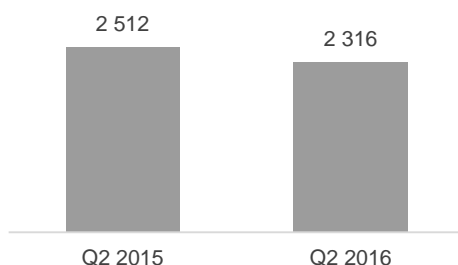
\* According to the closing stock price on 30 June 2016.



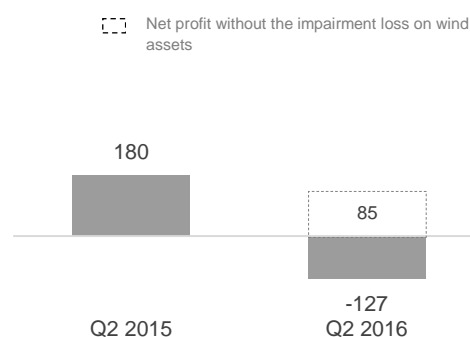
OPERATIONAL DATA

	Q2 2015	Q2 2016
Volume of electricity supplied (GWh)	5,225	5,377
Gross electricity produced (GWh)	1,058	796
- incl. RES (GWh)	453	263
Electricity sold (GWh)	6,134	5,482
- incl. retail sales (GWh)	4,023	4,583

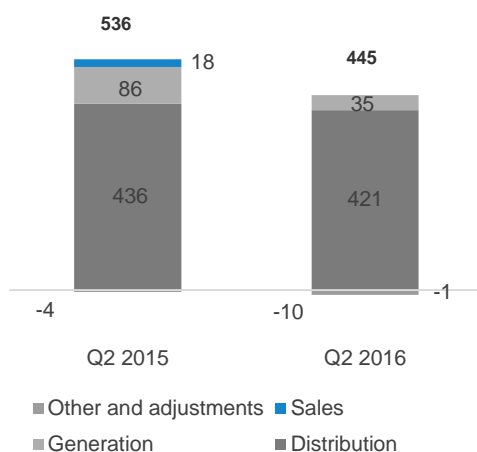
Revenues (PLN m)



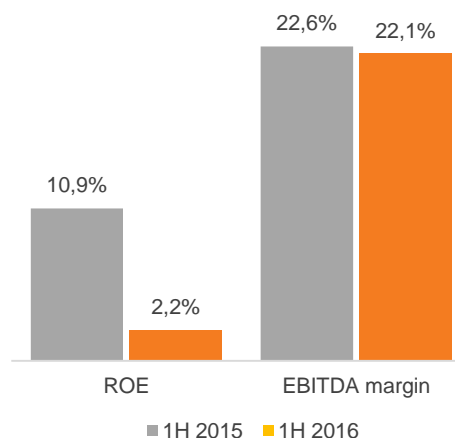
Net profit (PLN m)



EBITDA (PLN m)



Profitability ratios



INVESTMENTS

Investment projects in the ENERGA Group

In Q2 2016, the ENERGA Group executed investment projects worth PLN 405 m, of which almost PLN 312 m in the Distribution Segment. Investment projects in the Distribution Segment included expansion of the grid to connect new customers 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 Q2 of this year **9.5 thousand new customers** were connected, **1,093 thousand km** of high, medium and low voltage lines were built and modernized and **36 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

#### Payment of a dividend from the profit generated in 2015

On 24 June 2016, the Annual General Meeting of ENERGA SA adopted a resolution on the distribution of net profit for the financial year covering the period from 1 January 2015 to 31 December 2015 in the amount of PLN 841,165,914.38, with the following allocation:

- 1) payment of a dividend to shareholders in the amount of PLN 202,892,885.86, i.e. PLN 0.49 per share (24.1% of profit),
- 2) PLN 570,979,755.36 to reserve capital (67.9% of profit),
- 3) PLN 67,293,273.16 to supplementary capital (8.0% of profit).

The record date was set by a resolution at 4 July 2016 and the dividend payment date at 18 July 2016 (Current Report Nos. 18/2016, 20/2016 and 25/2016).

#### Purchase of bonds issued by ENERGA SA by its subsidiary ENERGA-OPERATOR SA

On 16 June 2016, in connection with completion of the negotiation process conducted by ENERGA SA's subsidiary ENERGA-OPERATOR SA (Subsidiary) and selected Bondholders with regard to the terms and conditions of purchase, by the Subsidiary, of series A bonds issued by ENERGA SA, on the same day a transaction was executed under which the Subsidiary acquired 55,795 series A bonds issued by ENERTA with the total par value of PLN 557.95 m.

The Bonds were purchased by ENERGA-OPERATOR SA at the price of PLN 102.85 on the basis of resolutions adopted by the ENERGA SA's and the Subsidiary's Management Board and Supervisory Board. The purchase of the Bonds was financed with cash and funds from available credit facilities.

The purchase of the bonds was associated with optimization of the financing structure and cash management in the ENERGA Group. The above actions have been taken in the context of the dynamic changes in the financial and legal environment of the ENERGA Group (Current Report No. 23/2016).

#### Repealing the resolution adopted by the ENERGA SA Management Board in 2012 to halt the execution of the project to build a new power unit in Ostrołęka

On 24 May 2016, the Company's Management Board adopted a resolution repealing the resolution halting the execution of the project to build a new power unit in Ostrołęka, adopted on 14 September 2012. The purpose of relaunching the project is to achieve readiness for a tender and then to select a general contractor for a modern coal-fired power plant with a capacity of 1,000 MW.

At the same time, action will be taken aimed at securing a strategic investor or a co-investor whose involvement will be necessary due to the scale of the investment project and the establishment of the recommended financing structure for the project (Current Report No. 19/2016).

#### 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 was PLN 304.6 m. These operations are non-cash in nature and do not affect the Group's current or 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).

Moreover, in connection with regulatory changes (Act on Investments in Wind Power Plants), it was identified that there exist grounds for impairment of the recoverable value of the ENERGA Group's non-current assets. As a result of conducted impairment tests according to the legal status as at 28 June 2016, a decision was made to recognize impairment losses in the Generation Segment for the existing and future wind farms totaling PLN 247 m. The above operation was of a non-cash nature. It was charged to the ENERGA Group's operating result, in accordance with the definition adopted in April of this year, without impacting the EBITDA result. After taking these impairment losses into account, the book value of wind farms in the ENERGA Group's consolidated balance sheet is PLN 647.4 m, including PLN 11.9 m for future wind power plants (Current Report No. 26/2016).

### **Capital investment in Polska Grupa Górnicza 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 Górnicza 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 Górnicza Sp. z o.o. (“PGG”). The investors declared in the Memorandum of Agreement that they plan to purchase shares in 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 the purchase of shares in 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 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.

On 25 July of this year, the increase in PGG's share capital was registered, which means that Energa Kogeneracja Sp. z o.o. holds a 15.7% stake in the company's share capital.

### **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 Żółtkiewicz, Mr. Marek Szczepaniec and Mr. Andrzej Powalowski 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, almost 2.8



million of which are customers with comprehensive agreements and roughly 186 thousand are TPA customers. The distribution grid consists of power lines with a total length of approx. 184 thousand km (as at 30 June 2016) and covers almost 75 thousand km<sup>2</sup>, i.e. about 24% of the country's landmass. ENERGA-OPERATOR SA acts as the Segment Leader.

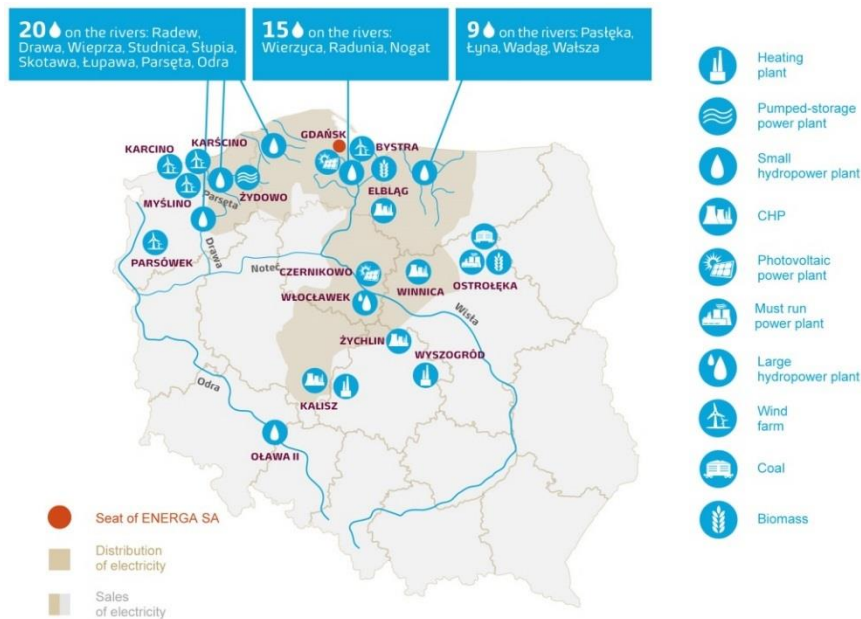
Figure 1: Electricity distribution area served by ENERGA-OPERATOR SA



**Generation Segment** operates on the basis of four business lines: the Ostrołęka Power Plant, Hydro, Wind and Other (including cogeneration – CHP – and photovoltaics). At the end of Q2, the total installed capacity in the Group's power plants was approximately 1.3 GW.

In Q2 2016, the Group's gross production was 0.8 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 Q2 2016, 66% of the Group's gross electricity production originated from hard coal, 24% from hydro, 9% 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 a biomass-fired installation (ENERGA Kogeneracja Sp. z o.o) and in two photovoltaic farms. At the end of Q2 of this year, the Group had 0.58 GW installed capacity in renewable energy sources, in which the Group's gross electricity production reached 263 GWh.

**Sales Segment** provides an offer of electricity arranged in attractive bundles with gas and additional energy-related products and services. This offer is targeted at all customers, regardless of the volume of their electricity consumption, i.e. from industry, through big, medium-sized and small business, to households. The leader in this Segment is ENERGA-OBRÓT SA. The biggest share in terms of volume goes to industrial customers with households being the most numerous group of customers. At the end of Q2 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 expected result is the maximum share in the customer's portfolio of energy expenditures, as measured by the number of service receipt points, and therefore the offer prepared for existing and prospective customers is based on a precise understanding of the customer's needs, simplicity of solutions and pro-customer innovations.

Precise mechanisms and actions are introduced to improve the sales dynamics of the dual-fuel offering based on electricity and gas. At the end of May 2016, gas was sold to 3,246 business customers. In July of this year, ENERGA-OBRÓT introduced to its offer a gas product labeled "Po prostu gaz dla domu" [Simply gas for your home]. Accordingly, the offer now covers both retail and SOHO customers.

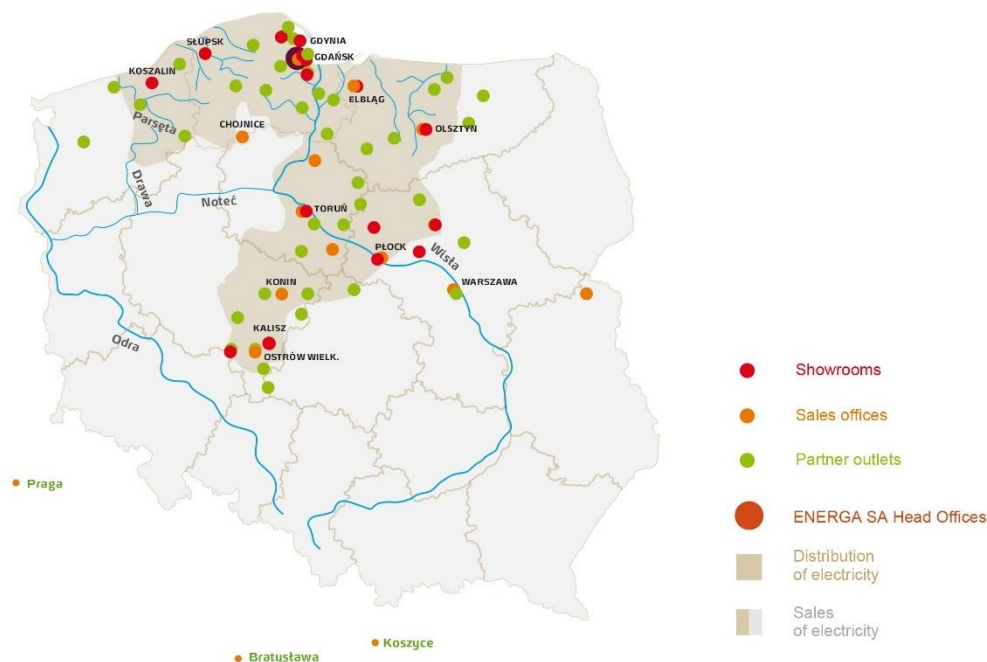
The Sales Segment is focused on increasing efficiency of its sales activity and continues to grow its sales network. Particularly noteworthy is the continuously increasing number of partnership outlets across the country. As at the end of H1 of this year, ENERGA's sales network included:

- 9 own showrooms and 1 showroom operated by an external partner in cities with the largest concentration of ENERGA-OBRÓT customers,
- 11 sales points (retail islands) in shopping centers in selected cities across Poland,

- 44 partnership outlets of a sales and service-provision nature located in the operating area of ENERGA-OPERATOR,
- 494 certified salesmen focused on selling ENERGA's offering to customers 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 customer assigned to a meter, complaints). Moreover, available to customers is a hotline, a functionality dubbed SMS Balance and the website [energa.pl](http://energa.pl), all of which enable customers to arrange matters related to the contract, payments and ENERGA's offer. Moreover, on the website, customers will find an interactive map with marked points of sale and payment outlets of ENERGA's partners (including ePay, BluePay and Moje Doładowania). Customers will be able to settle all matters related to payments, billing, etc., through functional service systems, i.e. [ebok.energa.pl](http://ebok.energa.pl) (soon to be replaced by an expanded [serwis24.energa.pl](http://serwis24.energa.pl)) and [24.energa.pl](http://24.energa.pl). 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. In March of this year, at the EuroPOWER Energy Conference, ENERGA-OBRÓT received an award in the contest "Leaders of the Energy World" for the service Energa 365 combining electricity sales with the use of technological services online.

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



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

As at 30 June 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. The simplified structure of the ENERGA Group as at the end of H1 of this year is shown in the following diagram.

