

**RESOLUTION No. 20/III/2014
of the Supervisory Board
of ENERGA Spółka Akcyjna with its seat in Gdańsk (Company)
of 7 March 2014**

on: approval of evaluation of the Company's situation, taking into consideration evaluation of the systems of internal control and management of risk essential for the Company in 2013

Pursuant to Article § 17 (1) (5) of the Company's Articles of Association, the Supervisory Board hereby decides to:

§ 1

1. Approve and present the ENERGA SA General Meeting with the evaluation of the Company's situation, taking into consideration evaluation of the internal control systems and management of risk essential for the Company in 2013.
2. The document referred to in subparagraph 1 is attached as an Appendix to this Resolution.

§ 2

This resolution shall come into effect on the day it is adopted.

Number of voters: 7.

This resolution was adopted in an open voting, with the following number of votes:

7 for,
0 against
0 abstaining.

Signatures of the Members of the Supervisory Board present at the meeting:

1. Zbigniew Wtulich	<i>{illegible signature}</i>
2. Marian Gawrylczyk	<i>{illegible signature}</i>
3. Agnieszka Poloczek	<i>{illegible signature}</i>
4. Iwona Zatorska-Pańtak	<i>{illegible signature}</i>
5. Roman Kuczkowski	<i>{illegible signature}</i>
6. Mirosław Szreder	<i>{illegible signature}</i>
7. Bogusław Nadolnik	<i>{illegible signature}</i>

Energa

**EVALUATION OF SITUATION
OF ENERGA SA
AND THE ENERGA CAPITAL GROUP**

**for the period
from 1 January 2013 to 31 December 2013**

Gdańsk, March 2014

1. Evaluation of situation of ENERGA SA

The Supervisory Board positively evaluates the situation of ENERGA SA. In the financial year of 2013 there were no events giving rise to the risk of going concern.

The primary aim of the Company is to create value for the shareholders and other stakeholders through the development of the Group as an efficient and innovative entity, which flexibly adapts to market conditions, maintains an operating profile of low business risk and a secure capital structure, while becoming an increasingly more reliable distributor, the preferred supplier and the manufacturer of environment-friendly electricity.

The most important events affecting the Company's operations in 2013 include the debut of the ENERGA SA shares on 11 December 2013, which was the largest public offering of shares at the Warsaw Stock Exchange in more than two years, worth PLN 2.4bn. The final total number of offered and stabilizing shares amounted to 141,522,067 (series AA shares). Capitalization of the Company at the opening of the first trading session totaled PLN 7.02bn. The Treasury offering enjoyed great success, and the average reduction in both tranches of individual investors was equal and amounted to 55.9%.

In 2013, the net sales revenues totaled PLN 80,996,000 and were 47% higher than in the previous reporting period. The main source of revenues were licensing fees from the Companies of the ENERGA Capital Group. An increase in revenues in 2013 is mainly related to a significant increase in revenues from re-invoicing and was due to the transfer of the cost of tasks completed in 2013. The most important activities was the acquisition of financing (establishment of Eurobond issue program, conclusion of loan contracts with the European Bank for Reconstruction and Development and the European Investment Bank for the financing of the ENERGA-OPERATOR SA investment program for the period from 2012 to 2015) and sales activities related to the acquisition of wind assets from the DONG Group and the Iberdrola Group.

In 2013, just as in 2012, revenues from dividends were the main source of financial revenues of the Company. The revenues from dividends lower than in the previous year (PLN -136,068,000) and an increase in net interest costs (PLN 13,996,000) were largely compensated by the lower level of allowances created in 2013 for the value of financial assets and dissolution of allowances created in previous years. As a result, there was a drop in net financial revenues by PLN 651,000.

Consequently, the net result of ENERGA SA totaled PLN 499,049,000 and was 9% lower than the profit after tax earned in 2012.

In 2013, the Company incurred:

1) operating costs in the amount of	PLN 182,433,000,
2) financial costs in the amount of	PLN 341,089,000,
3) other operating costs in the amount of	PLN 4,543,000,
4) costs of employee benefits in the amount of	PLN 31,480,000.

In 2013, there was a 23% increase in the overhead costs related to the Company's debut on the Warsaw Stock Exchange.

The sum of assets and liabilities of the Company at the end of 2013 totaled PLN 11,565,087,000. As at 31 December 2013 the equity funded the Company at 52%, compared to 58% at the end of 2012. Compared to the end of the previous financial year:

- fixed assets	increased by	12%,
- current assets	increased by	7%,
- equity	increased by	0.5%,
- liabilities	increased by	27%.

As at 31 December 2013 cash of the Company was PLN 706,805,000 and was PLN 29,232,000 higher, namely by 4%, compared to the previous year.