Figure 4: Composition of the ENERGA Group as at 30 June 2016

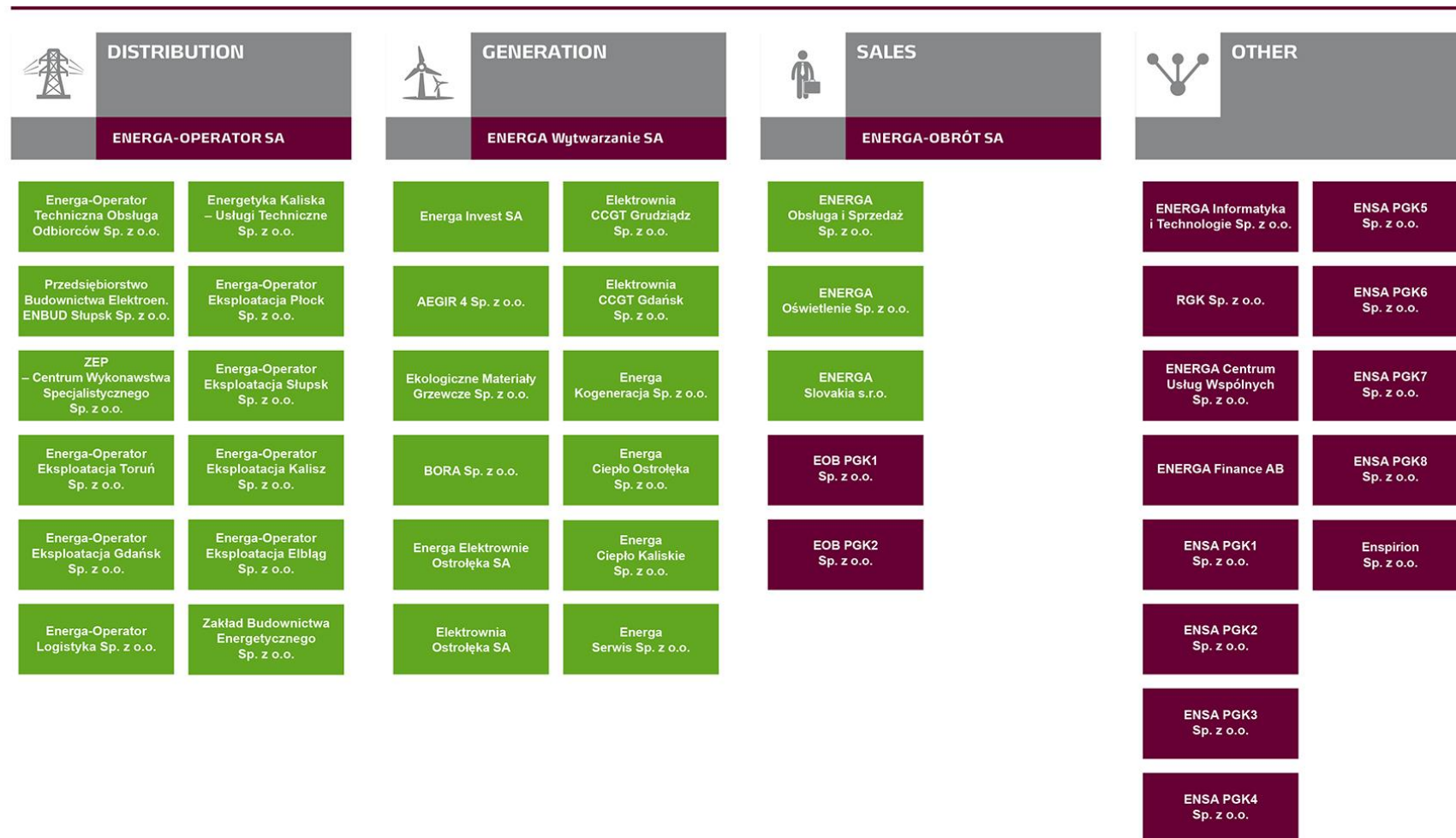
## STRUCTURE OF THE ENERGA CAPITAL GROUP

AS AT 30 JUNE 2016

 Direct subsidiary  
of ENERGA SA

 Indirect subsidiary  
of ENERGA SA

### ENERGA SA



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. On 22 June 2016, the increase in the share capital of ENERGA Kogeneracja Sp. z o.o. was registered by the National Court Register. Having become a new shareholder, ENERGA SA holds a 60.3% stake in its subsidiary's share capital.

On 20 June 2016, ENERGA SA acquired from ENERGA-OBRÓT SA all shares in Enspirion Sp. z o.o., becoming the latter's sole shareholder.

## 2.4. Implementation of the investment program

In H1 2016, the ENERGA Group executed investment projects worth PLN 786 m, of which almost PLN 581 m in the Distribution Segment. Investment projects in the Distribution Segment included expansion of the grid to connect new customers 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 construction work of the Parsówek Wind Farm with a total capacity of 26 MW was completed. Construction permits were obtained for the construction of the 30 MW Przykona Wind Farm (preparatory work for the auction is underway). Work related to the achievement of compliance of Power Plant B in Ostrołęka with environmental requirements constitutes an important part of the Segment's capital expenditures.

Table 1: Implementation status of the investment program as at 30 June 2016

Description of the project	Location	Capital expenditures (PLN m)	Execution stage
<b>GENERATION SEGMENT</b>			
Overhauls in the Ostrołęka B Power Plant	Ostrołęka	62.2	In progress
Construction of a 26 MWe wind farm. Construction work of the wind farm complete.	Parsówek	18.3	Preparation for completion.
Modernization of boiler electrostatic precipitators at the Ostrołęka B Power Plant. The site has been handed over to the general contractor. Construction work has started.	Ostrołęka	21.2	In progress
Construction of a NOx emission reduction installation at the Ostrołęka B Power Plant. Construction work is in progress.	Ostrołęka	30.1	In progress

Other projects and adjustments	-	9.4	-
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### DISTRIBUTION SEGMENT

Grid development related to connection of new customers.	Distribution areas	236.1	In progress continuously
Grid development and modernization related to connection of RES plants.	Distribution areas	14.9	In progress continuously
Distribution grid modernization to improve reliability of supply.	Distribution areas	268.5	In progress continuously
Smart metering and other elements implementing the smart grid concept, including AMI.	Distribution areas	27.3	In progress continuously
Other capital expenditures.	Distribution areas and Distribution Segment companies	33.9	In progress continuously

## 2.5. Research and development

The most important research and development projects carried out in Q2 of this year in the ENERGA Group were the following:

**Smart Toruń** – a pilot implementation of a smart power grid. The 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. reduction of CO<sub>2</sub> emissions).

**Upgrid Project**, i.e. a municipal grid of the future – 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.

**Energa Living Lab** – the essence of the Energa Living Lab project implemented by Enspiron 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.

**eMobility** – construction of a pilot chain of electric car charging stations has been completed within the framework of the project to gather information on and examine the use of electric cars.

**TETRA project** – the project is aimed at the implementation, in the area of ENERGA-OPERATOR's coverage, of a trunked digital communication system by the name of TETRA for the purposes of critical voice and data communications and data transmission for the needs of SCADA control.

**AMI project** – implementation of smart electricity meters in the area of ENERGA-OPERATOR's license.

**LBA project – construction of a local balancing area (LBA)** as an element enhancing security and energy efficiency of the operation of the distribution system – 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. The implementation of this solution will make it possible to increase the capability of connection to the distributed generation network based on 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 CO<sub>2</sub> emissions.

Digitization and development of electronic sales channel – acquisition of customers by building the concept for an eCommerce Transaction Environment in ENERGA-OBRÓT SA.

Since May of this year, the ENERGA Group’s work in the research, development and innovation area has been supported by the Science and Technology Council for Innovation. The Council is an opinion-issuing and advisory body within ENERGA SA appointed by the Company’s Management Board. Its tasks include seeking and promoting new development directions the for ENERGA Group’s R&D and innovation efforts. Furthermore, the Council will support the Group in the preparation of its innovation strategy and in consolidation of the Group’s research, development and innovation policy. The Council consists of five renowned Polish scientists specializing in electric power systems from Poland’s five leading academic centers:

As part of its research, development and innovation projects, the ENERGA Group cooperates with numerous scientific entities, including: the Energy Institute in Gdańsk, the University of Gdańsk, Gdańsk Technical University, Opole Technical University, the Fluid-Flow Machinery Institute of the Polish Academy of Sciences, the University of Varmia and Masuria, the Science and Technology Park in Gdańsk and the Pomeranian Science and Technology Park.

Research findings and practical implementations in power engineering are presented in the Scientific Quarterly of Power Engineers *Acta Energetica*, published by ENERGA SA in cooperation with Gdańsk Technical University since 2009.

## 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 bonds subscribed by ENERGA SA and outstanding, broken down into individual issuers from the ENERGA Group, as at 30 June 2016.

**Table 2: Nominal value of bonds subscribed for by ENERGA SA and outstanding as at 30 June 2016, by issuer**

No.	Company name	Nominal value of subscribed bonds (PLN m)
1.	ENERGA-OPERATOR SA	3,980

2.	ENERGA Wytwarzanie SA	1,208
3.	ENERGA Kogeneracja Sp. z o.o.	59
4.	ENERGA Elektrownie Ostrołęka SA	126
	<b>Total</b>	<b>5,373</b>

### Guarantees and sureties given

As at 30 June of this year, sureties extended by ENERGA SA to cover liabilities of the Group companies totaled PLN 5,663 m and included:

- surety for liabilities of ENERGA Finance AB on account of a PLN 5,532 m Eurobond issue,
- sureties for liabilities of the ENERGA Group companies arising from bank guarantees granted by Bank PKO BP SA under guarantee facilities dedicated to ENERGA Group companies in the total amount of PLN 116 m,
- surety for liabilities of ENERGA Wytwarzanie SA on account of a loan granted by WFOSiGW in Toruń in the amount of PLN 15 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 interim condensed consolidated financial statements for the six-month period ended 30 June 2016.

## 2.7. Risk management

### Integrated Risk Management System in the ENERGA Group

The aim of risk management in the ENERGA Group is to identify potential opportunities and threats which may influence the organization, to keep the risk within the prescribed limits, and to support the achievement of the Group's strategic and operating objectives. The Integrated Risk Management System (ERM) functioning in the ENERGA Group since 2011 ensures a uniform approach to risk management. The ERM system consists of the Risk Management Policy in the ENERGA Group and the Risk Management Methodology in the ENERGA Group whose basis is formed by the risk management process taking place in the organization's environment. The risk management process consists of various interrelated stages forming a continuous process. These stages include the following: risk identification, event identification, risk assessment, preparation and implementation of action plans, and risk monitoring and reporting.

The ENERGA Group runs ongoing and periodic risk reviews the purpose of which is to track the changes taking place, analyze the identified risks and recognize new opportunities and threats. Based on the risk reviews information is prepared concerning the enterprise's risk exposure. On its basis the ENERGA SA Management Board makes decisions pertaining to the level of the Group's risk appetite and accepts the key risk management policy. The results of risk reviews are communicated to the Risk Owners.

In the ENERGA Group, risk classification is effected in accordance with the Risk Model consisting of the following four areas:



- strategic, encompassing the risks associated with attaining strategic objectives, including planning and execution of investments and corporate governance,
- regulatory and legal, including compliance risks with the prevailing laws and regulations,
- operating, encompassing the risks associated with attaining operating objectives, including those relating to infrastructure, processes and resources,
- financial, encompassing the risks associated with financial management.

### Description of major factors and risks

The key risks and the most important risk factors as identified at the Group and Segment levels are depicted below.

#### Strategic area

The issue of investment planning within the ENERGA Group and the allocation of funds between the distinct segments affects the risk of a mismatch between the investment plan and the Group's financial capacity and market development directions, and may also result in under-utilization of potential synergies. The result of this risk may be, without limitation, a decrease in the Group's market value, a deterioration in financial ratios or a compromised competitive position. In addition, there is a risk that the assumed financial objectives of mergers and acquisitions carried out by the Group are not achieved, while if investments prove to be misguided, it may be necessary to write off the impaired value. In order to protect the Group against this risk, control mechanisms are used which enable the Group to react to changes in its environment in a flexible manner.

The risk of investor supervision over Polska Grupa Górnicza Sp. z o.o. (PGG) is associated with the ENERGA Group's exposure (through ENERGA Kogeneracja Sp. z o.o.) to PGG. Failure to implement the adopted business plan and restructuring plan by PGG or an ineffective monitoring of the provisions of the investment agreement by the ENERGA Group may result in the absence of a return on the capital invested in the project and lead to a deterioration of the Group's financial result. In order to mitigate the risk related to PGG, a task force was established in the ENERGA Group for the purposes of ongoing monitoring and enforcement of investment terms in the PGG project.

The decision to re-launch the project to construct a new power unit in Ostrołęka generates a number of risks associated with the subsequent construction and operation of the block. These risks concern possible failure to achieve an appropriate level of project profitability, the absence of a co-investor or problems associated with the financing of investments and unsatisfactory technical parameters of the block as well as delays in project implementation. The materialization of this risk may lead, for instance, to shaking the Group's liquidity position, increased debt servicing costs and the Group's deteriorated investment capacity. In order to protect the Group against this risk, actions are taken aimed at finding an investment partner, ongoing contact with financial institutions is maintained and monitoring is conducted to identify legislative mechanisms that support investment projects.

The ENERGA Group's operations in the energy market involve the Group's exposure to risk factors associated with trading in electricity and fuels. This risk applies, without limitation, to unexpected changes in market conditions and the volatility of generation from renewable energy sources. The large volatility of wind generation coupled with the obligation to purchase electricity as an offtaker of last resort generates additional operating costs to the ENERGA-Obrót (wind generation is negatively correlated with the price of electricity). Market risk is also associated with the absence of sufficient liquidity in the futures market and the spot market, securing supplies for the demand generated by retail customers in the wholesale market, implementing the adopted strategy of contracting electricity and gas and incorrect contract applications to TSO/GSO, including for cross-system exchanges, and incorrect forecasts of customer demand for electricity and gas fuel. As part of the applied control mechanisms, reviews and updates are conducted of the long-term and medium-term contracting strategy in order to adjust it to changing market conditions and to exercise a more effective risk management in this area.

Another significant risk is associated with the execution, by ENERGA Invest, of a bundle of wind farm projects which are at various stages of advancement and a large strategic project called Wisła, and generating returns consistent with the original assumptions. In connection with the signing, on 22 June, by the President of the Republic of Poland, of the Act on Investments in Wind Power Plants, this

risk has largely materialized, resulting in impairment of the recoverable value of the ENERGA Group's non-current assets.

### Legal and regulatory area

Domestic and European Union legal regulations pertaining to the energy sector directly affect the ENERGA Group's operations. Changes associated with the promotion and operation of renewable energy sources in Poland, introducing, without limitation, the redemption obligation on account of the appearance of blue certificates (biogas) or the obligation imposed on heating grids to collect heat originating from renewable energy sources (up to a maximum demand of the relevant network) result in financial losses. The postponement, until 1 January 2018, of the entry into force of amendments to the system of compulsory purchases of electricity originating from renewable energy sources by sellers covered by this obligation may also affect the Group's financial result.

The adoption of the Act on Investments in Wind Power has led to a decrease in the profitability of wind energy in the ENERGA Group, including by a significant increase in costs due to local taxes on structures (wind turbines) or changes in the distance between a newly constructed wind farm and residential buildings.

Regulatory uncertainty and frequent amendments to legal acts make it necessary to redefine investment plans and the policy for contracting property rights. Unforeseen amendments to the law and procedures governing the operation of the market for emission allowances may lead to disruptions in the profit earned on trading activity.

Another risk factor is the dearth of transparency and unambiguity related to the interpretation of legal regulations, whereby there is extensive uncertainty on how issues concerning the Group's operations will be resolved if they become the subject of court proceedings. The absence of regulations on rights to real estate for electrical power equipment leads to the owners of the affected real estate lodging claims for damages. Financial and technical limitations on changing the location where the distribution company's property is situated may impede the company from making investments in these lines and in the event of unfavorable court judgments - it may become necessary to remove high and medium voltage grid equipment.

The ENERGA Group's generation and distribution activities affect the natural environment and are subject to legal regulations on environmental protection, hence it is necessary to obtain appropriate permits and administrative decisions and complete the relevant environmental procedures. Emission laws require generation equipment to continuously adapted to the applicable norms. Failure to comply with these obligations, in addition to purely financial consequences (e.g. losses resulting from the need to close down installations that fail to meet the applicable legal requirements) may also affect the Group's image and cause the Group to lose its EMAS certificate.

Since it belongs to the utility sector, a hefty portion of the ENERGA Group's operations are subject to regulation by the President of the Energy Regulatory Office (President of ERO), who is responsible, among other things, for monitoring compliance between the operations of energy companies with the relevant provisions of the Energy Law and the terms and conditions of the concessions extended by the President of ERO. In particular, the decisions made by the President of ERO affect electricity prices for household consumers. Improper calculation of sales prices or the approval of tariff rates at a level that does not ensure the profitability of sales at competitive prices may lead to a considerable reduction in the margin, market share or revenues generated by the Group's companies.

### Operating area

Due to the large size of ENERGA Group's assets and the age of some facilities, the activity of Group companies is exposed to such risk factors as: breakdowns, atmospheric and hydrologic factors, fortuitous events and acts of vandalism. Their materialization may affect the security and continuity of generation and supplies to customers of electricity of sufficient quality parameters. Interrupted operations of generation or distribution units may lower their performance and may involve a danger to the safety of people and property as well as the necessity to incur additional costs of repair/replacement of damaged components or activities connected with disaster recovery. In turn,

lack of continuity of sales and errors in settlements with customers affect the quality of services provided and customer satisfaction levels.

Another risk is connected with the matters of information security in the context of information processing and confidentiality. In this area, risks may involve unauthorized access to information, for instance company secrets, personal data of customers or employees, strategy, prices, transaction volumes and making such information public. Also, power companies in Poland, as well as those in Europe and all over the world, are likely to be targets of hacking attacks. That is why the risk connected with security and functionality of IT systems becomes ever more important. The loss of confidentiality, accessibility, integrity or operational continuity of IT systems may result in significant difficulties or even in an inability to perform the basic tasks and, in strategic terms, may cause significant harm to the Group's image or competitive position.

Failure to ensure the continuity of operation of IT systems in the Sales Segment may lead to delays in resolving customer requests and incorrect billing of customers and, consequently, result in damage to the Group's image or incomplete revenues on sales of electricity.

### **Finance area**

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

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

### **Interest rate risk**

The 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 Q1 2016, 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 the 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 will comprise functions associated with issue of short-term bonds and maximize 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

In H1 2016, the ENERGA Group was party to 6,741 court proceedings. The Group acted as a plaintiff in 4,765 cases where the aggregated value of the disputed matters was approx. PLN 187 m. The Group acted as a defendant in 1,942 cases where the aggregated amount of the disputed matters was approx. PLN 559 m.

As at 30 June 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 14.8 m in 2,495 cases. There were 2,693 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 77 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 PLN 12.9 m. The aggregated amount of all such cases as at 30 June 2016 was about PLN 180.6 m.

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 H1 2016.

In the first case, in March 2016, hearing of witnesses took place, and the date of the next session will be determined *ex officio*.

In the Boryszewo Wind Invest Sp. z o.o. 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. On 30 September 2015, Boryszewo Wind Invest Sp. z o.o. filed a cassation complaint. The complaint was delivered to ENERGA – OBRÓT S.A. on 12 October 2015. On 26 October 2015, ENERGA – OBRÓT S.A. filed a response to the cassation complaint, in which it petitioned for refusal to accept the cassation complaint for examination or, alternatively, for dismissing the complaint in its entirety and awarding the costs of proceedings against the plaintiff in favor of the defendant. The Supreme Court accepted the plaintiff's cassation complaint for examination. The Company is currently waiting for the ruling of the Supreme Court.

In the proceedings pertaining to refund to ENERGA Elektrownie Ostrołęka SA of the excise tax overpaid in Q2 2016, there were no developments requiring an update.

On 7 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 S.A. to file a reply to the defendant's second rejoinder within 45 days. The plaintiff's pleading was sent on 25 February 2016. In Q1 2016, a number of witness hearings were held. The new date of the hearing was set at 23 September 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 m under the execution agreement of 1 February 2013 to supply and launch a meter infrastructure. The date of the conciliatory meeting was set for 5 August 2016. 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, Branch Office in Plock, against PKN Orlen S.A. 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. The judgment is final and the parties may file a cassation complaint against the Appellate Court's judgment to the Supreme Court. ENERGA-OPERATOR SA petitioned for delivery of the judgment with justification – as at the date of preparation of these Financial Statements, it has not been delivered to the Company's attorney-in-fact.

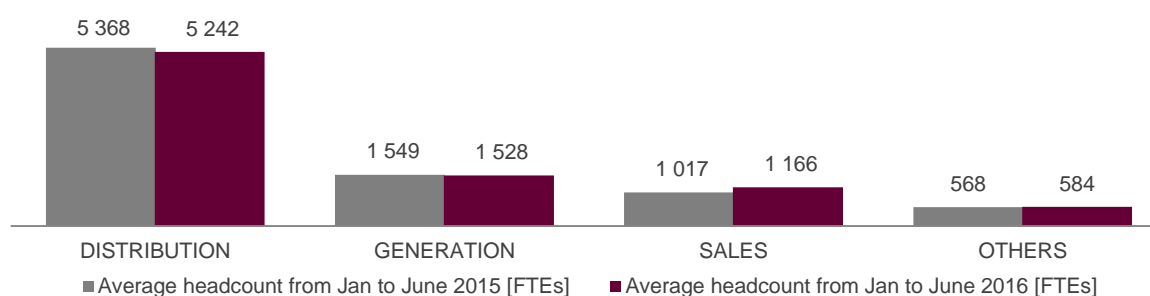
## 2.9. Headcount in the Group

### Headcount in the ENERGA Group

As at 30 June 2016, total headcount in the ENERGA Group was 8,653, compared to 8,516 at the end of Q1 of the previous year. The main reason for the increase of the headcount in Q2 2016 was the take-over of over 80 employees from ENEVA Energy Sp. z o.o.

The average headcount in the ENERGA Group in the period from January to June 2016 period was 8,520 FTEs, compared to 8,502 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 30 June 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 H1 2016.

Table 3: Collective disputes in the Group

### Continuing and pending disputes

Currently, in the ENERGA Group, a collective dispute is conducted at ENERGA Serwis Sp. z o.o. regarding payment of the 2014 profit bonus to employees moved to ENERGA Serwis Sp. z o.o. from ENERGA Elektrownie Ostrołęka S.A. pursuant to 23(1) of the Labor Code. The dispute was instigated in connection with the demands of the trade unions active at the employer's dated 21 June 2016. Considering the inability to reach an agreement, the parties have prepared a discrepancy report from the negotiations. Currently the dispute is entering the stage of mediations in the collective dispute. The parties will continue the dialogue with the participation of a mediator in the months to come.

# Analysis of the financial situation and assets



## 3. ANALYSIS OF THE FINANCIAL STANDING AND ASSETS

### 3.1. Rules for preparing the interim consolidated financial statements

The condensed interim consolidated financial statements of the ENERGA SA Group for the six-month period ended 30 June 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 principles (policies) applied to the preparation of the condensed interim consolidated financial statements are presented in Note 7 to the condensed interim consolidated financial statements of the ENERGA Group consistent with IAS 34 for the six-month period ended 30 June 2016.

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

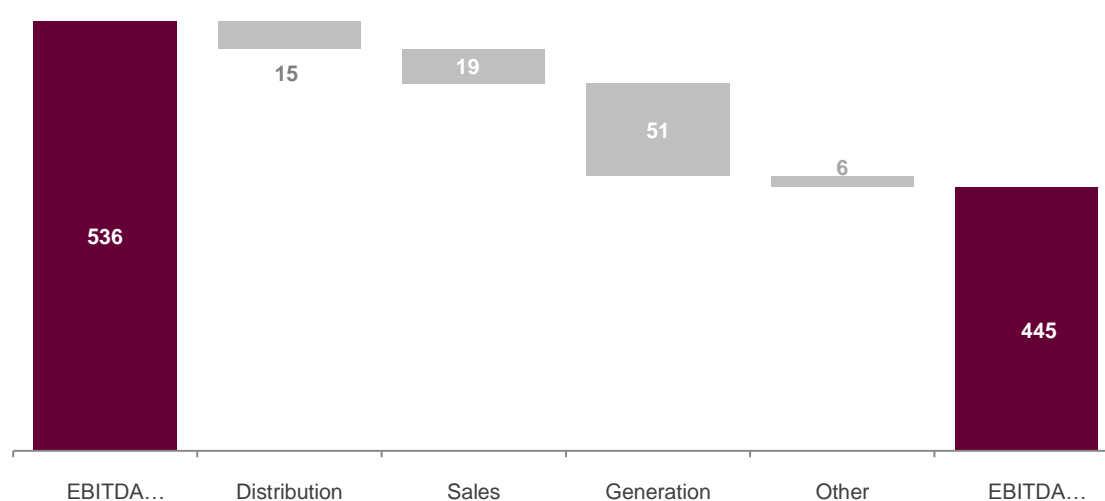
Table 4: Consolidated statement of profit or loss

PLN m	H1 2015	H1 2016	Change	Change (%)
<b>Revenue</b>	<b>5,425</b>	<b>4,937</b>	<b>(488)</b>	<b>-9%</b>
Cost of sales	(4,325)	(4,430)	(105)	-2%
<b>Gross profit on sales</b>	<b>1,100</b>	<b>507</b>	<b>(593)</b>	<b>-54%</b>
Other operating income	44	53	9	20%
Selling and distribution expenses	(155)	(162)	(7)	-5%
General and administrative expenses	(166)	(164)	2	1%
Other operating expenses	(58)	(163)	(105)	< -100%
<b>Operating profit</b>	<b>765</b>	<b>71</b>	<b>(694)</b>	<b>-91%</b>
Result on financial activity	(108)	(124)	(16)	-15%
Share of profit (loss) of associates	-	(41)	(41)	-100%
<b>Profit before tax</b>	<b>657</b>	<b>(94)</b>	<b>(751)</b>	<b>&lt; -100%</b>
Income tax	(122)	(22)	100	82%
<b>Net profit for the period</b>	<b>535</b>	<b>(116)</b>	<b>(651)</b>	<b>&lt; -100%</b>
<b>EBITDA</b>	<b>1,227</b>	<b>1,090</b>	<b>(137)</b>	<b>-11%</b>



PLN m	Q2 2015	Q2 2016	Change	Change (%)
<b>Revenue</b>	<b>2,512</b>	<b>2,316</b>	<b>(196)</b>	<b>-8%</b>
Cost of sales	(2,048)	(2,197)	(149)	-7%
<b>Gross profit on sales</b>	<b>464</b>	<b>119</b>	<b>(345)</b>	<b>-74%</b>
Other operating income	17	38	21	> 100%
Selling and distribution expenses	(78)	(78)	-	-
General and administrative expenses	(79)	(84)	(5)	-6%
Other operating expenses	(26)	(30)	(4)	-15%
<b>Operating profit</b>	<b>298</b>	<b>(35)</b>	<b>(333)</b>	<b>&lt; -100%</b>
Result on financial activity	(59)	(62)	(3)	-5%
Share of profit (loss) of associates	-	(41)	(41)	-100%
<b>Profit before tax</b>	<b>239</b>	<b>(138)</b>	<b>(377)</b>	<b>&lt; -100%</b>
Income tax	(59)	11	70	> 100%
<b>Net profit for the period</b>	<b>180</b>	<b>(127)</b>	<b>(307)</b>	<b>&lt; -100%</b>
<b>EBITDA</b>	<b>536</b>	<b>445</b>	<b>(91)</b>	<b>-17%</b>

Figure 6: EBITDA bridge, by segment



In Q2 2016, the Group's revenue amounted to PLN 2,316 m and was 8%, or PLN 196 m, lower than in Q2 2015. Lower revenue was recorded in all Segments and the biggest decrease was in the Generation Segment (by 28% or PLN 88 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 75 m), which resulted primarily from the decline in revenue on the sale of electricity (lower production volumes) and property rights. A decline in revenue was also recorded in the Sales Segment (by 5% or PLN 64 m), which was driven mainly by the lower total volume of electricity sales. Lower revenue was also recorded in the Distribution Segment (by 3% or PLN 31 m). The decrease in revenues was driven mainly by a reduction of the average rate charged for the sale of distribution services (by 3%), accompanied by an increase of the volume of distributed electricity (by nearly 3%).

In Q2 of the current year, the Group's EBITDA was PLN 445 m, down by 17% compared to the same period of the previous year. A decrease of EBITDA was recorded in all Segments, with the most significant change in the Generation Segment (by 51 m, i.e. 59%).

The Distribution Segment contributed the most to the Group's EBITDA in Q2 2016 (95%), while the Generation Segment accounted for 8%. In Q2 2016, the Sales Segment recorded a negative EBITDA of PLN -1 m (in adding up the contributions, take into consideration the 'Other and adjustments' line item).

The operating profit in Q2 of this year fell by PLN 333 m compared to Q2 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 non-financial non-current assets in the total amount of PLN 247 m.

In Q2 this year, a share of loss in associate, Polska Grupa Górnicza Sp. z o.o. ("PGG") of PLN 41 m was recognized.

The Group's net result in Q2 2016 was negative and amounted to PLN -127 m, down PLN 307 m from Q2 2015.

After the definition of EBITDA changed, requiring elimination of impairment losses on non-financial non-current assets in Q2 2016 and in Q2 2015, no other significant extraordinary events occurred that were charged to EBITDA.

**Table 5: Consolidated statement of financial position**

PLN m	Balance as at 31 December 2015	Balance as at 30 June 2016	Change 2016/2015	Change 2016/2015 (%)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	12,912	12,783	(129)	-1%
Intangible assets	395	413	18	5%
Goodwill	143	26	(117)	-82%
Shares in associates accounted for under the equity method	-	323	323	100%
Deferred tax assets	260	373	113	43%
Other non-current financial assets	60	142	82	> 100%
Other non-current assets	103	107	4	4%
	<b>13,873</b>	<b>14,167</b>	<b>294</b>	<b>2%</b>
<b>Current assets</b>				
Inventories	513	658	145	28%
Current tax receivables	47	9	(38)	-81%
Trade receivables	1,762	1,847	85	5%
Investments in the financial assets portfolio	322	2	(320)	-99%
Other current financial assets	38	43	5	13%
Cash and cash equivalents	1,669	860	(809)	-48%
Other current assets	232	365	133	57%
	<b>4,583</b>	<b>3,784</b>	<b>(799)</b>	<b>-17%</b>
<b>TOTAL ASSETS</b>	<b>18,456</b>	<b>17,951</b>	<b>(505)</b>	<b>-3%</b>
<b>EQUITY AND LIABILITIES</b>				

## Equity

Share capital	4,522	4,522	-	-
Exchange differences resulting from conversion of a foreign entity	-	4	4	100%
Reserve capital	447	1,018	571	> 100%
Supplementary capital	661	728	67	10%
Cash flow hedge reserve	6	21	15	> 100%
Retained earnings	3,134	2,194	(940)	-30%
<b>Equity attributable to equity holders of the Parent Company</b>	<b>8,770</b>	<b>8,487</b>	<b>(283)</b>	<b>-3%</b>
<b>Non-controlling interest</b>	<b>44</b>	<b>47</b>	<b>3</b>	<b>7%</b>
	<b>8,814</b>	<b>8,534</b>	<b>(280)</b>	<b>-3%</b>
<b>Non-current liabilities</b>				
Loans and borrowings	2,475	2,376	(99)	-4%
Bonds issued	3,116	2,640	(476)	-15%
Non-current provisions	664	654	(10)	-2%
Deferred tax liabilities	591	601	10	2%
Deferred income and non-current grants	531	528	(3)	-1%
Other non-current financial liabilities	25	12	(13)	-52%
	<b>7,402</b>	<b>6,811</b>	<b>(591)</b>	<b>-8%</b>
<b>Current liabilities</b>				
Trade liabilities	877	554	(323)	-37%
Current loans and borrowings	203	556	353	> 100%
Bonds issued	76	41	(35)	-46%
Current income tax liability	2	4	2	100%
Deferred income and grants	161	134	(27)	-17%
Short-term provisions	471	593	122	26%
Other financial liabilities	193	335	142	74%
Other current liabilities	257	389	132	51%
	<b>2,240</b>	<b>2,606</b>	<b>366</b>	<b>16%</b>
<b>Total liabilities</b>	<b>9,642</b>	<b>9,417</b>	<b>(225)</b>	<b>-2%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>18,456</b>	<b>17,951</b>	<b>(505)</b>	<b>-3%</b>

As at 30 June 2016, total assets of the ENERGA Group reached PLN 17,951 m and were PLN 505 m lower than on 31 December 2015.