In 2013 total net cash flows from operating, investment and financial activities of the Company totaled PLN 29,232,000 compared to PLN 553,306,000 in 2012.

Cash flows from operating activities were stable and were related to the operating expenses of the Company.

In accordance with the financial policy of the ENERGA Group, ENERGA SA is responsible for organization of financing of investment projects in the Group. Based on the conducted analysis, the Management Board of the Company assesses whether the ENERGA Group is able to finance current and future investment plans from funds generated from operating activities and by obtaining debt financing (through the issue of bonds, borrowings and loans). The transfer of funds to companies which implement investment projects is carried out, inter alia, through the issue of bonds.

2. Evaluation of the situation of the ENERGA Capital Group

The ENERGA SA Capital Group earned a positive financial result in 2013, which was higher than in the previous year. The Group earned EBITDA of PLN 2bn, PLN 336m or 21% higher than in the previous year. The profit after tax totaled PLN 743m and was 63% higher than the profit earned in 2012. The growth of EBITDA and the profit after tax was primarily impacted by the improvement in results of the Distribution and Production Segments.

In 2013 the net sales revenue in the ENERGA SA Capital Group totaled PLN 11,429,249,000 and were higher by PLN 252,450,000 than the revenues in 2012. The growth in revenue was mainly associated with the new higher distribution tariff for 2013 as approved by the President of the Energy Regulatory Office, favorable hydro meteorological conditions and acquisition of generating wind assets.

In 2013, the ENERGA Capital Group incurred:

5) operating costs in the amount of	PLN 10,161,940,000,
6) financial costs in the amount of	PLN 322,892,000,
7) costs of employee benefits in the amount of	PLN 921,049,000.

An increase in the volume of electricity sales outside the Group reached nearly 12% on an annual basis and totaled 29.1 TWh, while the amount of electricity sold in the wholesale market increased by 100% to 10.9 TWh.

The total installed generating power of the ENERGA Group amounted to 1.3 GW. The Group generated 5.0 TWh of gross electricity and supplied 20.4 TWh of electricity to more than 2.9m customers. 62% of gross produced energy came from coal, 21% from water, 14% from biomass and 3% from wind. Gross heat production amounted to 3,948.1 TJ.

The updated Strategy of the ENERGA Group, adopted in 2013, assumes maintaining of the leading position among the Polish public utility companies and a further increase in efficiency and quality of the services offered. It is based on three main pillars: the development of the distribution activity, minimizing the impact on the environment and constant focus on customer service.

The Group conducts careful financial analyses to ensure that the investment projects reach or exceed the threshold of the minimum internal rate of return on investment. Currently, the Group is implementing the following financial goals:

- 1) maintaining of investment grade credit ratings,
- 2) capping the expenditure on individual projects to the value not exceeding the annual EBITDA of the Group,
- 3) maintaining a safe level of financial ratios – the goal is to keep the Net Debt/EBITDA ratio at no more than 2.5.

As at 31 December 2013, cash of the ENERGA Capital Group was PLN 2,350,713,000 and was PLN 321,340,000 higher compared to the previous year.

The sum of assets and liabilities at the end of 2013 totaled PLN 17,084,556,000. Compared to the end of the previous financial year:

- fixed assets	increased by	18%,
- current assets	increased by	0.52%,
- equity	increased by	0.42%,
- total liabilities	increased by	25%.

3. Evaluation of the system of internal control and system of managing risk essential for the Company

The Supervisory Board positively views the method of organization and operation of the internal control system and the risk management system in the Company. Both these systems are supervised by the Audit Committee and periodically monitored.

The Company has an internal audit unit, which carries out audit and control tasks. The Audit Committee remains in regular contact with the head of the internal audit unit, receives up-to-date information on the ongoing audit tasks, reports on the completed audits, as well as the annual reports on the activities of the internal audit unit.

In 2013, the Company's system of internal control was audited by an external entity. The basic objectives of the project was to develop a systemic approach to the evaluation of the internal control system. A cross-section view of the internal control system at the Company's level, based on the proven methodology and generally accepted models of internal control, is designed to provide an additional element to an annual assessment of the internal control system performed by the Supervisory Board and the Audit Committee, as well as identification of areas where there are opportunities to improve the internal controls.

The analysis covered five key areas:

- 1) internal control system,
- 2) risk management,
- 3) selected audit operations and activities,
- 4) information and communication,
- 5) monitoring and supervision,

at the level of ENERGA SA and selected control mechanism relating to the ENERGA Group.