In non-current assets the most significant change pertained to shares in associates measured by the equity method, which is associated with the ENERGA Group's exposure in Polska Grupa Górnicza Sp. z o.o., resulting in take-up of 15.7% of the shares in the associate by ENERGA Kogeneracja Sp. z o.o. as at 30 June this year. In current assets the most significant changes concerned in particular the following items: cash (the reasons for the change of the balance of cash were described further on, in the part devoted to cash flows) and investments in the financial assets portfolio (decrease by PLN 320 m; the line item presents the participation units in the ENERGA Trading Fund).

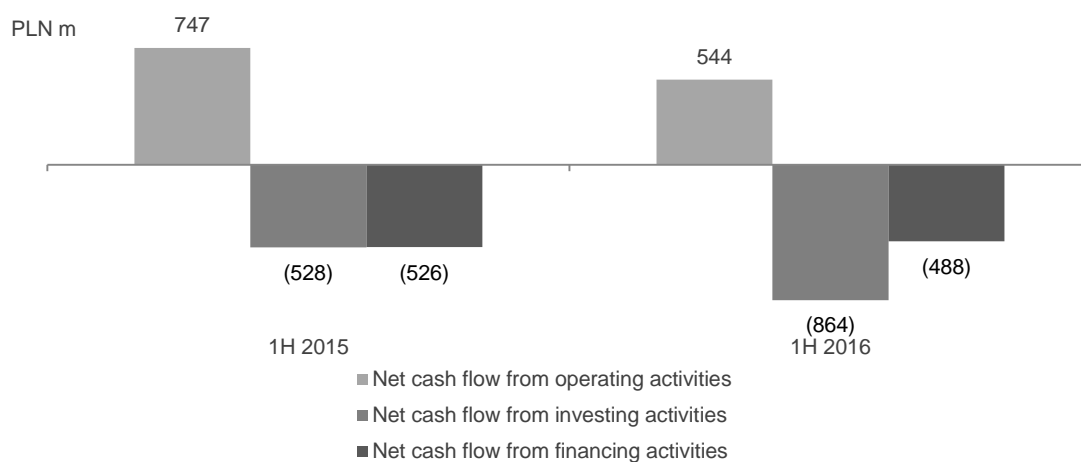
On the side of liabilities, significant changes pertained to the balance of bonds issued (the PLN 511 m decrease resulted primarily from acquisition, by a subsidiary, of bonds issued by ENERGA SA in 2012 with the nominal value of PLN 558 m), balance of trade liabilities (decrease by PLN 323 m) and the loans and borrowings item (the PLN 254 m increase resulted primarily from draw-down of a revolving loan in the amount of PLN 350 m, offset primarily by repayments from the financing obtained from International Financial Institutions).

The ENERGA Group's equity as at 30 June 2016 was PLN 8,534 m and financed 47.5% of the Group's assets. ENERGA SA's result for 2015 was allocated with PLN 571 m going to reserve capital, PLN 67 m going to supplementary capital, and nearly PLN 203 m being designated as a dividend payment to the Company's shareholders.

**Table 6: Consolidated statement of cash flows**

in PLN m	H1 2015	H1 2016	Change 2016/2015	Change2016/2015 (%)
Net cash flow from operating activities	747	544	(203)	-27%
Net cash flow from investing activities	(528)	(864)	(336)	-64%
Net cash flow from financing activities	(526)	(488)	38	7%
Net increase / (decrease) in cash	(307)	(808)	(501)	< -100%
Cash and cash equivalents at the end of the period	1,604	850	(754)	-47%

**Figure 7: Group's cash flows in H1 2016 and 2015**



As at 30 June 2016, the balance of the Group's cash was PLN 850 m and was PLN 754 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 H1 2016 were negative at PLN 808 m, compared to the negative cash flows of PLN 307 m in the same period of the previous year.

Cash flow from operating activities decreased by PLN 203 m (27%) compared to the previous year. The decrease in cash flows from operating activities in relation to H1 2015 was driven primarily by lower results on operating activities, which translated into lower inflows (changes in working capital were recorded on a similar level to the corresponding period of last year).

Net cash flows from investing activities in H1 2016 increased in total by PLN 336 m (i.e. 64%), driven mainly by acquisition of the shares in Polska Grupa Górnicza Sp. z o.o. and higher expenditures incurred to purchase property, plant and equipment and intangible assets. This effect was partially offset by inflows from the sale of participation units in the ENERGA Trading fund.

In the period in question cash flows from financing activities were negative and amounted to PLN 488 m, compared to PLN 526 m in the corresponding period of 2015. In H1 2015, PLN 268 m of the financing from EIB and NIB was drawn down, while this year financing under a revolving loan in the amount of PLN 350 m was drawn down. In addition, in H1 2015, dividend in the amount of PLN 596 m was paid out and in H1 2016, series A bonds issued by ENERGA SA were redeemed for PLN 577 m.

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

Figure 8: Structure of assets and liabilities

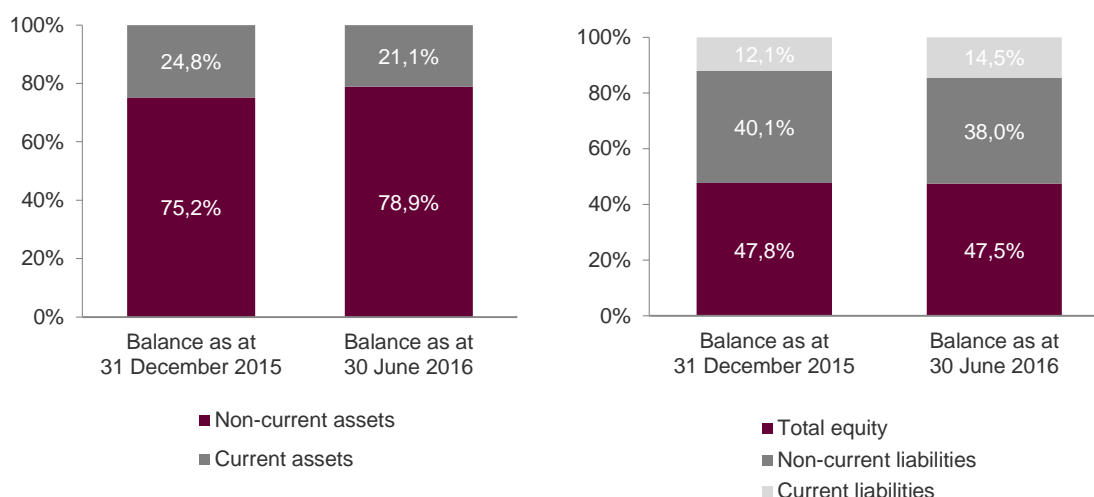


Table 7: Financial ratios of the ENERGA Group

Ratio	Definition	H1 2015	H1 2016
<b>Profitability</b>			
EBITDA margin	operating result + amortization and depreciation + impairment losses on non-financial non-current assets / revenue	22.6%	22.1%
return on equity (ROE)	net profit for the period* / equity at the end of the period	10.9%	2.2%
return on sales (ROS)	net profit for the period / sales revenues	9.9%	-2.3%
return on assets (ROA)	net profit for the period* / total assets at the end of the period	5.2%	1.1%

\* net profit for the last 12 months

Ratio	Definition	Balance as at 31 December 2015	Balance as at 30 June 2016
<b>Liquidity</b>			
current liquidity ratio	current assets/current liabilities	2.0	1.5
<b>Indebtedness</b>			

financial liabilities (PLN m)	sum of liabilities under loans and borrowings and under long- and short-term debt securities	5,870	5,613
net financial liabilities (PLN m)	financial liabilities - cash and cash equivalents	4,201	4,753
net debt / EBITDA ratio	net financial liabilities / EBITDA*	1.9	2.3

\* EBITDA for the last 12 months

Following the recognition of further impairment losses, in Q2 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 Group's exposure to PGG, redemption of bonds and lower operating results affected the level of current assets (decrease of cash and investments in the financial assets portfolio - ENERGA Trading units) translating into lower current liquidity ratio.

Compared to the end of 2015, financial liabilities fell (by 4%). The higher level of the net debt to EBITDA ratio in relation to the end of last year was attributable to the change of net financial liabilities (up by 13%) and a decline of the Group's results for the past 12 months compared to 2015 (by 6%).

### 3.4. Description of significant off-balance sheet items

Information on this subject is provided in the section *Guarantees and sureties given* in this Management Board Report 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	Q2 2015	Q2 2016*	Change	Change (%)	H1 2015	H1 2016*	Change	Change (%)
Tariff Group A (HV)	1,092	1,139	47	4%	2,076	2,176	99	5%
Tariff Group B (MV)	1,785	1,888	103	6%	3,673	3,884	211	6%
Tariff Group C (LV)	1,001	1,015	14	1%	2,136	2,127	(9)	0%
Tariff Group G (LV)	1,347	1,335	(12)	-1%	2,800	2,833	(33)	1%
<b>Total distribution of energy</b>	<b>5,225</b>	<b>5,377</b>	<b>152</b>	<b>3%</b>	<b>10,685</b>	<b>11,021</b>	<b>335</b>	<b>3%</b>

\* in connection with data migration to new billing systems, for the H1 2016 data (for tariffs C and G), the data on invoiced sales were adjusted based on meter readings

In Q2 2016, compared to the corresponding period in 2015, the volume of electricity in distribution increased by nearly 3%, while the average price of distribution services fell by 4%. The increased volume of the distribution service occurred mainly in tariff group A and was associated with increase of sales volume for one of the customers, and also in tariff group B which was related to increase in the number of customers 4.8% y/y and the average consumption.

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		
Q2 2015	27.5	11.9	39.4	0.6	0.1	0.7
<b>Q2 2016</b>	<b>58.9</b>	<b>12.9</b>	<b>71.7</b>	<b>0.8</b>	<b>0.1</b>	<b>0.9</b>
Change	31.4	1.0	32.3	0.2	(0.0)	0.2
Change (%)	> 100%	8%	82%	36%	-8%	30%
H1 2015	105.3	22.2	127.5	1.4	0.2	1.6
<b>H1 2016</b>	<b>75.7</b>	<b>21.3</b>	<b>97.1</b>	<b>1.1</b>	<b>0.1</b>	<b>1.3</b>
Change	(29.5)	0.9	(30.4)	(0.3)	(0.0)	(0.3)
Change (%)	-28%	-4%	-24%	-22%	-13%	-21%

In Q2 2016, ENERGA-OPERATOR SA achieved SAIDI and SAIFI at 71.7 min./cust. and 0.9 interruptions, respectively. The deterioration of the indices compared to Q2 2015 is a result of unfavorable weather conditions (strong wind, lightning discharges) which led in some regions also to growth mass failures in June this year.

Table 10: Gross production of electricity in the ENERGA Group

Gross electricity produced (GWh)	Q2 2015	Q2 2016	Change	Change (%)	H1 2015	H1 2016	Change	Change (%)
Power plants - coal-fired	569	510	(59)	-10%	1,188	1,099	(89)	-8%
Power plants - biomass cofiring	159	-	(159)	-100%	305	-	(305)	-100%
CHP plants - coal-fired	(32)	17	(15)	-46%	74	59	(15)	-21%
CHP plants - biomass-fired	(3)	10	13	> 100%	9	20	11	> 100%
Power plants - hydro	210	183	(27)	-13%	463	431	(31)	-7%
Pumped-storage plant	5	6	1	26%	13	18	5	34%
Power plants - wind	86	68	(17)	-20%	205	171	(34)	-17%
Power plants - photovoltaics	1	2	1	> 100%	1	3	2	> 100%
<b>Total electricity production</b>	<b>1,058</b>	<b>796</b>	<b>(262)</b>	<b>-25%</b>	<b>2,259</b>	<b>1,801</b>	<b>(458)</b>	<b>-20%</b>
<i>incl. RES</i>	453	263	(189)	-42%	983	625	(358)	-36%

In Q2 2016, ENERGA Group's generation assets produced approx. 262 GWh (25%) 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 (218 GWh), which was caused, among others, by the general overhaul of one unit of the must-run power plant (from 1 March 2016) and PSE's lower demand for must run production. 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 and hydro power plants was recorded due to worse weather conditions.

Moreover, since the beginning of 2016, the quantity of property rights arising on renewable energy production is not the same as the RES production volume 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	Q2 2015	Q2 2016	Change	Change (%)	H1 2015	H1 2016	Change	Change (%)
ENERGA Kogeneracja Sp. z o.o.	406	381	(25)	-6%	1,283	1,315	(33)	3%
ENERGA Elektrownie Ostrołęka S.A.	280	246	(34)	-12%	791	788	(3)	0%
Ciepło Kaliskie Sp. z o.o.	36	41	5	13%	172	197	26	15%
<b>Total gross heat production</b>	<b>723</b>	<b>669</b>	<b>(54)</b>	<b>-7%</b>	<b>2,245</b>	<b>2,301</b>	<b>56</b>	<b>2%</b>

In Q2 2016, heat production decreased by approx. 54 TJ (or 7%) which was driven mainly by the decreasing demand on the local markets experienced by Group companies.

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

Fuel consumption*	Q2 2015	Q2 2016	Change	Change (%)	H1 2015	H1 2016	Change	Change (%)
Coal								
Quantity (thous. tons)	288	252	(36)	-12%	628	566	(62)	-10%
Cost (PLN m)	70	55	(16)	-22%	156	129	(27)	-17%
Biomass								
Quantity (thous. tons)	100	8	(92)	-92%	205	17	(189)	-92%
Cost (PLN m)	41	3	(38)	-92%	83	6	(77)	-92%
<b>Total fuel consumption (PLN m)</b>	<b>111</b>	<b>58</b>	<b>(54)</b>	<b>-48%</b>	<b>239</b>	<b>135</b>	<b>(103)</b>	<b>-43%</b>

\* including the cost of transportation

In Q2 2016, the producers in the ENERGA Group consumed approx. 36 thousand tons (or 12%) of black coal less than the year before. In the same period, biomass consumption fell by approx. 92 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 (biomass-fired production will be possible 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 the overhaul of unit no. 3 and 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 14% for coal and 20% 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	Q2 2015	Q2 2016	Change	Change (%)	H1 2015	H1 2016	Change	Change (%)
Retail electricity sales	4,023	4,583	560	14%	8,307	9,488	1,181	14%
Electricity sales on the wholesale market, of which:	2,112	899	(1,212)	-57%	4,690	1,956	(2,733)	-58%
<i>Electricity sales to the balancing market</i>	7	66	59	> 100%	112	188	76	67%
<i>Electricity sales to ENERGA-OPERATOR to cover network losses*</i>	0	358	358	> 100%	(16)	753	769	> 100%
<i>Other wholesale</i>	2,105	475	(1,630)	-77%	4,593	1,016	(3,578)	-78%
<b>Total electricity sales</b>	<b>6,134</b>	<b>5,482</b>	<b>(652)</b>	<b>-11%</b>	<b>12,997</b>	<b>11,444</b>	<b>(1,553)</b>	<b>-12%</b>

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

In Q2 2016, the total volume of electricity sold by the Segment decreased by 11% (or 0.7 TWh) compared to Q2 2015, which is attributable to the decrease of the sales volume on the wholesale market (by 57%, or 1.2 TWh), whereas retail sales increased by 14% (or 0.6 TWh) in relation to the previous year.

In retail sales in Q2 2016, increases in volumes sold to business customers, including to Slovak market customers and to households were recorded. 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 Q2 2016 accounted for 30% of the sales billed to end users by ENERGA-OBRÓT SA (33% in Q2 of the previous year).

In the analyzed period, electricity sales fell in the wholesale market (by 57%), 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 in the wholesale market. 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)	Q2 2015	Q2 2016	Change	Change (%)
DISTRIBUTION	436	421	(15)	-3%
GENERATION	86	35	(51)	-59%
SALES	18	(1)	(19)	> -100%

OTHER and consolidation eliminations and adjustments	(4)	(10)	(6)	> -100%
<b>Total EBITDA</b>	<b>536</b>	<b>445</b>	<b>(91)</b>	<b>-17%</b>
<b>EBITDA (PLN m)</b>	<b>H1 2015</b>	<b>H1 2016</b>	<b>Change</b>	<b>Change (%)</b>
DISTRIBUTION	934	920	(14)	-1%
GENERATION	239	168	(71)	-30%
SALES	67	27	(40)	-60%
OTHER and consolidation eliminations and adjustments	(13)	(25)	(12)	-92%
<b>Total EBITDA</b>	<b>1,227</b>	<b>1,090</b>	<b>(137)</b>	<b>-11%</b>

## Distribution Segment

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

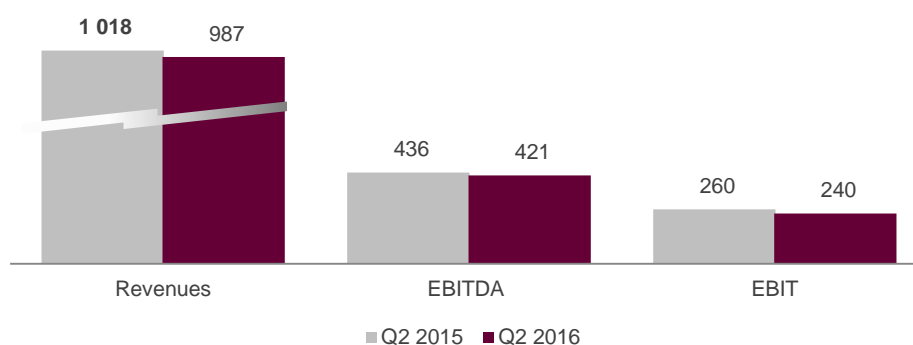
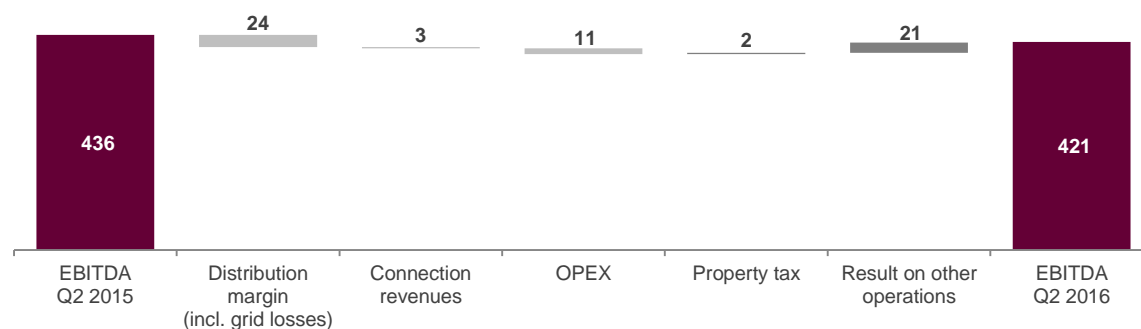


Table 15: Results of the Distribution Segment

PLN m	Q2 2015	Q2 2016	Change	Change (%)
Revenue	1,018	987	(31)	-3%
<b>EBITDA</b>	<b>436</b>	<b>421</b>	<b>(15)</b>	<b>-3%</b>
amortization and depreciation	176	181	5	3%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	260	240	(20)	-8%
Net profit	173	189	16	9%
CAPEX	270	312	42	16%
PLN m	H1 2015	H1 2016	Change	Change (%)
Revenue	2,110	2,094	(16)	-1%
<b>EBITDA</b>	<b>934</b>	<b>920</b>	<b>(14)</b>	<b>-1%</b>
amortization and depreciation	352	361	9	3%

impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	582	559	(23)	-4%
Net profit	408	415	7	2%
CAPEX	449	581	132	29%

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



In Q2 2016, the Distribution Segment contributed about 95% to ENERGA Group's EBITDA (81% in the comparative period).

The Q2 revenue of the Distribution Segment was 3% lower than in the corresponding period of the previous year. The decrease in revenues was driven mainly by a reduction of the average rate charged for the sale of distribution services (by 3%), accompanied by an increase of the volume of distributed electricity (by nearly 3%). In Q2 2016, revenues from connection fees were PLN 20 m, which is nearly PLN 3 m less than in the same quarter of 2015.

EBITDA was maintained at a level similar to last year's and amounted to PLN 421 m (down by approx. 3%), and EBIT amounted to PLN 240 m (down by 8% yoy). The lower result on regulated activity was significantly affected by the lower tariff in effect in 2016, temporarily faster OPEX spending, and improved balance on other operations. In other operating income significant contribution was made by the 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 in the amount of PLN 16 m.

Net profit in Q2 2016 was higher than in the same quarter the year before by PLN 16 m. The balance of the financing activity was PLN 19 m better than in the corresponding period of the previous year. In financial income in the analyzed period a significant contribution was made by the interest received from PKN Orlen on account of a court case in the amount of PLN 23 million which, together with the amount of the main receivable, was nearly PLN 39 m (before tax).

On 16 June ENERGA-OPERATOR SA repurchased from selected bondholders the bonds of ENERGA SA worth PLN 558 m and subsequently, on 30 June, ENERGA-OPERATOR SA issued short-term bonds for PLN 574 m subscribed for by ENERGA SA.

## Generation Segment

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

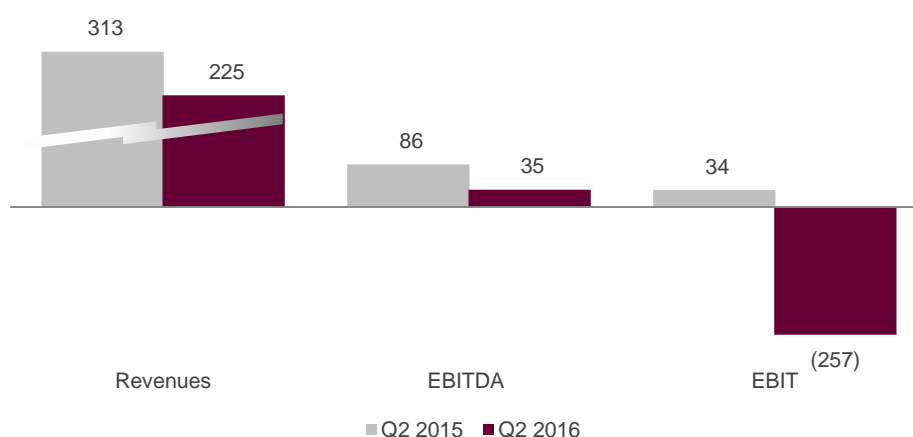


Table 16: Results of the ENERGA Group's Generation Segment

PLN m	Q2 2015	Q2 2016	Change	Change (%)
Revenue	313	225	(88)	-28%
<b>EBITDA</b>	<b>86</b>	<b>35</b>	<b>(51)</b>	<b>-59%</b>
amortization and depreciation	41	45	4	10%
impairment losses on non-financial non-current assets	11	247	236	> 100%
EBIT	34	(257)	(291)	> -100%
Net profit	14	(236)	(250)	> -100%
CAPEX	85	78	(7)	-8%

PLN m	H1 2015	H1 2016	Change	Change (%)
Revenue	755	542	(213)	-28%
<b>EBITDA</b>	<b>239</b>	<b>168</b>	<b>(71)</b>	<b>-30%</b>
amortization and depreciation	79	90	11	14%
impairment losses on non-financial non-current assets	11	552	541	> 100%
EBIT	149	(474)	(623)	> -100%
Net profit	93	(449)	(542)	> -100%
CAPEX	158	141	(17)	-11%

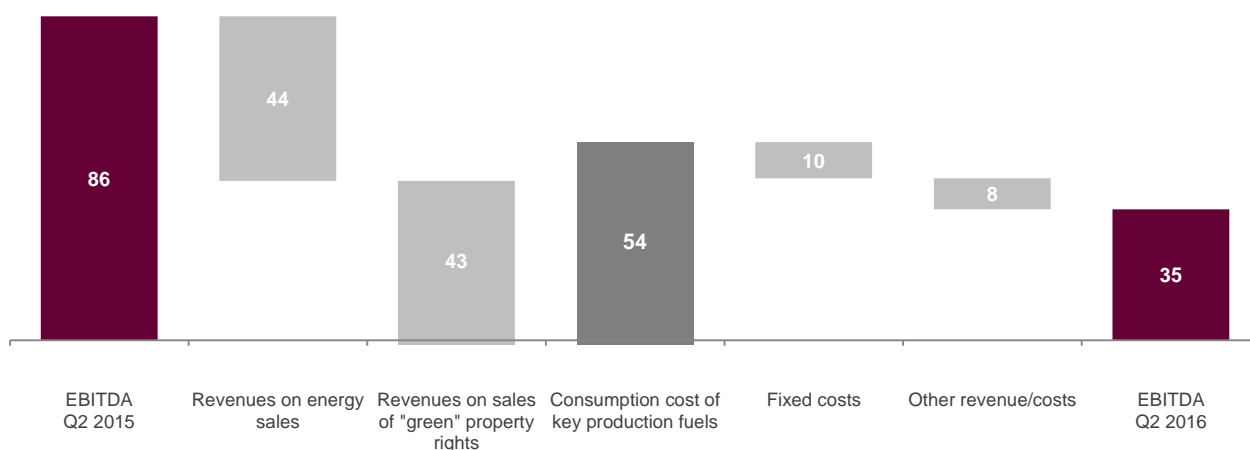
The table below presents a breakdown of EBITDA of the Generation Segment by business lines. This table includes individual data plus the management cost charge for managing the Generation Segment, elimination of transaction concluded between individual business lines and consolidation adjustments.

The data presented for Q2 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)	Q2 2015	Q2 2016	Change	Change (%)	H1 2015	H1 2016	Change	Change (%)
Hydro	42	18	(24)	-58%	109	56	(53)	-48%
Wind	8	(2)	(10)	> -100%	30	16	(14)	-46%
Ostrołęka Power Plant	31	20	(11)	-36%	75	58	(16)	-22%
Other and adjustments	5	(1)	(5)	> -100%	25	37	12	46%
<b>Total Generation</b>	<b>86</b>	<b>35</b>	<b>(51)</b>	<b>-60%</b>	<b>239</b>	<b>168</b>	<b>(71)</b>	<b>-30%</b>

**Figure 12: EBITDA Bridge of the Generation Segment**



The Generation Segment's contribution to the Group's total EBITDA was 8% in Q2 of the current year (16% in the corresponding period of last year). The drop in EBITDA was PLN 51 m and was caused primarily by the lower revenues on sales of electricity and property rights, which were offset by lower fuel consumption expenses.

The decrease in revenues on sales of electricity was caused by two major factors: Firstly, there was a significant drop in the electricity generation volume in the Ostrołęka Power Plant business line (by 218 GWh) because of scheduled renovation and repair work (general overhaul of one unit in Ostrołęka) and PSE's lower demand for must run production. Secondly, because of the worse weather conditions than in the previous year, electricity production in the Wind and Hydro business line fell yoy (by 13% and 20%, respectively). On the other hand, due to high energy prices in the market (particularly in June this year) the Ostrołęka power plant recorded a higher sales price in Q2 yoy (7%), which was partially offset by lower energy production volumes.

Lower revenues on sales of property rights is associated, on the one hand, with the entry into effect, as of 1 January 2016, of the new RES Act, 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). On the

other hand, the market price of property rights fell (the average weighted OZEX\_A index in Q2 of the previous year was 120 PLN/MWh, compared with 93 PLN/MWh in the corresponding period of 2016).

The costs of consumption of key fuels (including transportation) in the Generation Segment in 2016 fell by 48%, or PLN 54 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 additionally recorded higher fixed costs (up by PLN 10 m), which resulted from execution of cost decisions, in particular as regards contracting of external services and remuneration increase.

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 according to the legal status as at 28 June 2016, a decision was made to recognize impairment losses in the Generation Segment for the existing and future wind farms totaling PLN 247 m (where the impairment losses for the existing generation sources were PLN 145 m and the impairment losses for investment projects or projects under constructions were PLN 102 m). The above operation is of non-cash nature.

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 changed 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	Q2 2015	Q2 2016	Change	Change (%)	H1 2015	H1 2016	Change	Change (%)
Revenue	62	38	(24)	-39%	154	98	(56)	-37%
<b>EBITDA</b>	<b>42</b>	<b>18</b>	<b>(24)</b>	<b>-58%</b>	<b>109</b>	<b>56</b>	<b>(53)</b>	<b>-48%</b>
EBIT	34	10	(25)	-72%	94	40	(54)	-57%
CAPEX	2	1	(2)	-69%	6	3	(2)	-42%

## Wind

Table 19: Results of the Wind business line

PLN m	Q2 2015	Q2 2016	Change	Change (%)	H1 2015	H1 2016	Change	Change (%)
Revenue	19	7	(11)	-61%	53	36	(17)	-32%
<b>EBITDA</b>	<b>8</b>	<b>(2)</b>	<b>(10)</b>	<b>&gt; -100%</b>	<b>30</b>	<b>16</b>	<b>(14)</b>	<b>-46%</b>
EBIT	(3)	(156)	(154)	> -100%	9	(269)	(277)	> -100%
CAPEX	(0)	0	0	> 100%	9	0	(9)	-100%

## Ostrołęka Power Plant

Table 20: Results of the Ostrołęka Power Plant business line

PLN m	Q2 2015	Q2 2016	Change	Change (%)	H1 2015	H1 2016	Change	Change (%)
Revenue	199	149	(51)	-25%	448	316	(132)	-29%
<b>EBITDA</b>	<b>31</b>	<b>20</b>	<b>(11)</b>	<b>-36%</b>	<b>75</b>	<b>58</b>	<b>(16)</b>	<b>-22%</b>
EBIT	18	2	(16)	-91%	50	24	(25)	-51%
CAPEX	34	59	25	71%	76	110	34	45%

## Other and adjustments

Table 21: Results of the Other and adjustments business line

PLN m	Q2 2015	Q2 2016	Change	Change (%)	H1 2015	H1 2016	Change	Change (%)
Revenue	(33)	31	(1)	-3%	101	93	(8)	-8%
<b>EBITDA</b>	<b>5</b>	<b>(1)</b>	<b>(5)</b>	<b>&gt; -100%</b>	<b>25</b>	<b>37</b>	<b>12</b>	<b>46%</b>
EBIT	(16)	(112)	(96)	> -100%	(4)	(269)	(265)	> -100%
CAPEX	48	19	(29)	-61%	67	28	(39)	-59%

## Sales Segment

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

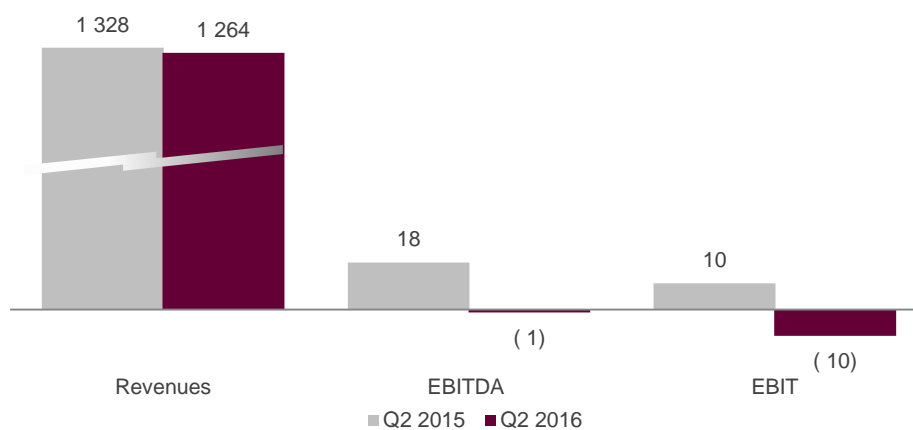


Table 22: Results of the ENERGA Group's Sales Segment

PLN m	Q2 2015	Q2 2016	Change	Change (%)
Revenue	1,328	1,264	(64)	-5%
<b>EBITDA</b>	<b>18</b>	<b>(1)</b>	<b>(19)</b>	<b>&gt; -100%</b>

amortization and depreciation	8	9	1	13%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	10	(10)	(20)	> -100%
Net profit	12	(8)	(20)	> -100%
CAPEX	20	7	(13)	-65%

PLN m	H1 2015	H1 2016	Change	Change (%)
Revenue	2,876	2,665	(211)	-7%
<b>EBITDA</b>	<b>67</b>	<b>27</b>	<b>(40)</b>	<b>-60%</b>
amortization and depreciation	16	18	2	13%
impairment losses on non-financial non-current assets	-	-	-	0%
EBIT	51	9	(42)	-82%
Net profit	49	8	(41)	-84%
CAPEX	25	13	(12)	-48%

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



In Q2 2016, the Sales Segment recorded a negative EBITDA of PLN -1 m, which means that it did not contribute to the ENERGA Group's EBITDA. In Q2 2015, the Segment's EBITDA was at PLN 18 m and the Segment's contribution to the Group's EBITDA was 3%.