Following the audit, the following good practices in the internal control system were identified with regard to specific areas:

- 1) internal control system:
 - a) organizational structure and documented processes which define the basic units of the Company and reporting directions, as well as the organizational rules which define the responsibilities of individual units;
 - b) the role of the Management Board in leading the organization, the practice of regular meetings and the involvement of the Management Board in the critical decisions for the organization;
 - c) establishment of the Audit Committee and regulation of the scope of its work;
 - d) specific rules related to the granting, registration and revocation of powers of attorney, limits of powers and authorization governing in the Company and the formal definition of the scope of responsibilities for particular jobs;
 - e) existence of succession plans for key positions;
- 2) risk management:
 - a) definition of the strategic directions of the Group's development by the Management Board of the Company, implementation and monitoring of goal performance;
 - b) the existence of a formal framework for the Integrated Risk Management System (IRMS), including the Risk Management Policy in effect in the Capital Group as approved by the Management Board of the Company based on the well known and commonly used corporate risk management model, COSO II, together with forms of the documents necessary for the systematic collection of risk information;

- c) determination of the risk appetite for key risks by the Management Board of the Company by defining the targeted risk management method, identification and risk assessment in the half-year cycle in the framework of implementation of the Integrated Risk Management System, involvement of the Audit Committee in monitoring of key risks;
 - d) continuation of workshops for risk owners and key staff of Companies covered by the IRMS, which are aimed at enhancing the awareness of risk management and the periodic risk assessment;
- 3) selected audit operations and activities:
- a) collections of policies, procedures and instructions governing the key aspects of activities of the Company;
 - b) existence of the approved and governing accounting policy of ENERGA SA and its update process;
 - c) audits in the course of consolidation (verification of completeness of the information received, validation of mathematical correctness of consolidations and exemptions, the use of a dedicated tool);
 - d) the process of approving financial statements of the Company by the Management Board of the Company;
 - e) monitoring of implementation of the services provided by ENERGA Informatyka I Technologie Sp. z o.o. (IT area) and by ENERGA Centrum Usług Wspólnych Sp. z o.o. (accounting and payroll);
- 4) information and communication:
- a) internal and external communication;
 - b) maintenance of a website with an investor relations section;
 - c) channels of inside communications (central repository of policies and procedures, newsletters for managers and employees);
 - d) keeping of a central register of resolutions adopted by the bodies of the Company, keeping the central register of policies and procedures and other internal documents;
 - e) existence of the "Corporate social responsibility strategy of the ENERGA Capital Group" approved by the Management Board and defining the main objectives and strategic directions of the CSR;
- 5) monitoring and supervision:
- a) the agreement on the principles of cooperation between the Companies of the ENERGA Capital Group;
 - b) formal definition of the principles of corporate governance;
 - c) the process of consultation and approval of the annual economic and financial plan, regular reporting on the results of the Company and analysis of deviations from the plan;
 - d) the existence and regular update of the Long-Term Strategic Investment Plan and the Long-Term Financial Model developed on the basis of the business strategy;
 - e) the process of consultation, approval, coordination and monitoring of the Segment Strategic Plans;
 - f) location of the internal audit in the organizational structure (functional reporting to the Audit Committee of the Supervisory Board and, on the administrative level, to the Chairman of the Management Board), recurring meetings of the Audit and Control Office with the Management Board and the Audit Committee;
 - g) the mission and operating principles of the Audit and Control Office defined in the Audit Charter;
 - h) activities of the internal audit based on the approved plan, also in selected companies of the Capital Group. A co-sourcing model is applied in the performance of complex auditing tasks to supplement the competencies.

As regards risk management in the ENERGA Group, the Integrated Risk Management System was implemented. Within the framework of that System, the Management Board of the Company plays the key role as it supervises the risk management process and approves the assumptions for the corporate risk management in the Group and defines the level of risk appetite of the ENERGA Group.

ENERGA SA manages the risk in accordance with the Risk Model, in the following four areas:

- 1) strategic, which covers risks related to performance of strategic goals, including planning and performance of projects or corporate governance,
- 2) financial, covering risks related to finance management, including financial liquidity, solvency or reporting,
- 3) operating, covering risks related to performance of operating goals, including those related to the infrastructure, processes or resources,
- 4) legal and regulatory, covering risks of compliance with governing rules or regulations.

Report prepared on: 7 March 2014

Signatures of the Members of the Supervisory Board:

CHAIRMAN	Zbigniew Wtulich	<i>{illegible signature}</i>
DEPUTY CHAIRMAN	Marian Gawrylczyk	<i>{illegible signature}</i>
SECRETARY	Agnieszka Poloczek	<i>{illegible signature}</i>
MEMBER	Iwona Zatorska-Pańtak	<i>{illegible signature}</i>
MEMBER	Mirosław Szreder	<i>{illegible signature}</i>
MEMBER	Roman Kuczkowski	<i>{illegible signature}</i>
MEMBER	Bogusław Nadolnik	<i>{illegible signature}</i>