The Sales Segment's revenue in Q2 2016 stood at PLN 1,264 m, declining by PLN 64 m (or 5%) when compared with Q2 2015. This was driven mainly by a 11% drop in the Segment's total electricity sales volume. Revenue on retail electricity sales increased by 10% compared with the previous year thanks to a 14% hike in volume, partially offset by a 3% decline in average sales price. On the other hand, revenue on wholesale electricity sales fell in Q2 2016 by as much as 56% due to: sales volume plummeting by 57% and a 4% increase in the average sales price, and significantly lower turnover in the wholesale market.

The margin on electricity sales, which is the key component of the Segment's results, fell in Q2 2016 in terms of value by PLN 10 m as compared to Q2 2015. This was the effect of a lower unit margin:



average electricity sales prices to end users fell faster (-3% yoy) than the average unit variable cost, composed of the purchase cost of electricity, property rights and excise tax (-2% yoy). Below are presented the determinants of the margin on the sale of electricity:

- a) The price for end users – the prices follow the changes in variable cost and are determined by the increasing market competition. Additional elements that increased the negative growth rate yoy of the average sales price were the change of the sales structure by tariff group and 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.
- b) The average electricity purchase cost – the decrease of the average cost (characterized by lower dynamics than the sales price decrease) was caused by the 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 from wind generation purchased under this obligation. The purchase cost was significantly impacted by the situation in the SPOT and the balancing market in the second half of June this year, when as a result of a high load in the electrical power system, electricity prices remained high. The low level of wind generation in this period necessitated supplementing the contracting portfolio in these markets, which increased the cost of purchase of electricity and thus reduced the margins.
- c) The cost of redemption of property rights – the average unit cost in Q2 2016 was at the same level as in Q2 last year. The increase of the obligations, expressed as a percentage, to redeem property rights (“green”, “yellow” and “purple”) was offset by lower green certificate purchase prices.

An additional factor reducing the Segment’s EBITDA in yoy terms was the decrease in revenues on sale of services (presented in the “Other” element of the above EBITDA Bridge), which the Segment receives from end customers, external contractors and other ENERGA Group Segments.

Positive impact on the Segment’s EBITDA in yoy terms was exerted by the activity associated with gas trading. In Q2 2016, the margin on gas sales generated by the Segment was PLN 5 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 Q2 of this year, gas sales reached 0.47 TWh, compared to 0.11 TWh in the same period of the previous year and 0.67 TWh in Q1 this year.

### **3.7. Projected financial results**

The Management Board of ENERGA SA has not published projections of company or consolidated financial results for the financial year 2016.

### **3.8. 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

### 3.9. Dividend

On 24 June 2016, the Annual General Meeting adopted a resolution to distribute the 2015 profit, out of which PLN 203 m, i.e. PLN 0.49 per share, was allocated to a dividend for the Company's shareholders. The record date was set at 4 July 2016 and the dividend payment date at 18 July 2016. By the date of this report, the entire declared dividend has been paid out.

### 3.10. 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	Low prices of green property rights
Actual rate received for the operating reserve	Must run production level at ENERGA Elektrownie Ostrołęka	Prices of CO <sub>2</sub> emission allowances in the face of decreasing number of free allowances
New obligation associated with the RES act (introduction "blue" certificates on 1 July 2016)	Possible entry into force of the water law act and possible changes in the RES act	Group's new strategy
Electricity prices on the SPOT and balancing markets in 2013	Participation in PGG's loss	Weather and hydrometeorological conditions

# Environment



## 4. ENVIRONMENT

### 4.1. Macroeconomic situation

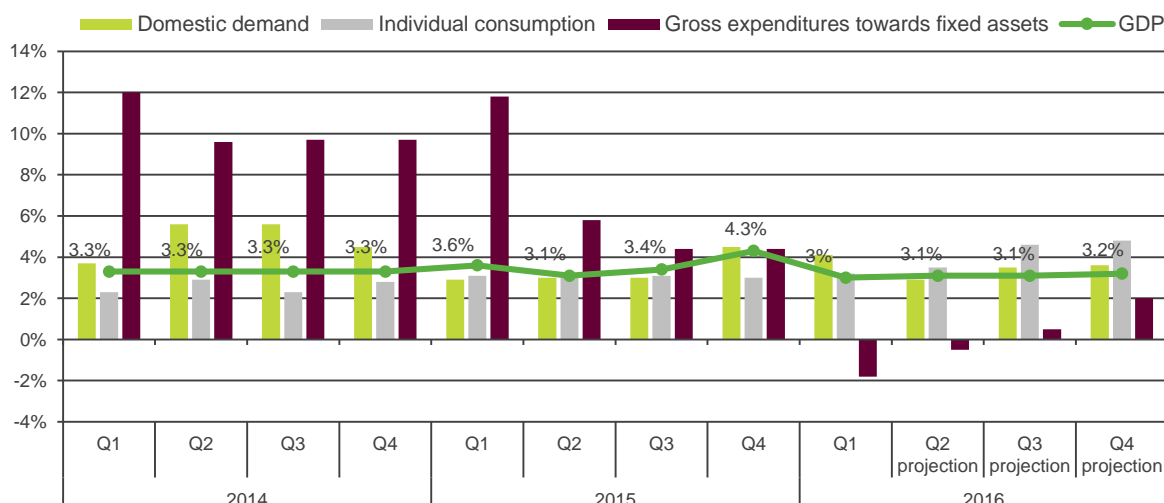
The domestic market is the main operating market of ENERGA Group companies and therefore variations in business conditions measured by GDP change rates, inflation or unemployment rates translate to electricity and heat prices and shape demand for products supplied by Group companies.

The data incoming from the Polish economy indicate deteriorating outlook for domestic business activity growth. In Q1, the gross domestic product (GDP) slowed down its growth to 3% yoy. This decrease was driven mainly by the declining trend in investments. Bank Millennium analysts have shown that the breakdown of public investments, which could be observed among others in the decline in building production and the increasing uncertainty associated with the legal and external environment (Brexit) may affect the propensity of businesses for increasing investments also in the coming quarters. Currently, execution of investment plans may currently be suspended while waiting for the disbursement of funds from the new EU perspective and for the legislative changes announced by the Government. The outcome of the British referendum may also generate additional risk for the Polish economy: possible reduction in exports and indirectly through slower economic growth in the entire Euro zone.

Consumer demand, which has been growing at around 3-4% yoy will continue to support GDP growth in the coming period. This is supported by the good situation on the labour market, including high level of employment, lower unemployment as well as stable growth of salaries, which combined with the continuing deflation increases disposable income of households in real terms. According to the National Bank of Poland (NBP) projection from July household income in 2016-2017 will receive an additional boost in the form of increasing benefits under the government's "500+" program. Consumer demand will also be positively affected by the low level of interest rates and improved expectations of households.

The NBP forecast assumes an increase in GDP growth at 3.2% in 2016, 3.5% in 2017 and 3.3% in 2018.

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



Source: GUS and forecasts by Bank Zachodni WBK

The Purchasing Managers Index (PMI) in the Polish economy was 51.8 points in June, down by 0.6% from the reading one month before. Despite the decrease, the result above 50 points shows that the conditions in the Polish industrial sector improved for the twenty first month in a row, and the growth rate was maintained above the long-term study average (50.3 points).

In the period from January to June of this year, industrial production sold was 4.4% higher compared to the same period in the previous year. An increase was recorded in industrial processing (+5.6 yoy) and in water supply (+2.7% yoy). A decline in industrial production sold, compared with the January-June 2015 period, occurred in mining and extraction (-6.8%), and in generation and supply of electricity, gas, steam and hot water (-2.4%).

The situation on the labor market remained very good in the second quarter of the year. From January to June 2016, the average employment in the enterprise sector was 2.9% higher yoy, and average monthly salary (gross) was 4% higher yoy. Headcount growth is probably associated with stable economic growth and the fact that social security contributions must be paid on civil law agreements since the beginning of the current year, which resulted in an increased number of employment agreements. A declining unemployment rate (9.1% at the end of May) and high demand for labour have increased pressure on salary growth.

As much as the salary pressure is a factor supporting salary growth, the continuing deflation, which increases the amount of salaries in real terms, moderates salary growth. Price growth has been negative in Poland for several quarters now, even though the incoming macroeconomic data indicate that the downward trend slowed down in Q2 of the current year. The overall consumer price index in H1 2016 compared with H1 2015 was 99.1, which means that prices fell by 0.9%. NBP has noted that external factors, in particular a significant decline in commodity prices on global markets, are the main source of deflation in Poland. The declining global prices of energy commodities drive down energy prices (prices of fuels, electricity and natural gas) which in turn causes reduction in prices of other goods and services. In the coming quarters it is expected that deflation will gradually disappear and a slight growth in prices and production materials will be noted. According to the "Inflation and GDP projection" for July developed in the NBP Economic Institute, there is 50% probability that the annual price growth will be within the range of -0.9 ÷ -0.3% in 2016, 0.3 – 2.2% in 2017 and 0.3 – 2.6% in 2018.

The monetary policy of the NBP did not change in Q2 of this year. The interest rates, as expected, have remained stable since March 2015. The Monetary Policy Council, after its meeting in July, upholds its assessment that the current level of interest rates is conducive to keeping the Polish economy on the sustainable growth path and allows it to maintain macroeconomic balance. Nevertheless, certain risk factors can be observed, such as: the uncertainty regarding the future business conditions in the global economy, mainly following the UK referendum, deteriorating exchange rates, decline in asset prices in many economies and low commodity prices.

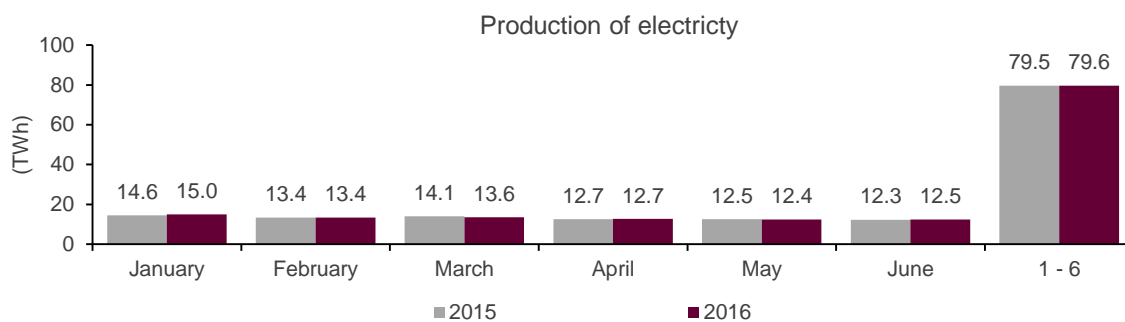
## 4.2. Electricity market in Poland

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 H1 2016, reached 79.6 TWh and remained similar as in the corresponding period of the previous year. In the individual months, the production level was varied as it did in the previous year, falling in almost each successive month. The differences in production levels are determined by changes in net electricity flows between Poland and the systems in its neighboring countries and also by changes in demand.

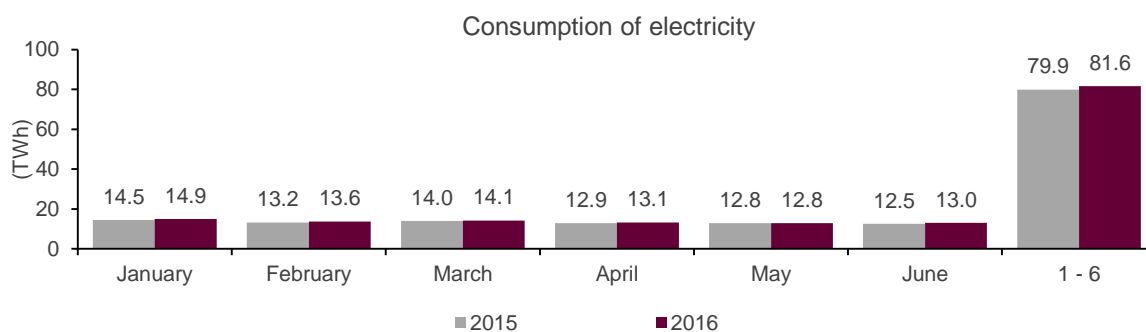
Figure 17: Production of electricity in Poland in H1 2016 (TWh)



Source: PSE

Domestic consumption of electricity in Poland in H1 2016 was 81.6 TWh and was 1.7 TWh higher than in the same period of the previous year (79.9 TWh). The highest increase in electricity consumption occurred in January and June (effect of weather conditions) and in February (the leap year effect). In the remaining months, demand for electricity was similar to the last year's demand.

Figure 18: Consumption of electricity in Poland in H1 2016 (TWh)

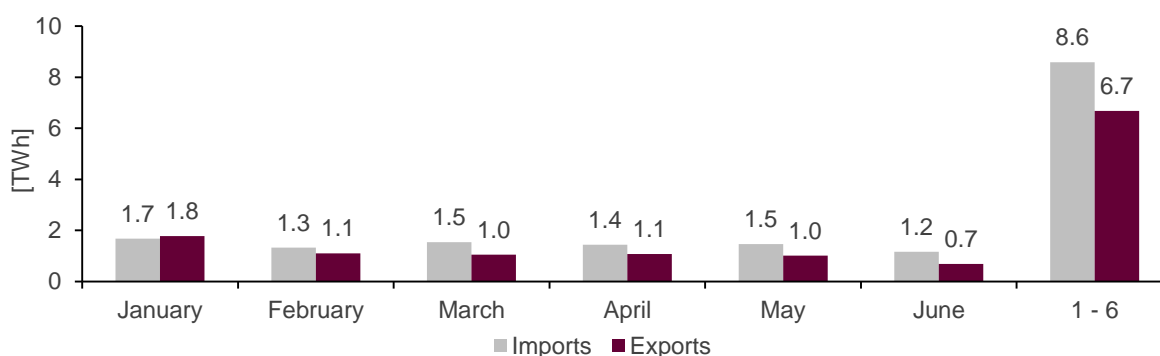


Source: PSE

### Poland's intersystem exchange

The main factor driving the surplus of electricity imports in the intersystem exchange was the launch of LitPol Link, a new interconnection between Poland and Lithuania, and the Nordbalt link between Lithuania and Sweden. The increased imports in H1 2016 were also affected by the purchase of electricity from Ukraine. As a result of these factors, in H1 Poland was definitely a net importer of electricity at 1.9 TWh, compared with net electricity imports of 0.4 TWh in the corresponding period of the previous year.

Figure 19 Monthly volumes of intersystem exchange in Poland in H1 2016 (TWh)

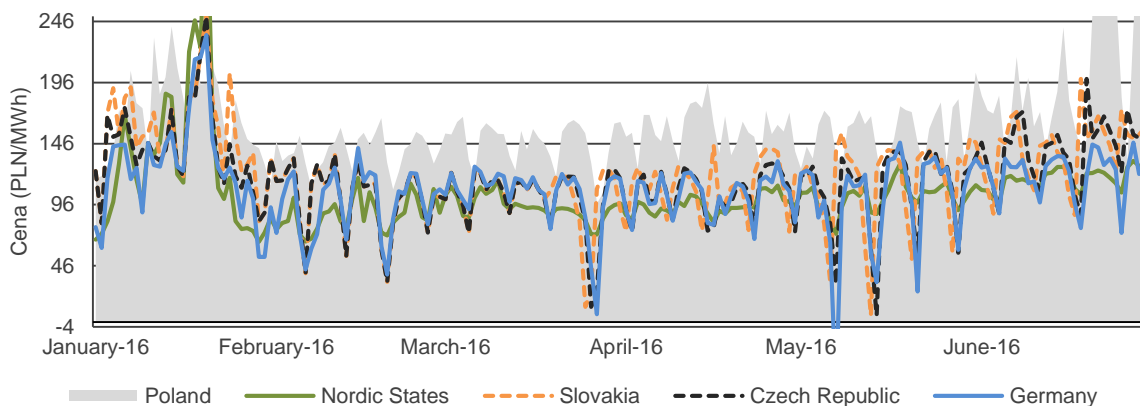


Source: PSE

### Energy prices in neighboring countries

In order to compare energy prices in Poland to those in the neighboring countries, SPOT market prices were used. In H1 2016, average prices in Poland were higher than they were in the neighboring countries. The greatest price difference existed in comparison to Nordic countries (+55%) and the smallest in comparison to Slovakia (+35%). Such a significant difference in energy prices was fostered at the end of Q2, where prices on the Polish market were boosted more than the prices in the neighboring markets.

Figure 20: Electricity prices on the SPOT market in Poland and in neighboring countries in H1 2016

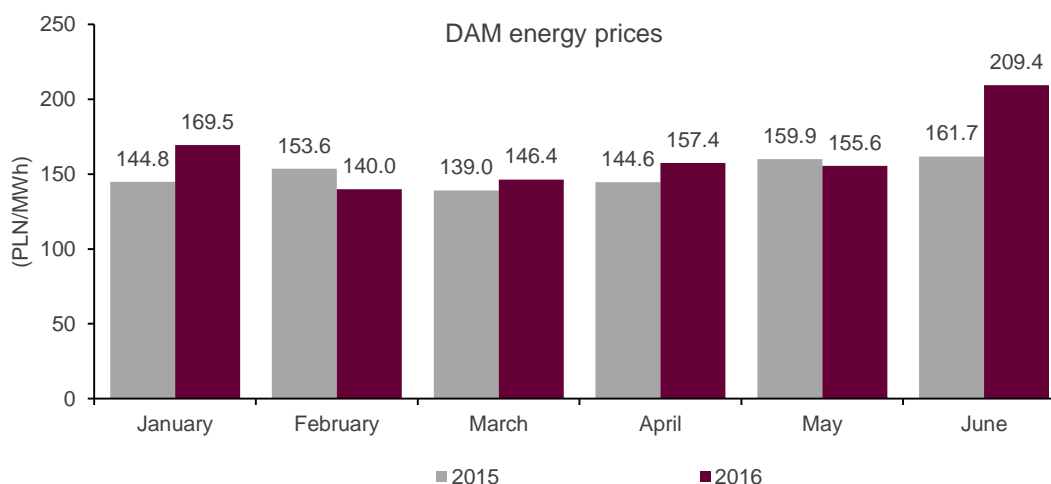


Source: Bloomberg

### Electricity Day-Ahead Market (DAM) in Poland

In H1 of this year, the average level of the IRDN 24 index was 163.09 PLN/MWh and was 12.90 PLN/MWh higher than in the first six months of the previous year. The greatest yoy price increase was recorded in June. A different situation occurred in February, when SPOT market prices were not only the lowest in H1 2016 but also lower than in February 2015.

Figure 21: IRDN 24 index in H1 2016



Source: TGE

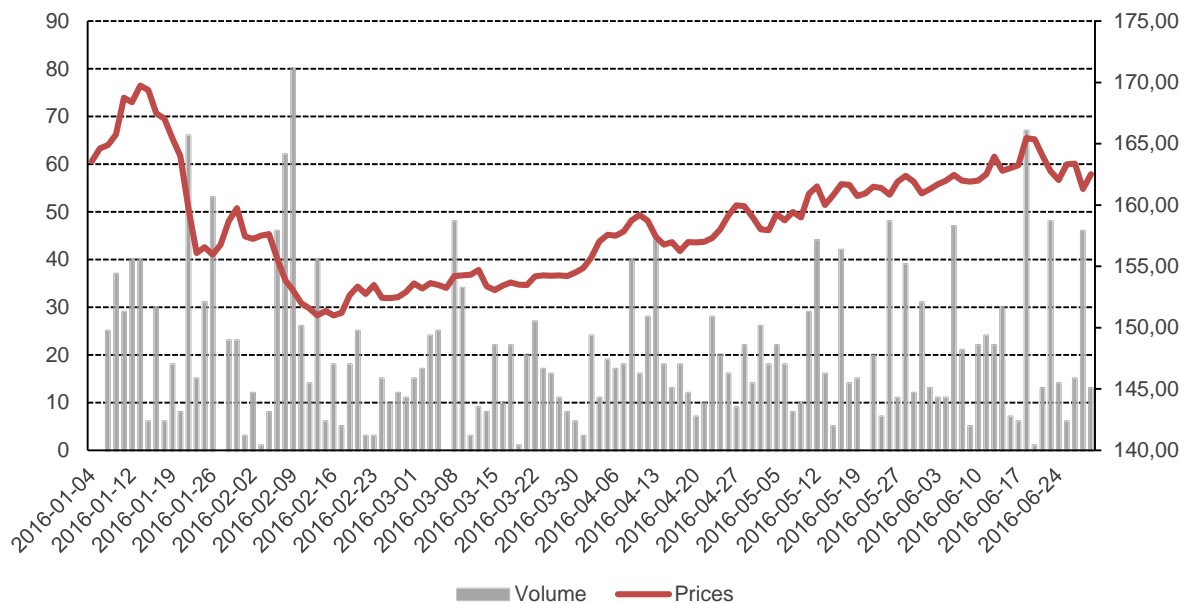
The price level on the day-ahead market in Q1 2016 was affected mainly by the wind conditions, while in Q2 also the high temperatures, which hoisted the prices up to the average level of 209.43 PLN/MWh.



### Electricity forward market in Poland

Until mid-February, the electricity forward market followed a downward trend – the prices fell to less than 155 PLN/MWh. From that moment on, a clear upward trend was recorded on the BASE 2017 contract market, which reached its maximum of 165.35 PLN/MWh on 22 June.

Figure 22: Price of forward contracts – base with delivery in 2017, quoted in H1 2016

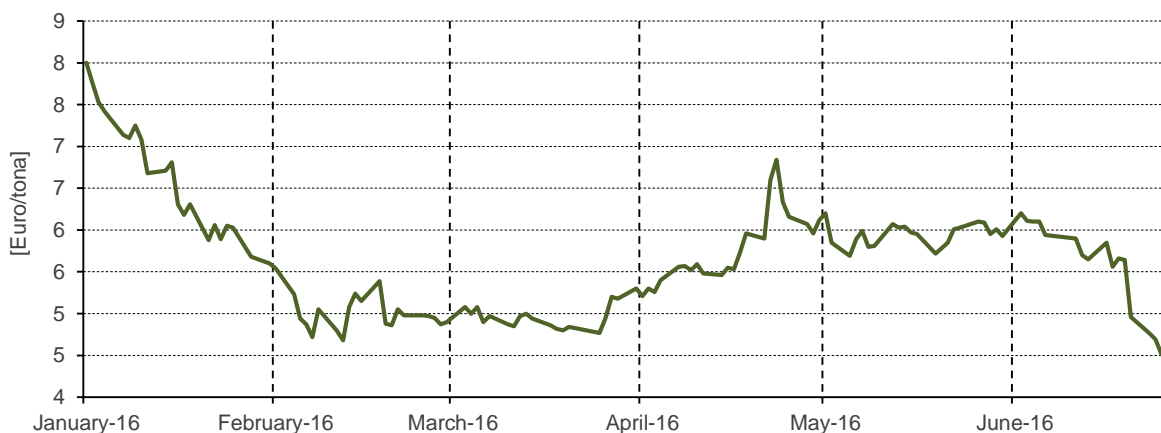


Source: TGE

### Emission allowance market

In the beginning of 2016, there was a crash on the market for CO<sub>2</sub> 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. In the subsequent months, the market attempted to reverse the downward trend and the price was around 6 EUR/ton. The news about the exit referendum results in the United Kingdom led to a temporary drop on the commodity markets, while the prices on the EUA market fell to the historical minimum levels at roughly 4.50 EUR/ton.

Figure 23: EUA emission allowance prices in H1 2016



Source: Bloomberg

Property rights market

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

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

Index (type of certificate)	Index value		Obligation percentage (%)	Substitution fee (PLN)
	H1 2015 (PLN/MWh) with 2015 index	H1 2016 (PLN/MWh) with 2016 index		
OZEX_A (green)	132.97	103.46	15.0*	300.03*
KGMX (yellow)	114.63	118.73	6.0*	125.00*
KECX (red)	10.67	10.57	23.2*	11.00*

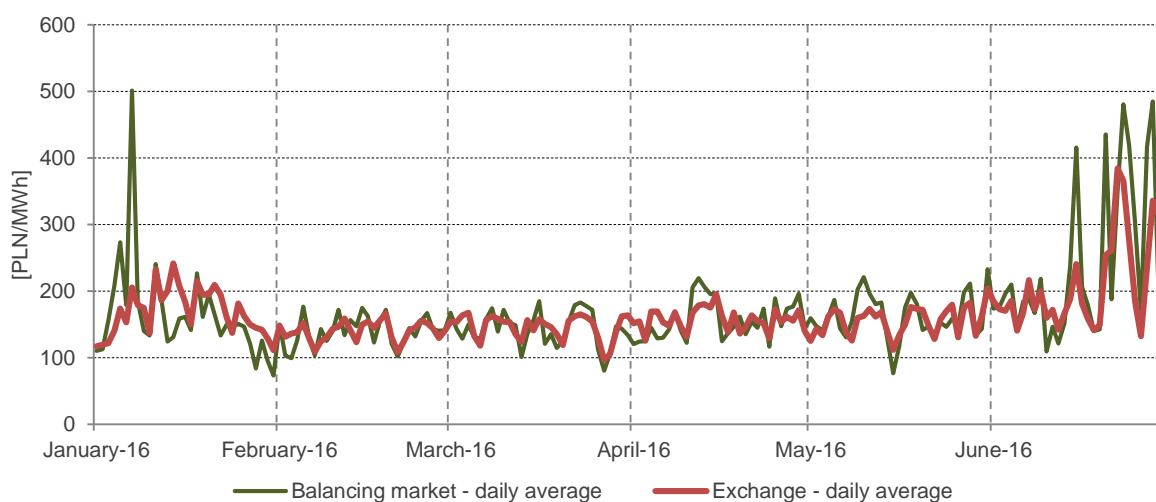
\* value of the substitution fee and redemption obligation in 2016

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 the first months of 2016, the prices of RES property rights in session transactions remained at 110-120 PLN/MWh, but in mid-May of this year they fell below 100 PLN/MWh and ended the entire half-year period at 69.00 PLN/MWh. The main reason for the low prices as compared to the substitution fee is the surplus supply of RES certificates.

Balancing Market

During the majority of H1 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. Moreover, the second half of June saw a significant price volatility caused by high temperatures, which translated to a price hike above 400 PLN/MWh. The average price level in the period in question on the balancing market was 167.93 PLN/MWh, compared to 151.84 PLN/MWh in the corresponding period of the previous year.

Figure 24: Statement of prices on the balancing market and SPOT (Exchange) market in H1 2016

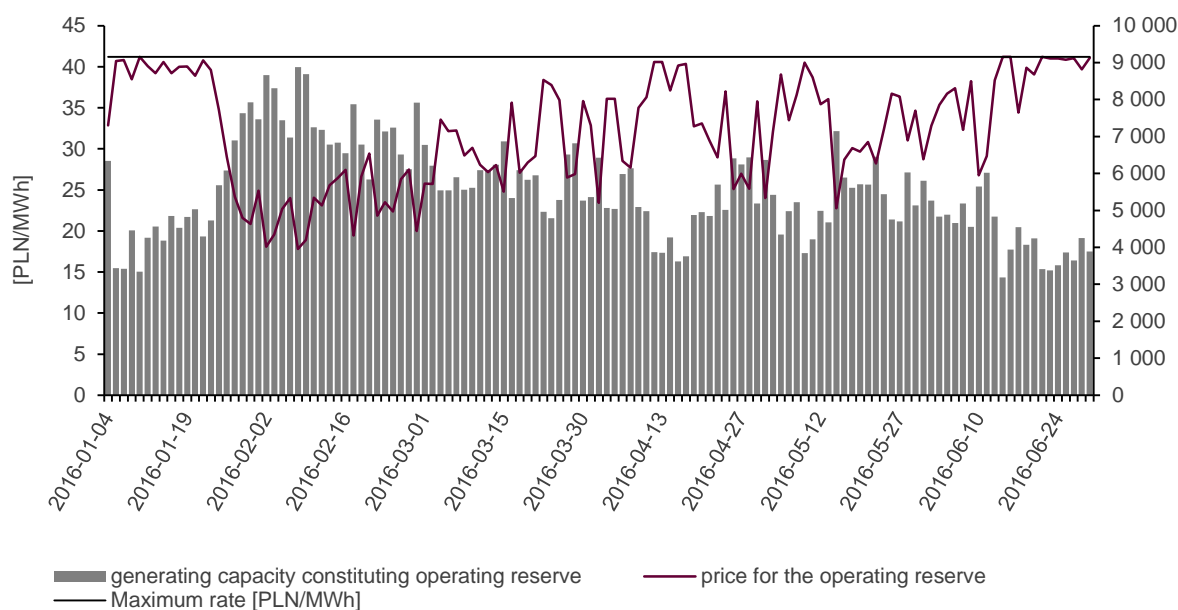


Source: TGE, PSE

### Operating reserve

In 2016, the operating reserve service is continued, while its governing rules changed slightly compared to the previous year. 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 H1 2016, the average fee for the operating reserve service was 32.13 PLN/MWh, which was PLN 2.97 more than in the corresponding period of the previous year.

Figure 25: Prices and generating capacity constituting operating reserve after H1 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"> <li>(1) 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);</li> <li>(2) New type of support for modernized RES installations;</li> <li>(3) Support for dedicated biomass co-burning installations;</li> </ul>	<ul style="list-style-type: none"> <li>(1) Limitation of risks and excessive costs for “offtakers of last resort” (in the ENERGA Group it is ENERGA-OBRÓT) only as of 1 January 2018;</li> <li>(2) Support for new Group projects conditional upon the conditions obtained in RES auctions (reference price)</li> <li>(3) uncertainty regarding the full launch of the system within the assumed deadline due to changes planned in order to implement another amendment (Q4 2016)</li> </ul>
Act on investments in wind power	Regulation of the rules for localizing wind power plants	<ul style="list-style-type: none"> <li>(1) Introduction of consistent/unified rules for locating wind power plant investments.</li> </ul>	<ul style="list-style-type: none"> <li>(1) Inhibition of growth of the wind energy sector in Poland.</li> </ul>

Legal act	Purpose of changes	Opportunities	Risks
plants			
Amendment of the Water Law Act	Implementation of the requirements of the Water Framework Directive in respect to the principles of water management	(1) Rationalization and stimulation of investments in the area of water management in Poland.	(1) Abandonment of exemptions from water fees for power facilities. (2) Uncertainty regarding the full launch of the system by the assumed deadline.
Planned regulation of the "Capacity Market"	Ensuring continuity and stability of electricity supplies in the National Power System (KSE)	(1) Increase in KSE's security. (2) Effect of incentives to build new and modernize existing capacity.	(1) No plans for separate auctions for planned/new and existing installations. (2) Assumption of inflexible supply time for planned/new Generation Capacity Market Units, e.g. from n-3 to n-6. (3) Risk of underestimating price correction co-efficients depending on the location of the power plant, in order to minimize network losses.
Planned regulation of smart metering systems	Definition of the rules for implementing 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 prior assumptions with the experience of the industry. (2) Fear that the implementation schedule will be too ambitious.
Planned regulation of the "transmission corridors"	Introduction of a legal mechanism facilitating execution of investments in construction and modernization of power grids in Poland.	(1) Expediting execution of new DSO grid investments. (2) Regulation of the "historical arrangements" regarding the land on which transmission corridors are located.	(1) Defective mechanism of the expropriation procedure. (2) Delay in implementation of the provisions of the act.
Amendment of the Energy Efficiency Act	Implementation of the requirements of the EED Directive  Continuation of the white-certificate-based support system	(1) Possibility of obtaining additional funds for execution of efficiency investments in the Group.	(1) Implementation of the legal changes in mid-2016 bears the risk of financial losses incurred among others by electricity sellers on account of the redemption duty defined in the act. (2) The rules governing the substitution fee may generate risk of financial losses if there is insufficient volume of white certificates on the market, because the statutory duties may be fulfilled using the substitution fee only some time after the market shortage of property rights occurs and also to a limited extent.
Amendment of the Energy Law Act	Obligation relating to the storage of gaseous fuels	(1) Increased security of natural gas supplies on the domestic market.	(1) Limitation of competition on the national natural gas market because of the small storage capacity in the system.

# 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

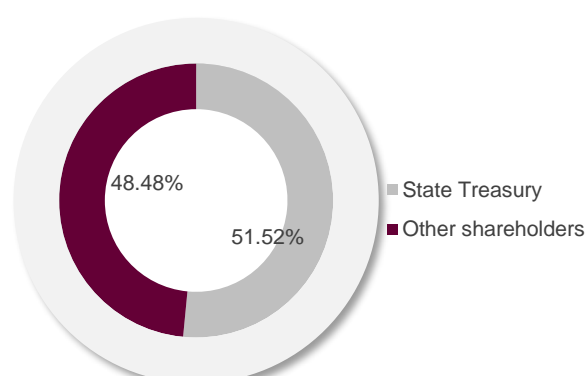
\* One preferred share entitles its holder to 2 votes at the General Meeting. These shares are owned by the State Treasury.

Table 27: Shareholding structure of ENERGA as at 31 March 2016 and the date of preparing this Management Board Report

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

\* 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 31 March 2016 and the date of preparing this Management Board Report



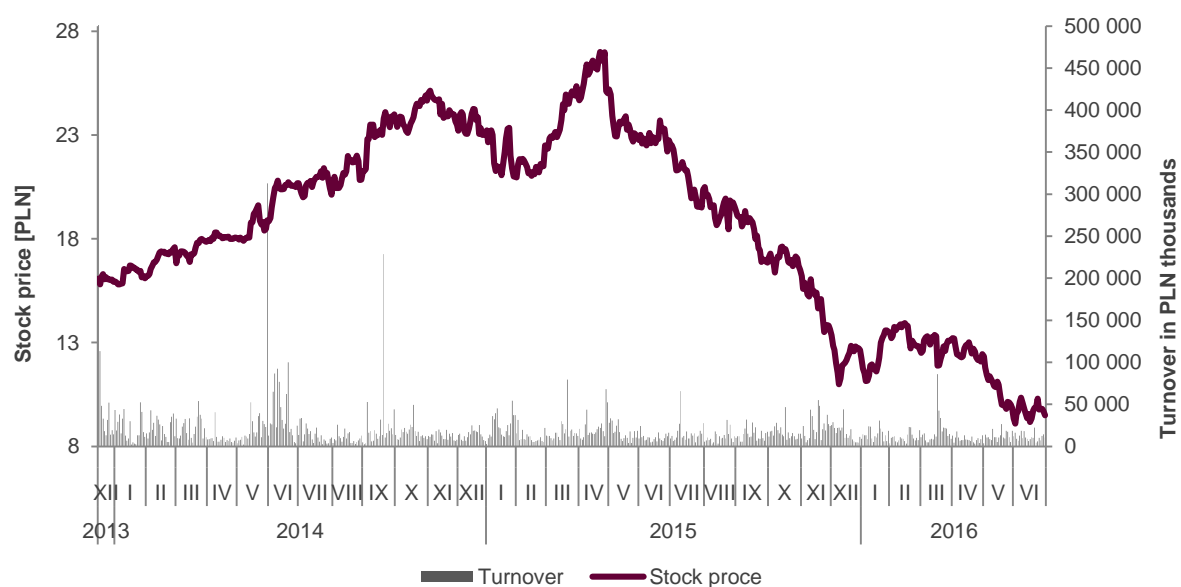
## 5.2. Company stock prices on the Warsaw Stock Exchange

Table 28: Data for ENERGA shares as at 30 June 2016

Data	Value
Issue price	PLN 17.00
Number of shares	414,067,114
Stock price at the end of the period	PLN 9.50
Capitalization at the end of the period	PLN 3.93 bn
Minimum at closing in H1	PLN 9.10
Maximum at closing in H1	PLN 13.94
H1 minimum	PLN 8.95
H1 maximum	PLN 14.30
Average trading value	PLN 12,503 thousand
Average trading volume	1,068,793 shares
Average number of trades	2,144

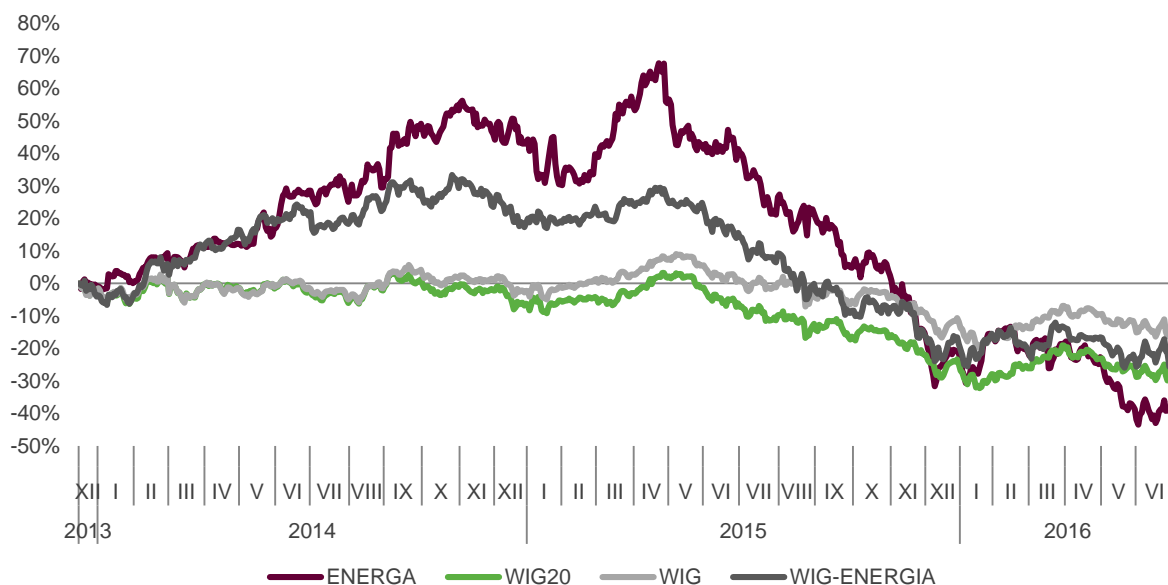
Source: Proprietary material based on data from [www.gpwinfostrefa.pl](http://www.gpwinfostrefa.pl)

Figure 27: ENERGA SA stock price, in the period from IPO (i.e. 11 December 2013) to 30 June 2016



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

As at 30 June 2016, the Company was included in 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.



**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.



**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.



**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.



**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.



**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.



**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.



**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.





**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.



**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. Investor relations in ENERGA SA

Striving to meet the highest standards in corporate governance and to satisfy reporting needs of the Group's stakeholders, the Management Board of ENERGA SA has undertaken numerous investor relations activities. In H1 2016, the Investor Relations Department executed tasks aimed at ensuring effective of communication in the capital market, among others:

- Online publication of the 2015 annual report
- 52 one-to-one meetings with institutional investors as part of investor conferences or non-deal roadshows
- 27 current reports
- 2 regular reports
- 2 performance conferences transmitted online
- Constant communication with analysts issuing recommendations on energy sector companies

In its activity, ENERGA SA's Investor Relations Department uses a bilingual website, which is updated on an ongoing basis to include key information about the Company in the form of, among other things, quarterly results presentations, reports from investor conferences, transcripts of Q&A sessions and factual summaries, the so-called factsheets. Market participants may familiarize themselves with the rules applied by the Company to improve its transparency. The website also contains the [Information Policy](#).

On 12 April of this year, the Warsaw Stock Exchange launched the celebration of the 25th anniversary of signing the founding deed. On this occasion, an exhibition devoted to the history of WSE and the capital market in Poland was opened in its headquarters. One of its elements (which will remain in permanent exhibition) is a special display case presenting WIG20 index companies including ENERGA.

ENERGA SA took part in important investor events in H1 2016:



The 20th edition of the WallStreet Conference in Karpacz was held on 3-5 June of this year. It is the largest meeting organized for individual investors and one of the largest events focusing on the capital market in Poland. This year in Karpacz, over 100 stock market companies presented themselves and the participants could choose from more than 20 lectures, panels and debates. Energa was an active participant as the Conference partner. During the entire event, investors were able to learn about the Company and talk to its representatives at ENERGA's stand.



On 8-9 June of this year, the 7th Investor Relations Congress organized by the Polish Association of Listed Companies (SEG) was held in Ossa. Like each year, the congress was an opportunity to meet representatives of listed companies responsible for the investor and media relations. The main subject of this year's Congress was preparation for modifications in communication policies resulting from regulatory changes.

## 5.4. Recommendations for the Company's stock

<p><b>10</b> Analyst recommendations in H1 2016</p>	<p><b>3 Buy</b> recommendations</p> <p><b>3 Hold</b> recommendations</p> <p><b>1 Neutral</b> recommendation</p> <p><b>1 Accumulate</b> recommendation</p> <p><b>2 Sell</b> recommendations</p>
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## 5.5. Shares held by executive and supervisory personnel

As at 11 May 2016, 30 June 2016 and as at the date of preparing this Report, 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.

## 5.6. Prizes and distinctions received by the ENERGA Group in H1 2016

Table 29: Prizes received in H1 2016

H1 2016
<p><b>13 April 2016</b></p> <p>ENERGA-OBRÓT SA was recognized for its Energa 365 service in the "Leaders of the Energy World" contest during the EuroPOWER 2016 conference and received the Seller of the Year 2015 award. ENERGA was the first company in Poland to market a combined offer of electricity and online technology services. This is an outcome of ENERGA Group's partnership cooperation with Microsoft, the leader in the new technology industry.</p>
<p><b>18 April 2016</b></p> <p>ENERGA SA and ENERGA-OBRÓT SA received the Eagles award by the "Wprost" weekly for being the Company with highest net profit in the Pomeranian region in 2012-2014.</p>
<p><b>19 May 2016</b></p> <p>ENERGA Group received the CSR Golden Leaf by the Polityka weekly for the second year running. The prize is awarded to the largest companies operating in Poland in recognition of their contribution to sustainable economic and social development.</p>
<p><b>31 May 2016</b></p> <p>ENERGA SA was distinguished in the ranking of the largest listed CIT payers prepared by the Parkiet Stock Market Newspaper.</p>
<p><b>15 June 2016</b></p> <p>ENERGA Group received a certificate confirming registration in the Eco-Management and Audit Scheme (EMAS). Energa is the first power group in Poland to fully join the prestigious EMAS certification.</p>

## Management Board's representations

The ENERGA SA Management Board hereby represents that:

a) according to the best knowledge, the interim consolidated and company financial statements and the comparative data were prepared in line with the accounting principles, and reflect, truly, reliably, and clearly, the asset and financial position of ENERGA SA and the ENERGA Group and its financial result. The Management Board Report on the activity of the ENERGA Group contains a true presentation of developments, achievements, and situation of the Capital Group, including a description of key risks and threats;

b) PricewaterhouseCoopers Sp. z o.o., an entity authorized to audit the financial statements, which reviewed the condensed interim consolidated financial statements of the ENERGA Group and the interim financial statements of ENERGA SA for H1 2016, was selected in accordance with the applicable regulations of law. That entity as well as the statutory auditors who reviewed the aforementioned financial statements satisfied the conditions for issuing unbiased and independent reports on the review of the interim condensed consolidated financial statements as required by the binding regulations and professional norms.

Gdańsk, 10 August 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

BASE	Contract for the supply of 1 MWh during every hour of the day
Biomass	Solid or liquid, biodegradable substances of plant or animal origin, originating from products, waste and remnants of agricultural and forestry production, the industry processing their products, and also a portion of other biodegradable waste, and especially agricultural raw materials
CAPEX	Capital expenditures
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)
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
CO <sub>2</sub>	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
Cogeneration, CHP	Technological process of simultaneous production of heat and electrical or mechanical energy in the course of the very same technological process
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
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
EIB	European Investment Bank
EMTN	Program to issue Euro Medium Term Notes
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
ENERGA SA, ENERGA	Parent company in the ENERGA Group
ERO	Energy Regulatory Office
EUA	European Union Allowance; Emission allowances
EUR	Euro, currency used in countries belonging to the European Union's Eurozone
GDP	Gross Domestic Product
GUS	Główny Urząd Statystyczny (Central Statistical Office)
GW	Gigawatt, unit of power in the International System of Units, 1 GW = 10 <sup>9</sup> 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 <sup>6</sup> W
MWe	Megawatt of electrical power
MWh	Megawatt hour
NBP	National Bank of Poland, central bank in Poland
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 zloty, 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
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 G	Tariff group for individual customers – households
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
TWh	Terawatt hour, a multiple unit of electricity in the International System of Units. 1 TWh is 10 <sup>9</sup> kWh
UOKiK	Office of Competition and Consumer Protection
WACC	Weighted average cost of capital
WF	Wind farm
WIBOR	Warsaw Interbank Offered Rate
WRA	Weighted Risk Assets
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.)
yoy	Year on year